



**Public Utility Board Agenda  
Rochester Boards & Commissions - Public Utility Board  
August 5, 2025  
4:00 p.m.**

**Attending and Viewing the Meeting**

This is a special budget review meeting of the Rochester Public Utility Board.

Attend in-person at 4000 E River Rd NE, RPU Community Room, Rochester, MN or via [MS Teams](#).

Meeting ID: 268 442 105 191

Passcode: xpUusy

Call in audio only number: 347-352-4853 Conference ID: 955 227 357#

A recording is made available after the meeting at the [City's website](#).

**Call to Order/Roll Call**

**1. Approval of Agenda**

**2. Consent**

**2.A. Minutes of the Rochester Public Utility Board Meeting of July 22, 2025.**

Approve the minutes and video of the July 22, 2025, meeting of the Rochester Public Utility (RPU) Board.

**2.B. Authorize Entering the MISO ERAS (Expedited Resource Addition Study) Interconnection Study Queue for the Mt. Simon Generation Facility.**

Authorize entering the MISO ERAS (Expedited Resource Addition Study) interconnection study queue for the Mt. Simon generation facility.

**Open Public Comment Period**

*This agenda section is for the purpose of allowing citizens to address the Utility Board. People wishing to provide public comment may appear in person or provide written commentary in advance by email to [publiccomment@rpu.org](mailto:publiccomment@rpu.org). Virtual participation is currently not available. Comments are limited to 2 minutes, total comment period limited to 20 minutes. Any speakers not having the opportunity to be heard will be the first to present at the next Board Meeting.*

**3. Informational**

**3.A. Recommended 2026-2027 Water and Electric Utility Budgets**

No action required. Staff will present and receive input on the recommended water and electric utility budgets.

Final budget approval will be requested during the October 28, 2025, Board meeting, followed by a request for final Council approval on December 1, 2025.

**4. Other Business**

**5. Adjournment**



## **REQUEST FOR ACTION**

Minutes of the Rochester Public Utility Board Meeting  
of July 22, 2025.

**MEETING DATE:**

August 5, 2025

**ORIGINATING DEPT:**

Rochester Public Utilities

**AGENDA SECTION:**

Consent

**PRESENTER:**

Tim McCollough, General  
Manager

**Action Requested:**

Approve the minutes and video of the July 22, 2025, meeting of the Rochester Public Utility (RPU) Board.

**Report Narrative:**

Official minutes of the RPU Board are published in accordance with Open Meeting Law, capturing the official record of the RPU Board.

**Policy Considerations & DEI Impact:**

Minutes and video of the appointed boards of the City provide access and transparency to RPU systems, processes, and decision making.

**Prior Legislative Actions & Community Engagement:**

Minutes of the previous RPU Board meeting are generated monthly.

**Fiscal & Resource Impact:**

No fiscal impact of publishing minutes.

**Prepared By:**

Erin Henry-Loftus

**Attachments:**

[20250722 Public Utility Board Minutes](#)



**CITY OF ROCHESTER, MINNESOTA  
Public Utility Board MINUTES**

***Attending and Viewing the Meeting***

**Call to Order/Roll Call**

Meeting started at 4:00 p.m.

Attendee Name	Status
Melissa Graner Johnson	Present
Brett Gorden	Present
Patrick Keane	Present
Malachi McNeilus	Present
Wendy L Turri	Present

**1) Approval of Agenda**

Motion to approve the agenda.

**MOVER:** Patrick Keane  
**SECONDER:** Melissa Graner Johnson  
**AYES:** None  
**RESULT:** **APPROVED [UNANIMOUS]**

**2) Safety Moment**

Safety Manager Bob Cooke presented to the Board.

**3) Consent Agenda**

3.A) Minutes of the Rochester Public Utility Board Meeting of June 24, 2025.

**Official Act:** Approve the minutes and video of the June 24, 2025, meeting of the Rochester Public Utility (RPU) Board.

[Cover Page](#) 

[20250624 Public Utility Board Minutes](#) 

3.B) Review of Accounts Payable

**Official Act:** Review the list of consolidated and summarized transactions for 06/12/2025 to 07/09/2025 in the total amount of \$14,504,997.11.

