

**MINUTES
CITY OF DELANO
SPECIAL JOINT WORKSHOP
City Council/Economic Development Authority
and
Delano Water, Light and Power Commission
Tuesday, September 13, 2011
6:00 PM**

1. CALL TO ORDER

Mayor Graunke called the special joint workshop of the Delano City Council/Economic Development Authority and the Delano Water, Light and Power Commission of Tuesday, September 13, 2011 to order at 6:16 PM.

2. ROLL CALL

Council Members Present: Dale Graunke, Mayor
Holly Schrupp, Council Member
Betsy Stolfa, Council Member
Dan Vick, Council Member
Derek Schansberg, Council Member *

Council Members Absent: None

Also Present: Phil Kern, City Administrator
Paula Bauman, Recorder

Water Light and Power Commission Members Present:
Larry Bartels, Commission Chair
Bob Hutter, Commission Member
Randy Keranen, Commission Member
Jonathon Ness, Commission Member
Derek Schansberg, Commission Member *

Commission Members Absent: None

Also Present: Hal Becker, General Manager
Larry L Schedin, P.E. LLS Resources LLC Team
Jim Erickson, LLS Resources LLC Team (Conf Call)
Tim Delf, CMMPA
Aimee Dreger, Recorder

4. SPECIAL ORDER OF BUSINESS

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A. Presentation of Delano Municipal Utilities Evaluation Study by LLS Resources.

Larry Schedin reviewed the findings of the Valuation of Municipal Electric Utility Assets. Mr. Schedin discussed the Delano Electric Utility overall data stating Delano is an average utility with 2400 customers. The 2011 summer peak demand is 12.961 MW. Delano's annual load factor is lower than average stating it's at 50%. Mr. Schedin discussed the customer breakdown of residential, commercial and industrial customers.

Mr. Schedine discussed the study approach stating the valuation study examined books and accounting records of utility received in response to extensive data request. The estimated value based on booked accounting data and replacement costs. The survey conducted on-site visit by a registered electrical engineer to examine electric utility assets. The survey also conducted a comparative rate study with three neighboring utilities. The wholesale power supply and service reliability was also studied. Observations regarding the health and future of the utility was also made.

Mr. Schedine discussed the total utility valuation discussing the method and value range. The book value is \$11.6 million; replacement value depreciated is 13.7 million; expected value range is \$11.6 million to \$16.0 million. The Council and Commission discussed why the discounted cash flows or internal rate of concern wasn't used in the calculations.

Mr. Schedine reviewed the net proceeds from sale discussing a) electric utility debt refunding: \$585,000 b) liquidation of other booked assets and liabilities: (\$456,000) c) buyer costs to retrofit generation to RICE standards \$587,000 stating the subtotal quantified subtractions \$716,000.

The following items, not quantified, must also be considered: 1) debt retirement fees 2) legal and transaction costs 3) unwinding of CMMPA purchased power and energy contracts including cost of replacement of Midwest Independent System Operator (MISO) interface 4) employee obligations 5) potential future property taxes if sold to a taxable entity would add costs for a purchasing entity but would add value to the City 6) increase in electric rates possibility resulting from a sale will negatively impact existing customers at the purchase time. The long term rate impact on existing customers is likely to be negative if a purchaser raises existing retail rates to area norms. 7) Impact on water utility because of loss of shared resources 8) Potential transfer of electric utility headquarters may negatively impact local jobs and result in lost revenues to local support businesses.

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On Site Visit Observations: equipment condition, connections to outside transmission system, undergrounding of distribution system, automation system progress.

Mr. Schedine discussed utility rate comparisons discussing comparative utilities selected: Wright-Hennepin Coop, Connexus Coop, Xcel Energy. Comparative analysis for residential class, three profiles with three sizes for commercial class.

B. Update on proposal to add more wind energy to existing renewable energy portfolio.

Tim Delf, CMMPA Central Minnesota Municipal Power Agency, discussed the Rugby Project giving a brief summary and timeline of activities leading to the first subscription. Stating the power purchasing agreement participants include Delano, Kasson, Kenyon, Sleepy Eye and Springfield. The participants subscribed for a total of 4.5MW with a cost of \$56/MWh. The CMMPA is offering additional MWh to be purchased at a reduced rate. The Commission questioned why the reduce rate. Mr. Delf stated because the market is soft and haven't seen a turnaround they'd like to. Mr. Delf stated the agreement is the same structure as previous agreement with additional wording to note the previous agreement.

C. Discuss in Lieu of Taxes for 2012.

Prior to 2000, the Delano Municipal Utilities contributed to the City of Delano, an amount, in lieu of taxes as a business. In 2000, the City of Delano instituted a City Franchise fee that is charged to all City residents and is based on their Kwh consumption. It was negotiated between the City and Utility to discontinue the contributions in lieu of taxes when the City Electric Franchise Fee was implemented.

In 2011 the Commission decided to reinstate payments in lieu of taxes to assist the City to meet budget requirements and set an amount to contribute \$70,000.

The Commission reviewed the contribution amount with the City Council for 2012. The options for discussion are:

1. Stop contributing to the City of Delano an amount in lieu of taxes.
2. Continue contributing to the City of Delano the annual amount of \$70,000.
3. Follow the formula suggested in the DMU evaluation study as to the amount that should be contributed to the City of Delano. In the 2011 study, the example used was the book value \$11.6Million. Based on this book value of the Electric Utility and would result in

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additional property taxes total to be about \$231,000 and 46% of that amount, or \$106,000, would be paid to the City of Delano.

The Commission discussed the options Mr. Ness felt option 3 was the most sensible. Mr. Karenan questioned if this would make the utility bill increase. Ness felt the bills would increase approximately 2.5%. Phil Kern stated this would decrease the levy 4.4%.

The Delano Water, Light and Power Commission made a motion: Motion by Jonathon Ness, seconded by Derek Schansberg to choose option 3 to contribute \$106,000 to the City of Delano paid out in twelve equal payments. Motion Carried.

D. Remind Commission, Council and Staff about the CMMPA Information meeting in late October.

The Council and Commission discussed the proposed meeting dates.

4. ADJOURNMENT

There being no further business to discuss the special joint workshop of the Delano City Council/Economic Development Authority and Delano Water, Light and Power Commission of Tuesday, September 13 was adjourned at 8:34 PM.

Dale Graunke, Mayor

Marlene E. Kittock, City Clerk

Attest:

Paula Bauman, Recorder