

Minutes
Board of Light & Power
Regular Meeting – February 2, 2006
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, Operations Manager Jeff Mullins, Council member Al Mathews, CPAs Joe Turnes and Steve Thompson and electric customer Bob Ford.

Approval of Minutes: A motion was made by Maatman and supported by Thompson to approve the minutes of the December 1 and January 12 Board meetings. With the correction of a grammatical error noted by Austin, the motion to approve the minutes passed with the unanimous vote of the Board.

Public Comment: With the consensus of the Board, Chairman Austin adjusted the agenda to enable electric customer Bob Ford to express his concerns to the Board. Ford told the Board that he had recently purchased a home as a rental property and he disagreed with the Board's policy requiring the payment of an electric security deposit from property owners who had been long-term customers of the utility. He said he felt the ability collect through a tax lien on the property should be enough to insure payment. He told the Board that he had argued the point with the customer service representative earlier and he apologized for being upset with her and causing her to be upset.

Chairman Austin thanked Ford for expressing his opinion to the Board and clarified that only the Board can set or change the policies and that the staff had no option to make an exception for him. Austin advised Mr. Ford that the Board has reviewed and revised the security deposit policy from time to time, and that the deposit is needed to help prevent the rest of the utility's customers from having to pay the cost of energy used by any customer who fails to pay. Austin pointed out that the Board writes off a considerable amount of unpaid debt each fiscal year. He stressed that it is critical that this and other policies be applied uniformly with all customers.

Ford questioned the need to write off unpaid debt and asked if the utility wasn't able to collect all unpaid electric debt through liens on the owner's property. Richards explained that the utility has not pursued tax liens against property owners when the tenant was responsible for the electric usage and had established their own electric account.

Ford said he understood the policy better now, but he still felt that there should be exceptions to the security deposit policy for long time customers. He said he appreciated the Board's consideration of his comments and he exited the meeting.

Presentation and Acceptance of the 2005 Audit: Joe Turnes of the firm of Biggs Hausserman, Thompson and Dickinson introduced himself and guided the Board through the report on the firm's audit of the Electric and Cable TV utility. He referred the Board to a spreadsheet they had prepared, comparing the utilities 2004 – 2005 performance to that of the prior fiscal year. He noted the following:

- An increase in net assets of \$80,000 for the year compared to a decrease of \$196,000 for the previous fiscal year.
- An increase of 5.8% or \$290,000 in operating revenue compared to FY 2004
- An increase of about \$20,000 in the value of the utility's invested reserves.
- The year-end value of net assets were \$7.4 million, including \$3.1 million in unrestricted funds indicating what he noted as "good cash flow".
- Rate adjustments appeared appropriate and responsible for the generation of the revenue needed for a positive net income.

Turnes referenced the auditors report, indicating that the audit rates a "clean opinion" that the financials accurately reflect the financial condition of the utility. He complimented Administrative Manager Mary Sawka and her staff for the quality and accuracy of their work.

A motion to accept the 2005 as presented was made by Maatman and supported by Thompson. The motion passed by a unanimous vote of the Board. Mr. Turness and Mr. Thompson exited the meeting.

Richards advised the Board of the concerns that Staff had with Biggs Hausserman's lack of responsiveness to the utility's time requirements for the current audit season. He advised that the auditors had been made aware of a November 11 target date and a December 31 deadline for submitting audited financials to MPPA for compliance with the bond requirements for the various power plant projects. He explained that the firm had only begun the audit field work at the beginning of December and the audit report was received on January 3 after the deadline required under our "continuing disclosure" requirements of the bond agreements. Richards indicated that the request for an exit meeting with management had gone several weeks with no response. He expressed serious concerns about the firm's ability to meet the "utility experience" requirements of the bond covenants as well as the failure to meet the time requirements.

Discussion followed with the Board and Council Member Mathews about the City's goal of using the same auditor for the City and the Utilities, but in this case Richards said he felt that performance and experience issues were a liability to the utilities and possibly a violation of the audit firm's agreement with the City. He indicated he would be expressing the concerns to the City Manager, Treasurer and Mayor.

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

Security Deposit Adjustment – Angela Worsley: The Board reviewed and considered a request to adjust the residential security deposit due from commercial customer Angela Worsley for the rental property at 909 Flat River Drive.

