

Water and Light Advisory Board  
August 19, 2010

A meeting of the Water and Light Advisory Board was held Thursday, August 19, 2010 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, Member  
Tom O'Connor, Member  
Bob Roper, Member - absent  
Dick Parker, Member  
Tad Johnsen, Water and Light Director  
Dave Storvick, Engineering Manager  
Ryan Williams, Assistant Water and Light Director  
Jim Windsor, Manager Rates and Fiscal Planning  
Christian Johanninger, Acting Power Production Superintendent  
Tony Cunningham, Acting Electric Distribution Manager  
Tina Worley, Utility Services Manager  
Marilyn Thorpe, Administrative Support Supervisor  
Tracy Frevert, Administrative Support Assistant

**APPROVAL OF THE JULY 6, 2010 MEETING MINUTES**

John Conway called attention to some information in the July 6, 2010 minutes that needed modification. On page 4 of the minutes, item b) Hillsdale Storage Tank Report under New Business needs the word "we" removed from the last sentence. Also, in Old Business on page 5, discussion of tracking renewable loans needs to read, "Mr. Schmitz said there is currently \$3.5 million out in renewable loans."

The July 6, 2010 meeting minutes were approved as modified by voice vote on a motion by Dick Parker and a second by Tom O'Connor.

**DIRECTOR'S REPORT**

Tad Johnsen requested to present his Director's Report at the end of the meeting.

**FINANCIAL REPORT**

Mr. Johnsen reviewed the Statement of Revenues, Expenses and Changes in Retained Earnings for the Nine Months Ended June 30, 2010 and 2009. June 30 is 75% of the fiscal year. The revenue statement should reflect 70% of total electric revenue and 65% of water revenue. For the current year, residential electric is at 70%, but lower for commercial and industrial. Also coming in at lower than projected is water revenue, which is at 61%. Dick Parker requested that Water and Light staff provide the projected percentages for each month on future financial reports. Tom O'Connor suggested adding a subject line to the Statement of Revenues, Expenses and Changes in Retained Earning stating "Historic Values Tend to be x%."

Ninety percent of expenditures of Transmission and Distribution Operating Expenses appears high due to several storms this spring. This figure also includes capital expenditures.

John Conway had a question about investment revenue on the electric side. Jim Windsor stated that this item is budgeted low, and that there was a substantial cash balance last year.

Mr. Parker asked about the peak electric this year, which so far is 268. The projected peak is 278. Mr. Johnsen led a discussion on power supply expenses. The Ameren contract increased July 1 by \$1 per megawatt hour and 5 megawatts. Ameren Power Purchase Agreement expires May 31, 2011 so 25 MW

have been purchased to help replace that capacity. IATAN II will be operating by then as well. Also, the pilot on Nearman has been increasing. January 1, 2010 it went to 12.8% which Water and Light pays as part of our participation in the Nearman Unit. Staff needs to determine if it is in the City's best interest to continue to participate. Water and Light has a 50% load factor obligation. There is an energy cost and maintenance cost. Water and Light pays monthly capacity charges regardless of usage. The capacity charge itself is fixed, and additional charges associated with that power source are included.

The board received the monthly financial statements ending June 30, 2010.

Water and Electric Utility combined operations reflect an operating income of \$557,453 for the nine months ended June 30, 2010; compared to an operating income of \$2,930,976 for the same period last year. This is a decrease of \$2,373,523.

The Water Utility has an operating income of \$1,031,710 for the nine months ended June 30, 2010; compared to an operating loss of \$975,055 for the same period last year. This is an increase of \$2,006,765 in operating income.

The Electric Utility has an operating loss of \$474,257 for the nine months ended June 30, 2010; compared to an operating income of \$3,906,031 for the same period last year. This is a decrease in operating income of \$4,380,288.

Operating revenues of the Electric Utility are up \$3,358,124 compared to the same period last year.

Operating expenses before Payment-In-Lieu-Of-Tax and Depreciation are up \$7,018,871. Fuel and Purchased power costs have increased \$5,465,418.

### **CHAIRMAN'S REPORT**

No report.

