

Minutes
Board of Light & Power
Regular Meeting – April 27, 2006
Lowell Light and Power Offices

Call to Order: Chairman Austin called the meeting to order at 5:30 PM. Also present were Board members Jim Maatman and Bill Thompson, General Manager Tom Richards, Administrative Manager Mary Sawka and Operations Manager, Jeff Mullins.

Approval of Minutes: A motion was made by Thompson and supported by Maatman to approve the minutes of the March 30 Board meeting. Both agreed to amend the motion to correctly indicate that the Bowes Road construction bid was a “not-to-exceed” price. The motion, as amended, passed with the unanimous vote of the Board.

Accounts Payable: A motion was made by Maatman and supported by Thompson to approve the March accounts payable as presented. The motion passed by a unanimous vote of the Board.

Consideration & Adoption of 2006-2007 Budget Proposal: Chairman Austin noted that the Board members had all received a letter from Councilman Pfaller who expressed his concern that the utilities’ budgets were not submitted to the City in early March as specified in the Charter. Discussion followed regarding the Charter requirement and that the accuracy of budget data would be based on less accurate data and more projection if the utilities follow the letter of the 1960 Charter. It was noted that in recent years, the utility’s budgets had been presented on a similar schedule as the City’s general budget.

Austin suggested that a preliminary budget could be presented at the earlier date. Richards responded that it was his understanding that the budget required (by the second Monday in March) was the budget approved by the Board (the final budget). He pointed out that under that schedule, only six months of current-year financials would be available for developing the budget and 18 months would have to be projected. Richards stated that historically, the Board has approved its budget in June, in time for the Council’s adoption before the new fiscal year. He said the same timing issue had been discussed in 2003 and the Council had been asked for a clarification on what was desired. He noted that there was no official response, so then Mayor Shores suggested that budgets presented on a similar schedule as the City’s would be acceptable.

Austin suggested that a letter from the Board should be drafted, explaining the disadvantages of following the letter of the Charter in this case and the benefits and logic in allowing additional time for additional accuracy. He suggested that in the letter, the Board should ask for the Council’s approval to continue submitting the utility’s budget on the timetable comparable to the City’s...with submission in May and approval in June. It was the consensus of the Board to have Richards coordinate the drafting of a Board response to Councilman Phaller, and the other member of Council, to explain the budget timing background and requesting approval to continue submitting the budget on the same timetable as the City’s.

A motion to approve the budget as submitted by the staff was made Maatman and supported by Thompson. Discussion followed including a summary by Richards of the significant revenue and expense items that represented significant changes from the 2004-2005 fiscal performance and the projected actual performance for the current year. Among the items discussed were:

- The uncertainties of fuel, transportation and MISO market/transmission expenses on Purchased Power costs, and the balancing of the revenues recovered with the power cost adjustment mechanism.
- Reductions in interest income resulting from a lower level of invested reserves
- Anticipated expenses and lease revenues for the Chatham Street storage building.
- Increases to the overhead lines maintenance expense related to the more effective line clearance efforts being made. The Board expressed support for the current program, emphasizing more removals of danger trees versus repetitive minor trimming.
- Conference and meeting expenses, which were higher in the current fiscal year due to Fairbanks Morse training for operation and maintenance of our generating engines. Also noted was that the expense includes labor costs for those attending meetings or training.

The Board voted unanimously to approve and adopt the 2006-2007 budget proposal. Richards indicated that he would provide the approved budget including background and explanation to the City Council prior to the May 15 meeting where the budget would be on the agenda for approval.

UBS Authorization of Wire Transfer of Investment Funds: Richards explained that wire transfers would speed up the receipt of funds withdrawn from the utility's invested reserves, but UBS requires a specific resolution by the governing body designating the individuals who were authorized to request a withdrawal by wire transfer.

A motion was made by Maatman and supported by Thompson that General Manager Richards and Administrative Manager Sawka would be authorized by the Board to buy or sell approved investments through UBS for the utility and a specific resolution, provided by UBS was so approved. The motion passed by the unanimous vote of the Board.

Consideration of Revision of Retiree Benefits Policies: As directed from a previous meeting, the Board discussed the possibility of making changes to the current policy extending health care benefits to the utilities retirees. Among the points discussed were:

- Retirees from other city departments have their health care premiums paid only for five years or until age 65 (Medicare eligibility). They do not currently pay a portion of the insurance premiums like LLP / LCTV retirees.
- There are still many differences between the benefits provided by the City and the Utilities. Comparisons show that employees of the two groups get significantly different values in their benefits in total.
- Retirees from LL&P and LCTV have traditionally received retiree health care coverage at the same level as active employees.
- The possibility of 'grandfathering' paid coverage only for those employees within eight years of possible retirement. Those employees have anticipated receiving health care benefits in their retirement.