[Cover Page](#) 

[AP Board List Current Month](#) 

- 3.C) Contract Award for the Mt Simon Station Permitting Work with Stantec Consulting Services

**Official Act:** Approve the award of the professional services contract with Stantec Consulting Services for the Mt Simon Station environmental permitting, in an amount not to exceed \$211,200.00 on a time and material basis.

[Cover Page](#) 

[20250722 Resolution - Stantec Consulting Services Contract Award - Mt. Simon Environmental Permitting.](#) 

- 3.D) Board Policy 06. Delegation of Authority/Relationship with Management

**Official Act:** Approve the revised Delegation of Authority/Relationship with Management policy.

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[6 Delegation of Authority - Relationship with Management Policy](#) 

[20250722 Resolution - 6 Delegation of Authority - Relationship with Management Policy](#) 

- 3.E) Updated 2025 Board Meeting Dates

**Official Act:** Approve the updated 2025 calendar of regular meetings for the Rochester Public Utility Board.

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[2025 UPDATED UTILITY BOARD MEETING DATES](#) 

[20250722 Resolution - Updated 2025 Board Meeting Dates](#) 

[General Manager Tim McCollough addressed the Board.](#)

Motion to approve the consent items in block (3.A - 3.E).

### 3) Consent Agenda

<b>MOVER:</b>	Wendy L Turri
<b>SECONDER:</b>	Patrick Keane
<b>AYES:</b>	None
<b>RESULT:</b>	<b>APPROVED [UNANIMOUS]</b>

## **Open Public Comment Period**

[Public Comment Sign Up Sheet](#) 

[Kris Acuna addressed the Board.](#)

[Amy Caucutt addressed the Board.](#)

[Mary Gorfine addressed the Board.](#)

## **4) Regular Agenda**

Director of Water Todd Blomstrom presented on both Items 4.A and 4.B simultaneously.

4.A) [Professional Services for Groundwater Management Plan](#)

**Official Act:** Adopt a resolution authorizing professional services and a Statement of Work dated July 9, 2025, in the amount of \$496,000 with Barr Engineering to prepare a Groundwater Management Plan under Master Professional Services Agreement 14-06-E.

[Cover Page](#) 

[20250722\\_Resolution\\_-\\_Professional\\_Services\\_for\\_Groundwater\\_Study](#) 

[Statement\\_of\\_Work\\_Groundwater\\_Management\\_Study](#) 

Motion to approve a Resolution authorizing professional services and a Statement of Work dated July 9, 2025, in the amount of \$496,000 with Barr Engineering to prepare a Groundwater Management Plan under Master Professional Services Agreement 14-06-E.

**MOVER:** Patrick Keane  
**SECONDER:** Brett Gorden  
**AYES:** None  
**RESULT:** **APPROVED [UNANIMOUS]**

4.B) [Professional Services for Water System Master Plan](#)

**Official Act:** Adopt a resolution authorizing professional services and a Statement of Work dated July 11, 2025, in the amount of \$513,300 with Advanced Engineering and Environmental Services (AE2S) to prepare a Water System Master Plan under Master Professional Services Agreement 19-02.

[Cover Page](#) 

[20250722\\_Resolution\\_-\\_Professional\\_Services\\_for\\_Water\\_System\\_Master\\_Plan](#) 

[Statement\\_of\\_Work\\_Water\\_System\\_Master\\_Plan](#) 

Motion to approve a Resolution authorizing professional services and a Statement of Work dated July 11, 2025, in the amount of \$513,300 with Advanced Engineering and Environmental Services (AE2S) to prepare a Water System Master Plan under Master Professional Services Agreement 19-02.

**MOVER:** Brett Gorden  
**SECONDER:** Patrick Keane  
**AYES:** None  
**RESULT:** **APPROVED [UNANIMOUS]**

5) [Informational](#)

5.A) [20-Year Financial Projection - Electric Utility](#)

**Official Act:** Informational only. No action required.

[Cover Page](#) 

[Director of Corporate Services addressed the Board and introduced the consultants from 1898 & Co.: Adam Young, Director of Financial Analysis and Rate Design, Bryan Armbrust, Consultant of Power and Utilities, and Mike Borgstadt, Director of Talent Operations.](#)

[Adam Young, Director of Financial Analysis and Rate Design and Bryan Armbrust, Consultant of Power and Utilities, both with 1898 & Co. presented to the Board.](#)

[Peter Hogan, Director of Corporate Services presented to the Board.](#)

[1898 & Co. consultants, along with RPU Personnel, Peter Hogan, Director of Corporate Services, Tim McCollough, General Manager and Bill Bullock, Director of Power Resources, answered questions for the Board.](#)

5.B) [Power Supply Resource Plan Update](#)

**Official Act:** Informational only. No action required.

Director of Power Resources Bill Bullock presented to the Board.