Ms. Worsley had objected to the high level of the deposit for the property which was based upon the usage of the prior tenant at that residence. Richards advised the Board that in reviewing the background, the landlord and property owner had revealed that the previous tenant's usage would have been abnormally high because:

- The family had a large amount of electrical medical devices used to support a child who required hospital type treatments and care.
- An abnormally large extended family was living in the apartment and that their hot water use (with the electric hot water heater) had most likely consumed a lot more than the normal electric usage.
- The residence was identical in all respects to the other half of the duplex, where the residents consumed about half the energy of the unit in question.

After discussion with the property owner and Ms. Worsley, Richards recommended that the Board approve a special adjustment in this case, basing the security deposit on the current electrical usage of the neighboring unit, which would remove any extraordinary electrical usage from the deposit calculation. He recommended adjusting the initial deposit to \$190.

Member Thompson moved and Maatman supported the motion to approve the special adjustment of the security deposit requirement for this case. The motion passed with a unanimous vote of the Board.

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

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

Richards explained the source of extraordinarily high purchased power expenses that were incurred in November and paid in December. He explained that November's purchase power billing includes not only the actual and estimated billing for the current month, but corrections and adjustments (actual costs minus estimates paid) for the August period. He explained that while Lowell essentially owns a proportionate share of the Campbell and Belle River plants, it is not in control of the operational or capital costs incurred for the plants. Lowell only sees the effect of those expenses in our power bills.

Richards explained that the month's unanticipated high expenses for Campbell 3 plant include:

- \$24,000 in November MISO (Midwest Independent System Operator) transmission and energy expenses
- \$18,000 of added August MISO charges
- \$4,000 in extra energy (fuel) costs for Campbell in August
- \$11,000 in additional operating and maintenance costs for August

For the Belle River Plant;

- \$3,000 in added August O&M plant costs
- \$7,000 in added August energy (fuel) costs
- \$3,300 in added August MISO transmission market costs
- \$6,200 in November MISO charges.

In all, the MISO charges and adjustments to August's usage increased the purchased power costs by nearly \$77,000 above normal levels for the month.

Richards explained that MPPA staff has initiated some changes in the way the agency members' sales and purchases are scheduled into the MISO market. Those changes are expected significantly reduce the added MISO charges in the coming months. In spite of those adjustments, the added cost impact of the MISO's administrative costs and operational inefficiencies are still expected to have a significant effect, increasing the purchased power costs.

Richards provided the Board with a flow chart, illustrating the complexities that have been introduced into the bulk power market by the new energy market structure. With so many municipal utilities being negatively impacted by the new "markets" he explained that the Michigan and national public power associations are beginning to press their legislators to push for reforms with the Federal Energy Regulatory Commission to require efficiency and accountability in the regional markets they created.

Richards reminded the Board that the Power Cost Adjustment Factor approved in December will insure that these costs are recovered through the rates charged to our customers in the next six month period.

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

- The current status of the Bowes Road express feeder project. Richards advised that the design is completed and the route is being staked prior to construction. The two unresolved easements had been verbally agreed to, but signatures were still pending. Bids were being solicited for materials and construction from the region's providers that are believed to be capable of supplying them.
- Approval to purchase the Chatham Street industrial property which will be on the City Council agenda for Monday February 6. Richards encouraged the Board to attend the meeting. Discussion followed regarding the background and materials that would be presented to Council at the meeting in support of the request. Also discussed were the City's options for use of the Washington Street property if our storage facilities were to be removed from the location.
- The Board reviewed an annual cost breakdown of the labor hours that were paid for the hours that staff members are responding to fire or emergency calls as members of Lowell's volunteer fire department. By consensus, the Board again agreed that the cost impact on the utility was reasonable, and that it was appropriate for the utility to support the fire department and the on-staff fire fighters by not reducing pay for the time spent responding to calls.
- A proposal from staff that the residential security deposit requirement should be waived in cases where senior citizens (and long time customers) are moving from a home to a condo or apartment in the community. The Board expressed a willingness to consider an adjustment to policy. Richards offered to provide some proposed changes at a future meeting.

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. Discussion followed regarding the February 6 Council meeting where the Council will hear the annual report on the audited financials and will consider approval of the purchase of the 625 Chatham property.

