

**PERU UTILITIES
MINUTES OF THE PERU UTILITIES SERVICE BOARD MEETING OF
FEBRUARY 24, 2016**

The Peru Utilities Service Board held a meeting at the Peru office at 335 East Canal Street, Peru, Indiana, on February 24, 2016. The meeting was called to order by Mr. Akers at 4:00 p.m. pursuant to notice as required by law. The following Board members were present: S. Akers, M. Costin, G. Ward, J. Richter and J. Edwards. Others present: R. Merriman, L. Starkey, B. Tillett, J. Chance, S. Hines, S. Miller and T. Blake - H. J. Umbaugh and Associates, and B. Yankey - Peru Tribune.

1.) APPROVAL OF BOARD MINUTES OF FEBRUARY 10, 2016:

On a motion from Mr. Richter, seconded by Mrs. Edwards, the minutes from the February 10, 2016, were approved. The motion carried unanimously.

2.) PAYMENT OF CLAIMS:

A motion was made by Ms. Costin, seconded by Mr. Ward to approve the claims for payment as presented. Ms. Costin inquired about customer's whose bills were withdrawn from their checking accounts and why an envelope was included with the bills of this nature. Mrs. Starkey stated that the vendor that we are contracted with send bills out in one large batch. The motion carried.

3.) NEXT REGULAR MEETING:

The next regular meeting will be held Wednesday, March 9, 2016, at 4:00 p.m. in the Utility Service Board room.

Mrs. Edwards thanked Mrs. Prouse, Mr. Walsh, Mr. Chance, Mr. Kline, Mr. France and Mr. Merriman and everyone for their efforts with her orientation day. She appreciated the time taken with her to explain about the different divisions. She found it to be an interesting experience.

4.) AMEND THE AGENDA, ADD ITEM "G", RESOLUTION 2-2016:

A request was made by Mr. Akers to amend the agenda to include Item "G", Board consideration for Utility Service Board Resolution 2-2016, A Resolution to Retain the Services of a General Manager for the Operation of the Peru, Indiana Municipal Utilities. Mr. Ward motioned to amend the agenda and add Item "G", Resolution, 2-2016. Mrs. Edwards seconded the motion and the motion carried unanimously.

5.) OLD BUSINESS: None

6.) NEW BUSINESS:

A.) APPROVAL OF BAD DEBT WRITE-OFFS JULY 1, 2015 THROUGH SEPTEMBER 30, 2015:

The bad debt write-offs July 1, 2015 – September 30, 2015, were reviewed and Mr. Merriman requested permission to write-off the delinquent accounts.

	Peru	Grissom	Total
Electric	\$17,638.80	\$ -	\$17,638.80
Water	1,896.02	1,525.46	3,421.48
Wastewater	425.93	-	425.93
Stormwater	65.60	-	65.60
Trash	196.80	-	196.80
Total	\$20,223.15	\$ 1,525.46	\$21,748.61

The write-off represents 0.28% of our July through September 2015 operating revenue, excluding wastewater, stormwater and trash.

Mr. Ward reluctantly motioned to grant permission to write-off the delinquent accounts July through September 2015, for \$21,748.61. Mr. Richter seconded the motion. Ms. Costin inquired as to why the same rate payer was listed on the Peru Bad Debts and on the Grissom list. Mrs. Starkey said that the customer was on both billings. The motion carried unanimously.

B.) APPROVAL OF THREE VEHICLE TRADE-INS FROM THE DIVISION OF WATER MANAGEMENT:

Mr. Merriman asked for the Board’s permission to trade-in three vehicles (Old Trucks #357, #358 and #452) from the Division of water Management for two new pickup trucks. Mr. Richter motioned to allow the trade-ins as presented. Mr. Ward seconded the motion. The motion carried.

C.) APPROVAL OF TRUCK PURCHASE – 2016 FORD F250 4 X 4 SUPER CAB:

Mr. Merriman reviewed Randy Kline’s memo in regards to replacing Truck #452.