[Cover Page](#) 

[General Manager Tim McCollough presented to the Board.](#)

6) [\*\*Board Policy Review\*\*](#)

6.A) RPU Index of Board Policies

**Official Act:** Review the Index of Board Policies to summarize progress on policy updates and determine future policy review items.

[Cover Page](#) 

[Rochester Public Utilities Index of Board Policies](#) 

7) [\*\*General Managers Report\*\*](#)

7.A) General Manager's Report

**Official Act:** Informational only. No action required.

[Cover Page](#) 

[July 2025 General Manager's Report.pdf](#) 

[July 2025 General Manager's Major Projects Update.pdf](#) 

8) [\*\*Division Reports & Metrics\*\*](#)

8.A) [Information Technology - Cybersecurity Program](#)

**Official Act:** Informational only. No action required.

[Cover Page](#) 

Director of Information Technology James Keltgen presented to the Board.

8.B) [Division Reports and Metrics for July 2025](#)

**Official Act:** Review the reports from each of RPU's divisions: Safety, Water Division, Power Delivery, Power Resources, Customer Relations, Information Technology, and Corporate Services.

[Cover Page](#) 

[July Division Report](#) 

## 9) [Other Business](#)

None.

### [Executive Session](#)

#### ***Executive Session - Closed Pursuant to Minn. Statutes 13D.05 Subd. 3(a) Due to Performance Review.***

**Official Act:** Closed session pursuant to Minnesota Statutes Section 13D.05, Subd. 3(a), for the performance review of Rochester Public Utilities General Manager, Tim McCollough.

[Cover Page](#) 

The meeting of the closed executive session convened at 6:43 p.m. in Rochester Public Utilities Room Vermillion, pursuant to Minn. Statutes Section 13D.05, Subd. 3(a), for the performance review of Rochester Public Utilities Manager, Tim McCollough.

Board Members in attendance: Board President Malachi McNeilus, Board Vice President Wendy Turri, Board Members Brett Gorden, Melissa Graner Johnson and City Council Liaison Patrick Keane.

Staff in attendance: Rochester Public Utilities Executive Assistant and Leena Murphy, Senior HR Consultant. Tim McCollough was also in attendance for part of the meeting.

Closed session ended at 7:14 p.m.

Closed meeting was recorded via audio recording.

### [Reports and Recommendations](#)

#### ***Summary of Closed Session Conducting Rochester Public Utilities General Manager's Performance Evaluation***

**Official Act:** 1. Receiving and filing a summary of Rochester Public Utilities General Manager's performance evaluation conducted in closed session on July 22, 2025.

2. Accepting the Rochester Public Utilities General Manager's performance evaluation.

3. Approving the recommended merit adjustment for the Rochester Public Utilities General Manager.

[Cover Page](#) 

Board President Malachi McNeilus presented the performance evaluation summary for Rochester Public Utilities Manager, Tim McCollough.

Motion to accept the performance evaluation and to approve a three percent annual increase merit adjustment for Rochester Public Utilities General Manager, Tim McCollough.

<b>MOVER:</b>	Melissa Graner Johnson
<b>SECONDER:</b>	Patrick Keane
<b>AYES:</b>	None
<b>RESULT:</b>	<b>APPROVED [UNANIMOUS]</b>

## 10) [Adjournment](#)



Motion to adjourn.

<b>MOVER:</b>	Brett Gorden
<b>SECONDER:</b>	Wendy L Turri
<b>AYES:</b>	None
<b>RESULT:</b>	<b>APPROVED [UNANIMOUS]</b>

## Sample RERRA Verification Form

**Instructions:** This form may be completed by a representative of the applicable relevant electric retail regulatory authority (“RERRA”) where the load to be served by the Generating Facility is located and returned to the Interconnection Customer for submission to MISO. The use of this form is not required, and the representative of the applicable RERRA may submit other forms of written verification to MISO.