### **NEW BUSINESS**

a) FY 2011 Budget – The budgets for the water utility and electric utility were presented as part of the overall City budget. The budget must be presented by August 1, and is introduced at the second City Council meeting in August. As the Advisory Board meeting occurred after August 1, Mr. Johnsen reviewed the ordinances to change water and electric rates.

Water and Light is proposing a water rate increase of 10% above the existing rate structure for the FY 2011 budget. Included in the proposed rate change for FY 2011 is the first of four 5% rate increases to cover the debt service on the water bond issue passed in November 2008. The additional 5% increase is to cover operation and maintenance expenses. An update and review of the cost-of-service study was performed. While there is some variance between the rate classes, all rate classes are greater than 10% below their cost-of-service. The 10% increase should generate \$1.2 million in revenue.

Mr. Johnsen also reported on increased costs associated with the FY 2011 water budget, which include the addition of a Plant Operator in water production. The cost for adding this position is justified by avoiding overtime costs. Administrative costs have also increased due to the anticipated move of the Administration and Engineering offices to City Hall. The move should occur in early 2011. Another uncommon cost in the FY 2011 water budget is a \$600,000 cost increase: \$400,000 increase for sludge removal, and \$200,000 for correction of an electric metering error. A filter building originally had four pumps, and over several years time span, four additional pumps were added. The four additional pumps were not metered properly. Properly metering the pumps will require an outage of the filter building, so the repair will not be

completed until after the summer demand. Tom Baumgardner questioned how the metering error occurred. Mr. Johnsen replied that something in the design was overlooked.

A 3% increase is proposed for the electric utility revenues to cover increases in operation and maintenance expenses. Rates are developed to charge customers according to the cost associated with providing them service. The proposed rate changes are slightly different for each major customer class. To achieve a 3% increase in revenue the following average rate change, by class, is proposed: residential – 3.3%; small general service – 3.8%; large general service – 2.8%; and, industrial 3.3%. The average residential customer (non-electric heating) will see an increase of \$2.57 per month during summer months and \$2.53 per month during non-summer months. The 3% rate increase should generate approximately \$3 million in revenue.

Electric costs associated with the FY 2011 budget also include the Administrative and Engineering offices move to City Hall, as well as additional power supply costs for the end of the Ameren contract. FY 2011 will be the most expensive year of the contract. Market price does not affect this cost. Discussion followed concerning \$350,000 in costs associated with the Energy Center, and \$300,000 to \$400,000 to rebuild the two landfill gas generators. The generators should be rebuilt after 20,000 operating hours, or two years of typical operation. Water and Light's two generators need to be rebuilt for the first time in FY 2011. After 60,000 operating hours, generators need a major overhaul. The quality of siloxane gas can alter the maintenance intervals. Poor siloxane gas quality will make maintenance more frequent. There is a filtering system for siloxane, but it is very expensive. Rebuilding the two generators the first time will give a more accurate indication of the wear on the machines which will aid in determining if the maintenance schedule can be extended beyond every 20,000 hours. Jim Windsor reiterated that there are no large items associated with operations and maintenance costs in the FY 2011 budget.

John Conway asked if the Transload facility is at the break even point. Mr. Johnsen said the facility should be at the break even point in three years. It is currently being run as a bare bones operation in an attempt to keep expenses low.

Tom O'Connor suggested reinvestigating the water and electric rate structure. Mr. Johnsen stated that he would like to conduct a cost-of-service study for rates before the next fiscal year. Part of the study would be done in-house, and part contracted out.

Dick Parker distributed a worksheet to the board members present illustrating what he believes are more equitable electric rate changes. His proposal includes a flat rate for the two electric rate classes so all consumers receive the benefit of a lower rate in non-summer months rather than just high usage consumers. Mr. Windsor explained that the electric heating and high efficiency heat pump rates are based on the assumption that the customer does not use natural gas. There is no effective way for tracking customers who have installed natural gas, but are still getting the electric heating rate. Therefore, he feels it is premature to utilize a flat fee before it can be determined exactly which customers should not be receiving the discount. Mr. Baumgardner asked if Ameren could provide Water and Light the names of customers who add natural gas heat. To date, Ameren has not agreed to supply this information. Mr. Windsor also gave a brief history of Water and Light's rate structure. The 1980's had a decline rate structure; the 1990's a flat rate, and currently an inverted rate structure. There was no heat pump rate until 1986.