Grissom Wastewater had budgeted \$38,000.00, for the replacement of truck #452 for the Grissom Wastewater Division to carry equipment, tools and to haul the camera and confined space trailers. Specifications were mailed to both Bob Schwartz Ford and Paul Richards GM Center for quotes. The following quotes were obtained.

Bob Schwartz Ford	2016 Ford F250 4x4 Super Cab	Fleet Price \$30,844.15 <i>Trk #357 (\$4,200.00)</i> Total \$26,644.15
Paul Richards GM Center	2016 Chevy Silverado 2500 HD 4WD Double Cab Work Truck	Fleet Price \$31,370.00 <i>Trk #357 (\$3,500.00)</i> \$27,870.00

It is Mr. Kline’s recommendation to accept the low bid from Bob Schwartz Ford, for the amount of \$30,844.15, allowing a trade-in allowance of \$4,200.00 for Truck #357, making the final cost of the new vehicle \$26,644.15.

Ms. Costin made a motion to accept the bid of \$30,844.15, from Bob Schwartz Ford for a 2016, Ford F250 4x4 Super Cab, with a trade-in allowance of \$4,200.00, for a final cost of \$26,644.15. Mr. Richter seconded the motion and the motion carried.

D.) APPROVAL OF TRUCK PURCHASE – 2016 CHEVY SILVERADO 2500HD 4WD:

Mr. Merriman reviewed Randy Kline’s memo in regards to replacing Truck #358.

Peru Stormwater had budgeted \$38,000.00, for the replacement of truck #358 to be used in the Stormwater Division to carry equipment and to haul the camera and confined space trailers. It was noted that Truck #358 and Truck #452 will be traded in on the new truck. Specifications were mailed to both Bob Schwartz Ford and Paul Richards GM Center for quotes. The following quotes were obtained.

Paul Richards GM Center	2016 Chevy Silverado 2500 HD 4WD Double Cab Work Truck	Fleet Price \$31,370.00 <i>Trk. #358 (\$2,000.00)</i> <i>Trk #452 (\$1,250.00)</i> \$28,120.00
Bob Schwartz Ford	2016 Ford F250 4x4 Super Cab	Fleet Price \$30,844.15 <i>Trk #358 (\$1,500.00)</i> <i>Trk #452 (\$1,000.00)</i> \$28,394.15

It is Mr. Kline’s recommendation to accept the low bid from Paul-Richard GM Center for the amount of \$31,370.00. Also, allowing the following trade-ins Truck #358 in the amount of \$2,000.00 and Truck #452 in the amount of \$1,250.00 should be considered off the low bid amount that will make the final cost of the new vehicle \$28,120.00.

Mrs. Edwards motioned to accept the bid of \$31,370.00, minus the two trade-in values of \$3,250.00 from Paul Richards GM Center for a 2016, Chevy Silverado 2500 HD 4WD Double Cab Work Truck, making the final cost of the new vehicle \$28,120.00. Mr. Ward seconded the motion. The motion carried.

E.) APPROVAL OF PROPERTY UTILIZATION AGREEMENT:

Mr. Merriman stated that recently the Army National Guard had requested to use our property in front of the Peru Wastewater Treatment Plant as a landing zone for helicopters when necessary. The Board had expressed concerns regarding liability issues. Mr. Merriman had forwarded the Guard's request to Attorney Roberts who had inserted a Hold Harmless Provision within the agreement. Ms. Costin made a motion to approve the Army National Guard Utilization Agreement. Mr. Ward seconded the motion and the motion carried.