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1. I, [Name of RERRA Official], am the [Title] of the [RERRA].
2. I am completing this informational form on behalf of the [RERRA] and I am confirming that the generation facility identified in the Interconnection Request application should be considered for the ERAS process in order to meet a resource adequacy and/or reliability need that the Load Serving Entity or Interconnection Customer has claimed. I am verifying to MISO that the proposed Interconnection Request project was included in an applicable state or RERRA process identifying its association with resource adequacy and/or reliability purposes, which may be triggered by, in whole or in part, but is not limited to:
  - ☐ A state energy forecast, or other forward-looking forecast;
  - ☐ The commencement of a state proceeding;  
[Insert Brief Description of Proceeding]
  - ☐ Review of a RERRA, LSE, or other state resource plan or document, which may include, but is not limited to: integrated resource plans, procurement plans, or other plan or study types;  
[Attach or Reference IRP Document]
  - ☐ Response to a Request for Proposals (RFP); or  
[Attach RFP Information or Insert Brief Description]
  - ☐ Other process, or delegation of authority, as determined by the RERRA or RERRA regulations (including in retail choice states).  
[Insert Brief Description]
3. Given the facts above in paragraph 2, the [RERRA] acknowledges that the [Project Applicant’s Resource Name] is a candidate for study under MISO’s Expedited Resource Addition Study process.
4. At this time, the [RERRA] [has/has not] completed its formal regulatory reviews of [Project Applicant’s Resource Name].
  - ☐ Not Applicable in [State].

5. I understand that the generation facility must meet certain requirements specified in MISO's Tariff to qualify for the ERAS process.
6. Nothing within this informational form constitutes a finding that the resource has been formally approved under any of the [RERRA]'s required procedures. Nothing within this form constitutes an indication, approval, or certification by the [RERRA] that the [Project Applicant's Resource Name] is prudent, or that construction or purchase of that generation is or should be authorized at the retail level. That determination is reserved by the RERRA, and any retail RERRA process required under retail law and regulations is not waived. This form shall not be used as evidence by any party to support or justify a request for siting, a Certificate of Public Need or Necessity, cost recovery or any other required RERRA retail jurisdictional determination.

I may be contacted for further information at the following address:

[Name of RERRA Official]  
[RERRA]  
[Title]  
[Address]  
[Phone Number]  
[Email]

Date: \_\_\_\_\_ Signature: \_\_\_\_\_



## RESOLUTION

BE IT RESOLVED by the Public Utility Board of the City of Rochester confirms the Mt Simon generation station should be considered for inclusion in MISO ERAS (Expedited Resource Addition Study) interconnection study process to meet a demonstrated resource adequacy need of RPU. This confirmation is based on a comprehensive assessment of system requirements that has been demonstrated and documented through the Power Supply Resource Plan previously reviewed with and placed on file with the RPU Board, the relevant electric retail regulator authority. The inclusion of the Mt Simon Station in the ERAS process is a necessary step aligned with RPU's obligations as a Load Serving Entity to proactively plan for and secure adequate resources

PASSED AND ADOPTED BY THE PUBLIC UTILITY BOARD OF THE CITY OF

ROCHESTER, MINNESOTA, THIS 5TH DAY OF August 2025.

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PRESIDENT

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SECRETARY



## **REQUEST FOR ACTION**

### **Recommended 2026-2027 Water and Electric Utility Budgets**

**MEETING DATE:**

August 5, 2025

**ORIGINATING DEPT:**

Rochester Public Utilities

**AGENDA SECTION:**

Informational

**PRESENTER:**

Water: Judith Anderson,  
Controller; Electric: Peter  
Hogan, Director of Corporate  
Services

### **Action Requested:**

No action required. Staff will present and receive input on the recommended water and electric utility budgets.

Final budget approval will be requested during the October 28, 2025, Board meeting, followed by a request for final Council approval on December 1, 2025.

### **Report Narrative:**

The total revenue requirement for the Electric and Water utilities is determined through the budget process. The rate design for each individual customer class is informed by the water utility cost of service study conducted in 2025 that will be presented to the Board at the August 26, 2025, meeting. The electric utility cost of service study was completed in 2023, presented to the Board on August 29, 2023, and accepted on September 26, 2023.