Mr. Parker noted that the July 6, 2010 minutes stated that Board members would receive an explanation of rates and customer classes at the August meeting. Mr. Johnsen said they were not currently available.

Mr. Johnsen referred to the Capital Improvements Projects (CIP) budget. Large items include the East transmission main and the April, 2011 bond issue, which involves the new substation on the south side of town and the 161 lines going to it.

Dick Parker made a motion, seconded by Tom O'Connor, to signify to the council the Board's concurrence of the FY 2011 Water and Electric budgets. Motion was approved by voice vote.

Tom Baumgardner made a motion, seconded by Tom O'Connor, to signify to the council the Board's concurrence of the 3% Electric and 10% Water rate increases. Motion passed three to one.

Since budget preparations begin early, Mr. Windsor suggested a decision be made soon concerning the cost-of-service rate study and determining the rate philosophy. Mr. Parker requested a short synopsis of each rate philosophy.

Mr. Conway thought it important to inform the council that the board will be examining the water and electric rate philosophy in the next budget year.

b) Dow Solar Agreement – Mr. Johnsen reviewed the proposed Dow Solar Project. Dow Chemical has proposed to provide the components required for three additional solar arrays with a combined capacity of 11.8 kW. The estimated value of the components is \$88,500 based on the national average of \$7,500 per kW for solar panels and equipment. The City of Columbia and Prost Builders/Missouri Solar Applications (MSA) will build and install the Dow solar shingles at the existing demonstration site located at Bernadette and Tiger Lane. The total cost to the City of the engineering, design and construction for this project is not to exceed \$66,400.

The City of Columbia will purchase all construction material for the simulated roofing structure to house the solar shingles, the necessary site preparation work including purchase of rock, weed barrier below the rock, metal edging and the electric work to connect to the meter at an estimated cost of \$19,800. Prost/MSA will provide the engineering design of the roof support structures and the installation of the Dow solar shingles at a cost to the City not to exceed \$46,600. This project reflects the City's commitment to renewable energy.

Dick Parker made a motion, seconded by Tom Baumgardner, to recommend the council go forward with the Dow Solar Agreement. Motion was approved by voice vote.

Mr. Parker distributed information he had gathered concerning solar energy. He noted that between 4:00 p.m. and 5:00 p.m. during the four summer months when demand is greatest, there is a 10% increase in the production of solar electricity with minor orientation changes which produce no loss of annual production of electricity.

c) Iatan 2 Update/Power Exchange Agreement – The Missouri Joint Municipal Electric Utility Commission (MJMEUC) and Water and Light believe it would be to their mutual advantage to engage in a power exchange whereby Water and Light would receive a portion of the energy available to MJMEUC under the Ameren contract in exchange for MJMEUC receiving the energy from Iatan 2 that otherwise would have been provided to Water and Light under the unit Power Purchase Agreement (PPA).

The purpose of the power exchange agreement is to permit MJMEUC to use the capacity and energy from Iatan Unit 2 to which Columbia is entitled under the PPA and which can be delivered from its source to Missouri Public Energy Pool (MoPEP) loads, in exchange for Columbia's use of capacity and energy to which MJMEUC is entitled under the Ameren contract and which can be delivered to Columbia with the

Midwest Independent System Operator (MISO) transmission system. The proposed agreement is intended to be revenue neutral to both parties and would be in effect September 2010 through May 2012.

Tom O'Connor made a motion, seconded by Dick Parker, to recommend the council authorize the City Manager to execute the proposed Power Exchange Agreement with Missouri Joint Municipal Electric Utility Commission. Motion was approved by voice vote.

d) Neighborhood Challenge Grant – Mr. Johnsen reported that Water and Light has prepared the Neighborhood Challenge Grant application requesting \$345,000 from the Department of Natural Resources (DNR). Water and Light will provide \$50,000 in leveraged funds of which 10% will be requested back through this grant process.

