

Minutes
Board of Light & Power
Regular Meeting – December 1, 2005
Lowell Light and Power Offices

Call to Order: Chairman Austin called the meeting to order at 5:30 PM. Also present were Board member Jim Maatman, Bill Thompson, General Manager Tom Richards, Administrative Manager Mary Sawka, Operation Manager, Jeff Mullins and Mayor Jeanne Shores. Consultant Mark Beauchamp also attended.

Approval of Minutes: A motion was made by Thompson and supported by Maatman to approve the minutes of the October 27 regular Board meeting. With the correction of a typographical error noted by Austin, the motion to approve the minutes passed with a unanimous vote of the Board.

Performance Data: Richards reviewed financial, sales and performance data from the October operations of the utility compared to the prior month and the previous October. The Board discussed the performance data tables and significant changes and trends.

Income Statement: The Board reviewed the October 2005 income statement. Richards pointed out significant trends and notable variations from the anticipated levels of revenues and expenses. Specifically noted for October was:

- Sales revenues were lower than normal for the August – September period
- Purchased Power expenses for the September calendar month were higher than normal due to higher demand and increased deficiency energy charges from the Power Pool
- Substantial increases in transmission charges which largely reflect the new MMI energy market costs.
- A net negative income of \$26 thousand for October, but a positive \$125 thousand for the last 12 month period.

Other Items:

Plant Appraisal - The Board discussed a summary of the results of a revised appraisal of the utility property and assets conducted by Deyo –Stone Associates of Kalamazoo. Richards pointed out that the net total of assets was generally in line with the adjusted value used by the Michigan Municipal League for insurance purposes. Richards pointed out that there were significant differences between the insured and appraised value of individual assets and locations... most notably:

- Generation assets were overvalued on the MML asset list
- The Broadway office and plant building was significantly undervalued.

Richards advised the Board that the MML insurance limits were being adjusted according to the new appraisal values. He also advised that MML was contributing \$1,000 toward the cost of the appraisal.

Street Light Billing Adjustments – Richards advised the Board that a completion of a detailed street light / security light inventory had uncovered a situation where a few lamps had been charged both as city street lights and security lights for the Lowell Public

Schools. Both customers had been advised of the error and had been refunded for the total of the overbilled amount.

Campbell 3 Bonding – Continuing Disclosure Certificate – Richards advised that the Lowell City Council would be asked to approve a resolution authorizing Lowell’s obligation to the terms of a Continuing Disclosure Certificate for additional revenue bonds to be sold for anticipated improvements and upgrades to the Campbell 3 plant. Richards explained that the \$10 million in bonds would finance improvements and equipment to be added to the plant to meet future emissions control requirements. Richards advised that the net monthly expense for the additional debt service is estimated at about \$3,000 per month.

Bowes Rd Distribution Project – Richards updated the Board on the continuing progress on the Bowes Rd. express feeders project. He advised that the trees scheduled for removal should be removed within the first 10 days in December. All property owners who will be affected have been notified and consulted. Work is continuing to obtain the necessary easements, primarily for guy anchors.

Chatham Street Factory Property – Richards advised that three recommended appraisers had been contacted for quotes on conducting a market appraisal on the 625 Chatham street property. He estimated the cost of appraisal at \$2,000 to \$2,500. He indicated that the project would likely assigned immediately so the appraisal can be completed before the next scheduled meeting.

Mayor Shores was updated on the property under consideration. She was advised that both the City Manager and DPW Director had been consulted about the potential of City use of the building, but neither felt it would meet any current or anticipated needs for other city uses.

Consideration of Power Cost Adjustment Mechanism: Consultant Mark Beauchamp of Utility Financial Solutions provided the results the power supply cost recovery proposal he developed from the utility’s financial and performance data.

Beauchamp briefed the Board on the experience of many electric utilities, many of whom have absorbed dramatic increases in the cost of power from the rising cost of natural gas, coal, and coal transportation, in addition to other increases in transmission, environmental and other regulatory costs. From his analysis of the utility’s financials, he recommended that Lowell institute a power cost recovery factor to insure that the utility recovers its true power supply costs through the revenue it receives from customers.

