

Water and Light Advisory Board
April 2, 2009

A meeting of the Water and Light Advisory Board was held April 2, 2009 at 7:00 a.m. in the Utility Services Conference Room, 105 E. Ash. Attending the meeting were:

John Conway, Chair
Tom Baumgardner, Vice Chair
Tom O'Connor, Member
Bob Roper, Member
Dick Parker, Member
J. Kraig Kahler, Water and Light Director
Mike Schmitz, Engineering Manager
Jim Windsor, Manager of Rates and Fiscal Planning
Floyd Turner, Manager of Water Operations
Dan Stokes, Electric Distribution Manager
Marilyn Thorpe, Administrative Support Supervisor
Stephanie Brown, Administrative Support Assistant

INTRODUCTION OF NEW BOARD MEMBER DICK PARKER

John Conway welcomed Dick Parker as the new member of the Board.

APPROVAL FOR THE MARCH 5, 2009 MEETING MINUTES

The March 5, 2009 meeting minutes were approved as corrected by voice vote on a motion by Tom O'Connor and second by Bob Roper.

DIRECTOR'S REPORT

a) SERC Non-compliance Settlement – Kraig Kahler said the SERC Reliability Council imposed measures to make sure the electric reliability of the utility is compliant with the current regulations. He said SERC could fine the utility \$375,000 a day up to \$26.5 million until the compliancy regulations are met. Mr. Kahler said staff reached a settlement with SERC to lower the penalty to \$100,000. He said currently the utility has been fined only \$15,000 provided certain conditions are met. Mr. Kahler said if the agreed upon conditions are not met the fine could go back up to \$100,000, and the utility must be compliant by July 1, 2009. Tom Baumgardner asked if there is an appeals process. Mike Schmitz said there is not an appeals process with NERC, and Mr. Kahler said it may cost more to appeal than to just pay the fine. Mr. Schmitz said these standards are federally regulated and must be adhered to. He said the main areas of violation were cyber security and SERC's determination that insufficient efforts had been made by the utility to become compliant. Mr. Baumgardner suggested sending a letter to the appropriate party and approaching the City Council to appeal the fines. Mr. Schmitz said approximately 70-80 fines have been filed against other utilities with SERC.

Mr. Schmitz said once SERC imposes a fine all prosecutions are sent to the North American Electric Reliability Council (NERC) who assesses them. They are then submitted to Federal Energy Regulatory Commission (FERC).

Mr. Schmitz said the reliability councils of SERC, NERC, and FERC were instituted after several major blackouts. He said the councils were expanded when independent energy producers wanted to have access to the systems. The legislation was designed to help control the electric production and transmission in the open market. He said to be a part of the reliability councils, entities must meet certain voltage and megawatt requirements.

Mr. Schmitz said the utility has hired Burns and McDonnell Consulting firm to analyze the utility's role as its own Balancing Authority and its role in the Midwest Independent Systems Operator. The utility has also contracted with Encari to assist with identifying what measures are needed to become compliant. He said the cost for Encari is \$80,000 and \$60,000 for Burns and McDonnell. Mr. Schmitz said Encari will be here next week to begin the process.

Mr. Schmitz said eventually staff will probably have to work with the City Manager to coordinate efforts with the IT Department as well for compliance requirements.

b) Renewable Energy – Mr. Kahler said Water and Light negotiated with Associated Electric Cooperative, Inc. (AECI) to allow the utility to receive the first 6.3 megawatts of energy produced from the wind farm for the months of March, April, and May to make up for the low production from the wind farm because of damaged turbines. He said this will help the utility meet the Renewable Energy requirements for the year. He said because of the negotiation, the utility exceeded the renewable energy requirement amount. Mr. Kahler said the utility must continue to pay transmissions fees even if there is no production in order to reserve the capacity.

Mr. Kahler received a letter from Ameresco regarding the Jefferson City Landfill Gas Plant. The letter stated that energy production for commercial purposes would begin on March 31, 2009. He said as of yesterday production had not begun due to equipment and transmission issues.

FINANCIAL REPORT

a) Financial Update – The Board received the monthly financial statements ending February 28, 2009.

Water and Electric Utility combined operations reflect an operating income of \$1,553,983 for the five months ended February 28, 2009; compared to an operating income of \$5,040,719 for the same period last year. This is a decrease of \$3,486,736.

The Water Utility has an operating loss of \$827,364 for the five months ended February 28, 2009; compared to an operating income of \$110,988 for the same period last year. This is a decrease of \$938,352 in operating income.

The Electric Utility has an operating income of \$2,381,347 for the five months ended February 28, 2009; compared to an operating income of \$4,929,731 for the same period last year. This is a decrease in operation income of \$2,548,384.