Columbia Water and Light will operate the Neighborhood Challenge Grant as a pilot study to evaluate the effectiveness of consumer awareness for motivating customers to reduce energy usage. The Neighborhood Challenge program will provide homeowners with the opportunity to realize energy savings that will result in reduced energy costs and increased awareness of energy usage. Program participants will receive a bi-monthly report providing them with home energy usage for the previous month and weather data, comparison of homeowner's usage compared to other homes of similar size and geographic location, no-cost and low-cost conservation tips, and promotion of Water and Light's Powerful Partners program. This bi-monthly reporting will be managed by a third party contractor. The RFP for the vendor has already gone out while awaiting grant approval by DNR, which should be announced by August 31, 2010.

The program must begin January 1, 2011 and be completed by January 31, 2012.

Mr. Johnsen believes a cost to this program could be for Water and Light to continue the program after January 31, 2012, if customers request it to continue.

Springfield, Missouri is currently participating in the program.

Dick Parker made a motion, seconded by Tom Baumgardner, to recommend the council authorize the City Manager to accept and sign the agreement with the Department of Natural Resources for funding, should the City of Columbia be selected as a recipient. Motion was approved by voice vote.

### **DIRECTORS REPORT**

a) DSM Comparative Data – Mr. Johnsen reviewed the Demand Side Management (DSM) Comparative Data October through July. The available funds for the loan program will be sufficient through the fiscal year, but not through the calendar year. Water and Light will need to provide justification to the council the benefits of the loan program before they will budget more funds for it. Staff will assess the loan program and develop a report on how the program is affecting the utility.

b) Project Status Update – Mr. Johnsen reported that staff is preparing for a North American Electric Reliability Corporation (NERC) audit during the week of October 4 through October 8. This is a comprehensive audit of operations and planning standards. Staff will perform a test audit in two to three weeks to prepare for the NERC audit.

Mr. Johnsen also reviewed the status of several water bond projects including the Hillsdale Ground Storage Reservoir and East Transmission Main. He also noted that to date only one person has applied for appointment to the Source Water Protection Task Force.

c) Advancing Renewable Conference – Tina Worley reported that the conference went very well, and that sponsorship was superb. All of the conference presentations can be found on-line on the advancing renewables website.

Mr. Johnsen said he will be attending the Missouri Public Utility Alliance (MPUA) Annual Conference at the Lake of the Ozarks September 29 through October 1. He recommended board members to attend.

Mr. Johnsen introduced Christian Johanningmeier as the Acting Power Production Superintendent, which led to discussion on the status of the bridge. Mr. Johanningmeier said the bridge is nearing completion, and the railroad track is being built now.

Ryan Williams reviewed a pole attachment agreement between Columbia Regional Hospital and the City of Columbia. Columbia Regional Hospital would like to attach banners to the City's light standards located in specified public right-of-ways. Tom Baumgardner made a motion, seconded by Dick Parker, to signify to the council the Board's concurrence of the pole attachment agreement between the City of Columbia and Columbia Regional Hospital. Motion was approved by voice vote.

Board members received the McBaine Water Treatment Plant Expansion Alternatives Description Technical Memorandum which describes the alternatives for the preliminary design of the McBaine Water Treatment Plant. David Storvick, Engineering Manager, explained that another workshop for this project will be held September 2 at the Water and Light offices.

Next meeting date: Tuesday, September 7, 2010 at 8 a.m. in the Utility Services Conference Room, 105 E. Ash St., Columbia, MO.

### **OLD BUSINESS**

Dick Parker presented a report to the board members present providing an analysis of the difference between his cost estimates of renewable energy and non-renewable energy and the cost estimates provided by Mike Schmitz on May 4, 2010 and asked that the board review it for discussion at a future meeting. John Conway suggested that Mr. Parker make an appointment with Jim Windsor to discuss the figures, and staff will then report the findings to the board.

The meeting adjourned at 9:55 a.m.

Respectfully submitted,