The Board will be asked to approve the 2026 and 2027 operating, capital projects budgets and multi-year projects continuing beyond 2027, and proposed rate adjustments at the October 28, 2025, board meeting. If the Board approves, management will forward the budgets and rate adjustment recommendations to the City Council for their approval in December 2025.

**Water Utility (in thousands):**

	<b>2026</b>	<b>2027</b>
Revenue	\$ 17,794	\$ 19,403
Capital (Rate Funded)	\$ 10,409	\$ 8,044

Historically, the water utility has funded capital projects through rates each year between \$2.5M and \$3.0M. The recommended budget for fiscal years 2026 and 2027 proposes rate funded capital expenditures of \$10.4M and \$8.0M, respectively. This upward shift in annual rate funded capital expenditures reflects the decision in 2023 to move forward with the advanced metering infrastructure project. The decision was made to fund this investment through a combination of customer charge increases in 2024 and 2025, deferral of some major maintenance on water storage devices, and deferral of water capital projects including some water main replacement priorities. This deferred maintenance will be restored and reflected in additional future major maintenance and capital investment above our historical rate of investment in 2028 and beyond.

In December of 2024, the RPU Board and City Council approved RPU's participation in a lead service line replacement program, funded through the State of Minnesota. The program requires the sponsoring utility to incur the expenses up front for the program that will be reimbursed annually according to the program rules. This is adding \$12.0M and \$6.9M to operating expense in 2026 and 2027 respectively. This is offset with non-operating income or program reimbursement of \$8.1M and \$8.8M, respectively. This difference in expense and reimbursement is covered by short-term borrowing which is also considered a reimbursable expense and supported by the program. There should be no direct rate impact of this fully funded program. Management will monitor if the funding changes for this program and will need to stop once funding is exhausted.

The main drivers for the Water budget in 2026 and 2027 are:

- Customer growth of 0.9% per year
- Consumption growth of 0.9% and 0.8% in 2026 and 2027 respectively.
- The water advanced metering project which requires an investment of \$17.7M over five years
- The lead service line replacement program
- Inflationary cost increases in construction and supplies
- Citywide coordinated street projects
- Implementation of a city shared internal services fee
- Increase in payment in lieu of taxes
- Development in the downtown (DMC) area affecting water infrastructure
- Mayo's Bold Forward Unbound development
- Distribution system expansion
- Water conservation programs and education

For the water utility, management is recommending a 9.0% general rate adjustment in 2026 and 2027. This is a monthly increase of \$2.01 per month for the average residential customer in 2026.

Electric Utility (in thousands):	2026	2027
Revenue	\$ 205,064	\$ 217,016
Capital (Rate Funded)	\$ 28,532	\$ 25,910

The proposed electric utility budget shows a 1.0% volume decrease in 2026 and 0.4% increase in 2027. The number of services is projected to continue to grow consistently at 1.9% and 1.8% in 2026 and 2027, respectively. The city is working actively to increase the number of single-family units each year from a historical development level of approximately 315 units per year to over 1,500 units per year. Being conservative, the 2026 and 2027 budget is based on normal growth of 350 single family homes and 700 multifamily units. Longer lead-time procurement items such as distribution transformers are returning to pre-pandemic lead times and inventories can be increased in adequate time should the rate of housing development successfully increase in the future. The recommended 2026 and 2027 budgets include two incremental full-time positions each year.

The major driver of the electric utility budget is the power supply resource plan. The recommended budget is based on the 20-year financial projection scenario 4, **100% net renewable energy by 2030**, reviewed with the Board on July 22, 2025. The recommended budget anticipates entering into power purchase agreements for wind and solar renewable energy two years earlier than previously assumed to preserve investment and production tax credit eligibility. The proposed budget includes \$20M - \$25M in additional wholesale energy costs in 2028 and 2029 because of this strategy. The resource plan anticipates issuing revenue bonds of \$210M in 2027 for firm dispatchable capacity assets to be built by RPU. An additional \$31M in revenue bonds is included in the 2027 bond issuance for investments in transmission. Transmission investments act as a hedge against the cost of future transmission costs to our customers. As part of the financing planning management is recommending the spending of \$50M in cash reserves which have been designated by the Board to help fund the power supply resource plan.