Operating expenses before Payment-In-Lieu-Of-Tax and Depreciation are up \$4,608,889. Fuel and Purchased power costs have increased \$4,157,368.

b) Mr. Windsor said water revenue is still a concern but is improving. He said the summer months of June through September will determine the overall outcome. He has been working with water distribution to discuss managing water expenses. Mr. O'Connor added that increased interest in water conservation should be considered in budget projections. Mr. Windsor said electric revenue is doing well.

John Conway inquired of the influence on the credit consideration of the dissolution of the bonds. Mr. Windsor said for credit purposes Water and Light is one entity and both water and electric revenues are considered.

POWER PLANT REPORT

Mr. Schmitz said Tad Johnsen has re-bid the coal contract because several firms have lowered their prices. He added that overall, coal prices are dropping and the contracts are short term because of the fluctuating prices. The firm will be chosen in the middle of April.

ENGINEERING

a) Balancing Authority Cost Report – Mr. Schmitz said Ryan Williams and Ron Wyble, compliancy staff, have compiled a report of the annual costs associated with maintaining a Balancing Authority status in NERC and the Midwest Independent Systems Operator (MISO). Total costs per year were estimated at \$1,448,432. He said this does not include costs for air and water compliancy requirements which are handled through the Department of Natural Resources (DNR). Mr. Schmitz said the tree trimming costs on the report are the activities for transmission above the normal distribution measures. He said clear cutting along the main corridors or easements is probably going to be required. He said if the utility were to do everything themselves as a Balancing Authority Operator, travel and training, and staffing costs could increase by 25%-50%. He added that The Energy Authority (TEA) handles the marketing while we handle the operations side.

Mr. Schmitz said the benefit comparisons will come from the Burns and McDonnell study. Mr. Schmitz said the study will provide four different options for the utility's registration and will also attempt to give future compliance predictions.

b) WTP RFP Interviews – Mr. Schmitz said engineering received seven proposals for the study of the water treatment process at the McBaine Water Treatment Plant. He said four firms were chosen for the interview process:

1. Burns and McDonnell Engineering
2. Black and Veatch Corporation
3. Carollo Engineering
4. Jacobs Engineering

Mr. Schmitz said the interviews will take place on the same day at the end of the month, and staff will present their recommendation at the next meeting.

Mr. O'Connor said he would like to be notified about the exact date of the interviews so that he may observe. The Board engaged in a discussion on the role of the Board in the interview process. Mr. Roper and Mr. Baumgardner felt that the Board should not take part in the interview process which should be left to the discretion of staff. Mr. Parker felt that Board members may be able to pick up on possible staff missed information. Mr. Conway said that observing, not participating, may offer more information in the Board's decisions on requests

for endorsements. Mr. Kahler said typically Board members are not involved in operational staff functions. Mr. Conway felt that unless it becomes a legal issue a member should be free to observe and he requested that Mr. O'Connor be notified of the interview date.

WATER DIVISION REPORT

Mr. O'Connor inquired of the Source Water Protection Plan. Floyd Turner said staff is currently working on one with the DNR. The plan covers wellhead protection. He said the last survey was done a year ago. Board members requested an update on the plan.

ELECTRIC DISTRIBUTION REPORT

Dan Stokes said there were 25 outages for the month of March with an average of 50 minutes per outage. He said on average, 151 customers were affected per outage. Mr. Parker asked if the outage review process has helped. Mr. Stokes said the biggest change has been that the situation is fixed on the spot instead of having a report made and then returning to fix the situation later.

UTILITY SERVICES DIVISION REPORT

Mr. Kahler said Tina Worley was meeting with Nordyne for the railroad.

NEW BUSINESS

Mr. Parker asked if the Board could receive an update from Ms. Worley regarding the Demand Side Management (DSM) programs from the Integrated Resource Plan (IRP). Mr. Kahler said that the DSM programs will be discussed at the May 18, 2009 Council work session along with streetlights and the Columbia Energy Center.

OLD BUSINESS

Mr. Conway said he completed and submitted the Program of Work questionnaire. He added that the next step will be a meeting between Board members and Council to discuss it.

Mr. Conway said Mr. Parker, Mr. Roper and he attended the Callaway Nuclear Plant tour and that it was very informative. Mr. Kahler suggested that members also tour the reactor at the University of Missouri.

Mr. Baumgardner inquired if the City Council review of the alternative energy supply is mandatory for Board members. Mr. Kahler asked Marilyn Thorpe to email information to the Board and staff.

Next meeting date: May 7, 2009

The meeting adjourned at 9:00 a.m.

Respectfully Submitted,