F.) CONSIDERATION OF 2016 ELECTRIC RATE STUDY:

Mr. Merriman stated that since the decision to decommission the power plant has been made, it's important to review what happens when we remove that asset from our books. The value of that asset is used in calculating the rates that we charge our customers. It affects the Payment in Lieu of Taxes to the city, Return on Investment, along with the Depreciation Charge. If that asset is removed from our books then the requirement for the revenue for those three things is no longer available. Since, we did not know how much that would affect our rate; we commissioned H. J. Umbaugh & Associates to perform a rate study assuming that the asset is gone. H. J. Umbaugh's presentation summarized the parts of the study that were most relevant.

Mr. Miller and Mr. Blake of H. J. Umbaugh & Associates presented a Rate Study Report to the Board for discussion and consideration. It was noted that the last time the electric base rates were last increased was in 2006. Mr. Miller said the new study was based upon unaudited financial information for the twelve months ended August 31, 2015. The pro forma financial information showed the estimated financial effects on the utility's revenue and revenue requirements of an adjustment in rates and changes for service and other changes that may be reasonably fixed, known or measured. He noted that our revenue requirements would be impacted when the power plant is either mothballed or demolished. The expectation was that there would be a bit of decrease in the rates and charges, but it was not known as to what level.

Mr. Miller referenced Page 3, Utility Capital Improvement Plan. It notes the capital improvements that had been identified, along with the approximate time frame for those improvements, and the estimated costs. The plan spans a five year period from 2016 – 2020, for an average annual capital improvements investment of \$1,556,600.

He reference Page 4, Analysis of Purchased Power Expense Based on the Twelve Months Ended August 31, 2015. This information was taken from IMPA's invoices. It summarizes the cost of the different components of the electricity that we pay for that they provide. The demand and the actual energy purchase as well.

He referenced Page 5 – Pro Forma Annual Cash Operating Expenses totaled \$22,642,629. The following expense adjustments were noted:

- **Adjustment (1) Purchased Power**– to adjust purchased power expense for the 4th quarter 2015 IMPA ECA and the 2015 IMPA base rates and charges. This adjustment reflects what the anticipated cost is at that point in time. As the cost from IMPA either increases/decreases we pass that increase/decrease on to the customer.
- **Adjustment (2) – Salaries and Wages** – To adjust test year expenses to reflect pro forma salaries and wages per 2016 budget provided by utility management. This takes into account expected increases in pay rate based on the most recent union contract.
- **Adjustment (3) FICA** – to adjust test year FICA to reflect pro forma salaries and wages.
- **Adjustment (4) PERF** – to adjust test year PERF to reflect pro forma salaries and wages.
- **Adjustment (5) Utility Receipts Tax** – to adjust test year utility receipts tax based on test year revenues.
- **Adjustment (6) Rate Study** – to adjust the test year to provide for a utility rate study every four years.
- **Adjustment (7) Property and Liability Insurance** – to adjust test year expenses to reflect pro forma property and liability insurance per 2016 budget provided by utility management.
- **Adjustment (8) Health and Life Insurance** – to adjust test year expenses to reflect proforma health and life insurance per 2016 budget provided by utility management.
- **Adjustment (9) Tree Trimming Contract** – to adjust test year expenses to provide an allowance for the new contract amount.
- **Adjustment (10) Software Maintenance** – to adjust test year software maintenance expenses to provide for a 4% increase in costs per utility management.
- **Adjustment (11) Telephone** – to adjust test year expense to reflect pro form telephone expense per 2016 budget provided by utility management.
- **Adjustment (12) Capital or Non-Recurring Items** – to adjust the test year for capital for non-recurring items.

- **Adjustment (13) Utilities** – to adjust test year expense for 12 monthly payments at the current water rates.
- **Adjustment (14) Inflation** – to provide a 0.5% allowance for inflation and contingencies.

It was noted that the test year ended 8/31/2015 at \$22,642,629 and the Pro Forma number at \$212,898,100.

He referenced Page 16, which provided the Pro Forma Annual Revenue Requirements and Annual Revenues that explained the total budget needed to be generated by the rates and charges.