MMEA Annual Review of Legislative and Policy Issues: Richards provided the Board with a printed summary of the status of the many issues impacting public power utilities in Michigan in the past year, and the association's work on those issues.

Next Meeting: The next regular meeting was set for 5:30 PM on March 9 at the Light and Power offices.

Adjournment: The chairman adjourned the meeting at 6:58 PM

Dave Austin – Chairman

Date

Minutes
Board of Cable Television
Regular Meeting – February 2, 2006
Lowell Light and Power Offices

Call to Order: Chairman Austin called the meeting to order at 6:45 PM. Also present were Board member Jim Maatman, Bill Thompson, General Manager Tom Richards, Administrative Manager Mary Sawka, Operations Manager Jeff Mullins, Council member Al Mathews and CPAs Joe Turnes and Steve Thompson.

Approval of Minutes: A motion was made by Maatman and supported by Thompson to approve the minutes of the December 1 Board meeting. The motion passed with the unanimous vote of the Board.

A motion was made by Thompson and supported by Maatman to approve the minutes of the January 12 meeting. The motion passed with the unanimous vote of the Board.

Presentation and Acceptance of the 2005 Audit: Joe Turnes of the firm of Biggs Hausserman, Thompson and Dickinson introduced himself and guided the Board through the report on the firm's audit of the Electric and Cable TV utility. He referred the Board to a spreadsheet they had prepared, comparing the utilities 2004 – 2005 performance to that of the prior fiscal year. He noted the system's positive net income of approximately \$20,000 for the year, compared to a nearly \$50,000 loss for the 2003-2004 fiscal year. He pointed out the largest factors for improved performance were (1) revenues from Basic Cable sales and (2) revenues from internet sales. He also noted the expense increase of \$7,900 in operating expenses, indicating good fiscal control. A decrease of \$34,000 in depreciation indicates a low amount of reinvestment into the plant and facilities. He summed up the system's fiscal performance as a "good year"

Turnes referenced the auditors report, indicating that the audit rates a "clean opinion" that the financials accurately reflect the financial condition of the utility. Discussion followed regarding the Board's question as to whether the audit brought up any concerns. Turnes responded that he felt it is a critical time for the Board to determine whether there will be new investment to reinvigorate the system and make it more competitive, or whether there will be another direction for the system.

A motion to accept the 2005 as presented was made by Maatman and supported by Thompson. The motion passed by a unanimous vote of the Board.

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

Performance Data: Richards reviewed financial, sales and performance data from the December operations of the utility compared to the prior month and the previous December. The Board discussed the performance data tables and significant changes and trends. Board member Thompson expressed concern with the continued decline in basic cable subscribers. Discussion followed regarding the option to aggressively promote the

service, but there was recognition that the system couldn't offer the large variety of services that the direct satellite services could. The staff believes that defection to satellite comprises up the majority of the decline in subscriber numbers.

Also discussed was the typical decline in the winter months when retirees move south until spring. The Chairman noted the continued increase in high speed internet subscribers in spite of new aggressive efforts by the DSL providers. Richards pointed out that the DSL providers are offering lower prices and higher speeds than Lowell Cable's service can currently offer with our high cost structure. .

Income Statement: Richards reviewed a table of financial, sales and performance data from the December operations of the utility compared to the prior month and the previous December. The Board discussed the performance data tables and significant changes and trends.

Other Items: The Board discussed the status of current activities and issues in the system's operations including:

- A delay in the activation of the fiber optic upgrade to improve performance of the system's western section. Richards explained that some performance problems had been discovered in the strength of the fiber signal at the node, and that the problems should be easily resolved following some troubleshooting by the contractor.
- The Board was also updated on the status of discussions regarding a possible business agreement with an outside cable provider.

Next Meeting: The next regular meeting was set for immediately following the 5:30 PM Light and Power Board Meeting on March 9 at the Light and Power offices

Public Comment: No public comment was received.

Closed Session to Discuss Staff Performance Issue: Richards requested that the Board meet in closed session to discuss his performance evaluation with the Board. A motion to go into closed session was made by Maatman and supported by Thompson. The motion passed by a unanimous vote of the Board. The meeting went into closed session at 6:58PM for the meeting with Richards.

At 7:29 the Board returned to open session.

Adjournment: The Chairman adjourned the meeting at 7:30 PM

Dave Austin – Chairman

Date