- The possibility of ‘grandfathering’ coverage for all current employees.
- A Business and Legal Reports survey indicating that retiree health care coverage was provided to 40% of ‘public sector’ retirees and 52% of retirees in the ‘government’ sector. Most other sectors were less likely to provide coverage.
- The current cost of retiree health care premiums amounts to about \$3,000 per month or the equivalent of \$4 to \$5.00 per year for each residential customer.
- The Board had already taken the responsible steps to control health care insurance costs:
 - Requiring employees/retirees to pay a share of the premium
 - Increasing deductibles and co-pays for services and prescriptions
 - Coordination with Medicare (paying for only a supplemental plan instead of full coverage)
- The continuation of retiree benefits coverage may increase costs more significantly in the future.

By consensus, the Board chose to take no immediate action or make changes to the current retiree policy, but instead to continue to review available information for possible action in the future.

Performance Data: Richards reviewed financial, sales and performance data from the March operations of the utility compared to the prior month and the previous March. The Board discussed the performance data tables and significant changes and trends. He noted that like November, March is a typically low month for electric usage and sales because it is neither a significant heating nor cooling month.

Income Statement: The Board reviewed the March 2006 income statement and a summary of significant trends and notable variations from the anticipated levels of revenues and expenses. Richards noted that purchased power expenses were still extraordinarily high... more than \$60,000 above the cost for March 2005. He explained that a significant portion of that was for true-up charges for Campbell 3 back-up energy costs for 2005. He also explained that the power cost adjustment factor would recover approximately \$270,000 in energy costs in excess of that anticipated in the base rate for the November through March period.

Collection at time of Shut-Off for Non Payment: Richards explained that when a service technician was dispatched to shut off a customer’s service for non-payment, the practice had been to allow that customer to avoid the shut-off if they made payment to the technician.

He explained that this practice had become troublesome because:

- Some customers routinely wait for the shut-off period and pay the technician rather than paying the bill by the normal means.
- Handling payments in the field means that technicians are carrying cash or checks and are subject the risks of loss, theft or disputes over the payments received.

Richards recommended that the utilities discontinue the practice of accepting payments in the field. He proposed that the ‘shut-off list’ would probably be shorter each month if customers scheduled for shut-off were actually inconvenienced by a minimal period without service.

Discussion followed about the possibility of customers on life support and the emergency support they could receive from medical facilities. Also discussed was the information routinely given to customers about agencies that can assist those customers with financial difficulties. The Board was advised that as many as 600 customers per month receive letters warning that their service may be shut-off within 20 days. Usually there are less than 50 customers who fail to pay by the shut-off date.

Richards advised the Board that this didn't require a change of policy, but he was seeking the Board's support for the change in practice which could lead to some complaints. He advised that the customers nearing a potential non-payment shut-off would be specifically advised by mail of the change in practice.

By consensus, the Board supported the change in practice, to end the acceptance of payments in the field.

Other Items: The Board reviewed a summary of current activities and projects for the utility; items discussed by the Board included:

- The MISO transmission group had been ordered by the Federal Energy Regulatory Commission that Revenue Sufficiency Guarantee (RSG) charges paid by MPPA cities with grandfathered transmission ownership agreements must be refunded, with interest, to the cities. The timing and amount of the refunds would not be known until sometime in the future. Richards stated that the total impact of the refund to the Power Pool cities would be in the millions of dollars.
- An update on City Council discussions regarding the future use of the Washington Street storage property and the utility's building on the site.
- An update on Council's consideration of possible use of the surplus space in the Chatham Street building for use by the DPW or other city services.
- An update on the repairs to the 138KV transmission switches which were accomplished without an outage by switching all customers to circuits fed from the alternate transmission feed.
- An update on the preventive maintenance work on the utility's three generating units and the costs of various components that are being replaced to avoid the likelihood of possible catastrophic and costly failures.
- An update on the Bowes Rd express feeder construction, now scheduled to begin in Mid May.

Schedule of Meetings: The Board reviewed a schedule of upcoming meetings including meetings of the Lowell City Council, Michigan Public Power Agency and Power Pool, Coordinated Energy Partnership Committee, Michigan Municipal Electric Association and American Public Power Association. Board members were unable to attend the MMEA meetings in May or the APPA conference in June.

Richards advised the Board that the MMEA is investigating the possibility of hosting an APPA utility governance workshop in Michigan if there is sufficient interest from among the membership. He advised that this is the same course that was typically provided once or twice per year, but usually at distant and popular travel destinations. He said he would be providing more information about this possibility as it became available.

Next Meeting: The next regular meeting was set for 5:30 PM on June 8 at the Light and Power offices.

Public Comment: There was no public comment.

Adjournment: The chairman adjourned the meeting at 7:17 PM

Dave Austin – Chairman

Date