Pro Forma Annual Revenue Requirements	Status Quo Rate Making	Plant Mothballed or Demolished
Operation & Maintenance Expenses	\$22,898,100	\$22,898,100
Payment in Lieu of Taxes	272,200	183,200
Return on Plant	801,500	567,000
Replacements & Improvements	1,685,900	1,116,300
Total Annual Revenue Requirements	22,657,700	24,764,600
Less Interest Income	(17,100)	(17,100)
Less Penalties	(103,800)	(103,800)
Less Other Operating Income	(88,600)	(88,600)
Less IMPA Joint Transmission Benefit	(102,000)	(102,000)
Net Annual Revenue Requirement	\$25,346,200	\$24,453,100
Annual Operating Revenues		
City Residential	\$5,324,900	\$5,324,900
Rural Residential	4,851,200	4,851,200
City Commercial	1,591,500	1,591,500
Rural Commercial	789,100	789,100
Power service	10,852,300	10,852,300
Security lighting	228,700	228,700
Street lighting	142,700	142,700
Traffic lighting	9,500	9,500
Municipal	514,500	514,500
Pro forma tracker adjustment	189,900	189,900
Total Revenues	\$24,494,300	\$24,494,300
Additional revenues required (available)	851,900	(\$41,200)
Approximate Across-The Board Adjustment in Present Rates and Charges	3.5%	-0.2%
Resulting Approximate Average Residential Bill (Presently \$105.98 for 900 KWH)	\$109.69	\$105.77
Decrease) in Average Residential Bill	\$3.71	(\$0.21)

After review of the rate study report, Mr. Miller noted that we have \$24,494,300 in revenues. He said that if the power plant was to remain in service a 3 ½% increase or \$851,900 additional revenue would be needed. With the power plant decommissioned and out of service we have a rate decrease of -0.2% or (\$41,200). As the assets that we have to maintain and operate are reduced, our costs decrease. A brief discussion followed and Mr. Ward pointed out that the increase in the last 10 years for electric was only 3 ½%. It was noted that our operating expenses have only increased by \$85,000 annually, and for a utility with a 23-24 million dollar budget that was really good. Mr. Merriman said sometimes we are criticized for waiting too long for a rate adjustment, and then it can potentially be a large increase as compared to if you adjust the rates periodically. Mr. Merriman felt it appropriate to perform a rate study since it had been ten years since the last one.

Mr. Merriman said that both staff and the Board had addressed whether or not to keep the revenue stream from the utilities to the city intact, since the Payment in Lieu of Tax would decrease by \$90,000. Currently we pay the city \$240,000 for Return on Investment, which will need to increase to \$347,838. Built into the rate is the Return on Investment that generates \$567,000 in net margins. We can pay the city the additional monies from our net margins to keep them solvent and still have \$219,000 in margins annually. During the last five to six years we have had an aggressive program of renewals and replacements in the system. We felt that since we had the cash flow we would make those expenditures. Mr. Merriman pointed out that the proposed rate is a slight reduction, but keeps the city whole in the Payment in Lieu of Tax and generates a slight margin for the utility.

Ms. Costin made a motion to accept the Rate Study as proposed and then requested that the city council compose a Rate Ordinance to be considered at the March 7, 2016, council meeting. Mr. Richter seconded the motion.

Mrs. Edwards said that she appreciated how the forward thinking of the recent rate study to keep the City solvent, because it includes finances that keep our Payment in Lieu of Taxes for the city at the right amount.

The motion carried.

G.) BOARD RESOLUTION 2-2016, A RESOLUTION TO RETAIN THE SERVICES OF A GENERAL MANAGER FOR THE OPERATION OF THE PERU, INDIANA MUNICIPAL UTILITIES:

Mr. Akers read Resolution 2-2016, to the Board, which retains the services of a General Manager for the operation of the Peru, Indiana Municipal Utilities. Mr. Ward motioned to approve Resolution #2-2016. Mrs. Edwards seconded the motion. There were four votes in favor by Mr. Akers, Ms. Costin, Mr. Ward and Mrs. Edwards. The opposing vote was from Mr. Richter. The motion carried.