He recommended a review of the power supply costs at the end of each six month period, to determine what additional charge (or credit) is warranted to insure that costs are recovered through the rates. He recommended a formula to derive the correct charge to recover any shortfall from the prior period over the next six month period. He encouraged the use of this method to avoid dramatic swings in customer rates from month to month.

For energy sold during the April through September 2005 period, the power cost adjustment factor recommended resulted in an overall 2 – 3% increase for electric customers, depending on their specific rate class.

Beauchamp shared a comparison of Lowell's rates to those of other electric utilities in Michigan. For customers with very low electric usage, Lowell's rates were slightly above the state average. For customers with higher electric demand, Lowell's rates were generally below the state wide average. He reminded the Board that the residential rates for Consumers and Detroit Edison were still frozen from the 5% roll back that was imposed in 2000. He noted that the Public Service Commission was poised to set new and dramatically higher rates for these utilities in the very near future.

A motion to adopt the Power Cost Adjustment procedure proposed was made by Maatman and approved by Thompson. The motion passed by a unanimous vote of the Board.

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

Adoption of Rate – 275 watt Street Lights: Richards explained that 275 watt street light / security light fixtures were now being used in the system, but no specific rate for the lamps had been previously approved. The Board discussed his recommendation for establishing a rate of \$9.75 per month.

A motion to approve the new rate was made by Thompson and supported by Maatman. The motion passed by a unanimous vote of the Board.

Revision of Commercial Security Deposit: The Board discussed a recommendation from Richards that the policy governing commercial security deposits be amended. He proposed language that would limit refunding the commercial security deposit to those businesses who own their own buildings. He pointed out that the utility had no ability to use the tax lien option to recover unpaid electric from businesses that lease their property, so the utility was at greater risk when it returns security deposits to such businesses. The recommended revising policy 2-5 section D to read:

For commercial customers who own the property receiving electric service, LLP shall refund the deposit to the customer after three years of continuous service provided the account has remained current within the last 13 months without the assessment of late fees, and returned checks have not been submitted as payment. Commercial customers who rent or lease the property being served will be eligible to receive a refund of their deposit only after the final termination of service and settlement of final payment. If a review of the customer's account indicates the customer's deposit is greater than that required under section A, the surplus portion of that deposit may be repaid to the customer at the sole discretion of LLP.

Richards pointed out that the sudden departure of "Preferred Engineering" demonstrated the need for retaining a deposit for customers who lease rather than own their property.

The Board discussed Lowell's policy compared to Richards' knowledge of those used by other municipal utilities. Richards indicated his belief that Lowell's security deposit policy was slightly more conservative and cautious than most municipal utilities he was familiar with. He also stated that Consumers Energy and other investor owned utilities

rarely withhold a security deposit for most customers. Instead, they do extensive credit approval processes. Chairman Austin stated his belief that the change was necessary change to help protect the utility's ratepayers.

A motion to approve the policy as proposed was made by Thompson and supported by Maatman. The motion was approved by a unanimous vote of the Board.

Withdrawal of Transmission Asset Costs from the Municipal Competitive Trust Funds: Richards indicated that MPPA had overcome all obstacles to enable the closing on the purchase of 45 megawatts of transmission assets from the Michigan Electric Transmission Corporation. Lowell's allocated portion of those assets would be acquired at a cost of \$118,412. Richards indicated that a Board action was needed to authorize the cost to be paid from Lowell's funds (current balance \$430,000) in the MPPA Municipal Competitive Trust. He advised the Board that Lowell may have the option of purchasing more than its allocated share, so he recommended approval of up to \$200,000 of transmission with the funds to be withdrawn from the trust. He advised that the additional transmission ownership would provide long term transmission cost savings, far in excess of the purchase price.

A motion was made by Maatman and supported by Thompson to authorize Richards to approve the acquisition of the available transmission assets up to \$200,000 and to request MPPA's approval of withdrawing the cost from Lowell's funds in the Municipal Competitive Trust.

The motion passed by a unanimous vote of the Board.

Approval of Holiday Bonus for Staff: Richards asked for approval of a holiday bonus for the utility staff of \$70 for full time positions and \$20 for part time. He noted that the request is equal to the bonus that will be provided to City staff of other departments. By consensus, the Board approved the holiday bonus recommendation.

Public Comment: There were no comments from the public.

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

Adjournment: The chairman adjourned the meeting at 6:43 PM

Dave Austin – Chairman

Date