7.) **CITY ADMINISTRATION UPDATE:** None

8.) **CITY ATTORNEY'S UPDATE:** None

9.) **MANAGER'S REPORT:**

POWER PLANT DEMOLITION:

Mr. Chance noted that he had received the results of the Phase I Environmental Site Assessment of the Peru Power Plant with ATC. The 200 page report included maps and how they came about their findings. Their assessment confirmed PCB oil and asbestos contamination. ATC had recommended a Phase II Study, which would include core sampling in the plant and around the coal bunker to find out what the contamination at deep levels were. He said that a Phase II Study would cost \$20,000, and an asbestos survey, between \$8,000 and \$10,000. Mr. Chance said that he would collect a few more quotes and then the Board could decide how they wanted to proceed.

Mr. Merriman informed the Board that ABACUS Financial LLC is an organization out of California who has interest in purchasing our power plant facility in its decommissioned condition. They want to repurpose our existing coal fired generating facility and reconstruct it into a single cycle gas fired peaking generating station, to provide electrical service directly into the market. Mr. Chance and Mr. Hines had given Mr. Pacheco and representatives from ABACUS a tour of our power plant today. Mr. Merriman said we would need more information from them in dollars and a time frame as to whether or not we would have interest. He noted that the passage of time dictates that we continue with the power plant environmental assessments, because sooner or later we have to do something with the power plant.

Ms. Costin inquired as to what ABACUS Financial LLC planned to do with the power plant facility. Mr. Merriman explained that they wanted to convert it to burn natural gas and to retube the boilers, using it as a peaking plant. Mr. Merriman said we had considered converting it to natural gas some time ago, but it would have been very expensive and also steam units as such are not designed to cycle. They are constructed to be powered up and left on line for a months at a time, they like to reach their operating temperature and remain at that temperature. Also, it takes a long time to bring the units on line from a cold start. Another problem is that currently the Midcontinent Independent System Operator (MISO) electric market is down. He noted that simply changing the fuel doesn't change the fact that the units are 1940's and 1950's technology. Mr. Merriman stated that today we are competing against jet engine combustion turbines, which have generators that are extremely efficient and can start up in fifteen minutes. Mr. Akers inquired if ABACUS Financial LLC had done this before and why wouldn't they realize that about the boilers. Mr. Merriman said that he was mystified and felt there was something about the sale that he did not know. Mr. Merriman said that the gas fired combined cycle units set the current market price, and are extremely cheap to operate. Mr. Akers said that he would be scared if there was an explosion in the power plant and what the possibility of

damage would be to the entire neighborhood. Mr. Merriman said his concern was if we were to sell the property outright with no covenants, they could operate it for several years, tear it down and construct something that we would not want. There would be no guarantee with them that it would always be utilized as a power plant. Mrs. Edwards stated that it would be interesting to know if the company had similar projects in other locations. Mr. Merriman stated that they said they had and he would get a list from them. There was much discussion, and Mr. Merriman noted that ABACUS Financial LLC typically approaches companies where they owe more money than the building is worth, they purchase the building/property at something less than what it is worth and that company pays down some of their debt. He stated it keeps the company out of a financial situation and the proposed purchaser obtains a facility for half of what a new one costs.

Mr. Chance said that once our studies are complete we will let ABACUS know what is involved. Mr. Merriman said that he felt we should be more than willing to listen, but we will still continue on with plans to demolish the power plant. There was a brief discussion and it was noted that we owe due diligence to our ratepayers.

10.) ADJOURNMENT:

There being no further business to bring before the Board, Mr. Richter made a motion to adjourn. Mr. Ward seconded the motion. The meeting adjourned by unanimous consent.

Jim Richter, Secretary Peru Utilities Service Board