In addition to the inflationary cost pressures in material and construction costs, the capital improvement plan includes two items that cause our level of growth in rate funded capital to exceed our historic rate of growth. Management is recommending the purchase of land for a future substation in the Northwest part of the city (\$2.8M) and the upgrade or replacement of our current enterprise resource planning (ERP) software, SAP over the next two years. (\$7.0M) The \$6.1M in ERP subscription is the cumulative cost of the next 5 years of a software subscription which is effectively an operating expense. Subscription assets are shown as capital due to an accounting standard change in 2023 where software subscriptions are capitalized and amortized over the life of the asset.

**Major assumptions:**

In 2026 and 2027 there is an anticipated reduction in the wholesale power costs, due to the retirement of the debt on Sherco 3 by SMMPA in 2026. These funds would normally be passed back to customers through the power cost adjustment (PCA); however, the intent is to request Board and Council approval to adjust the power cost adjustment standard rate to retain these funds. The reduced power costs will be used to offset the increase in principal and interest expense due to the power resource plan borrowing in 2027. The intent is to adjust the standard rate to coincide with the rate adjustments from our wholesale provider, SMMPA.

A second major assumption is the issuance of revenue bonds of \$241M in 2027 at a projected interest rate of 6%. This debt, funds construction and includes issuance costs and required debt reserve funds. The debt service on the transmission investment (\$31M) is offset by additional transmission revenues.

Cash reserves are expected to be reduced by the end of 2026 and 2027 due to the beginning of construction and spending of up to \$50M related to the power resource plan. Higher rate funded capital improvement costs also impact the year end unrestricted cash funds in both 2026 and 2027.

The Debt Coverage Ratio falls below our target of 3.0 times between 2027 and 2030; however, this ratio is projected to recover after 2030 due to the recommended rate trajectory which is designed to smooth out the larger financial impacts of the resource plan between 2027 and 2030. The debt coverage ratio is an important metric when considering borrowing \$241M in 2027.

The main drivers for the Electric budget in 2026 and 2027 are:

- The power supply resource plan implementation
- The electric advanced metering project
- Inflation, vendor, and supplies availability
- Demand side management & demand response investments
- End of steam production in December 2027 (or 2028)
- Citywide development projects
- Rate funded capital expenditure increase (Land, ERP)
- Implementation of a city shared services fee
- Increase in payment in lieu of taxes
- Implementation of asset management programs
- Continued investments in distribution system expansion and reliability, including the new Marion Road substation, tree trimming, new services, and replacement of aging infrastructure

Management is recommending a 6.0% general rate adjustment in 2026 and 2027. This is a monthly increase of \$5.78 per month for the average residential customer in 2026.

Management will be reviewing an alternate potential rate change trajectory of a 4.0% general rate adjustment in 2026 and 2027 if the Board and Council were to adopt scenario 5 in the 20-year financial projection of meeting the 100% net renewable energy goal by 2040 in compliance with the Minnesota carbon free standard.

Both utility budgets reflect the need to meet financial targets based on the utility method of rate setting:

- Change in Net Assets (Net Income)
- Debt Service Coverage Ratio
- Equity Percent
- Minimum cash reserves per Board policy

For the recommended rate changes, management will review the proposed rate design changes during September 30, 2025, Board meeting and seek Board approval to give public notice of the proposed rate changes.

Members of the public may provide comments to the RPU Board directly or at the regularly scheduled August 26, 2025; September 30, 2025, or October 28, 2025, Board meetings.

### **Prior Legislative Actions & Community Engagement:**

RPU Board:

- August 29, 2023, Electric utility cost-of-service study
- May 20, 2025, 2026-2027 Budget assumptions
- July 22, 2025, 20-year financial projection
- July 22, 2025, Power supply resource plan update

### **Prepared By:**

Peter Hogan

### **Attachments:**

[20250805 RPU Board 2026-2027 Recommended Budget Presentation.pdf](#)



## **3.A. Recommended 2026-2027 Water and Electric Utility Budgets**

Judith Anderson, Controller

Peter Hogan, Director of Corporate Services

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Rochester Public Utilities Special Board Meeting  
August 5, 2025

# Strategic Alignment

- **Reliability**      Obligation to Serve
- **Rates**      Affordable, Sustainable, & Equitable
- **Responsibility**      Sustainability, Safety, & Compliance
- **Reputation**      Community Involvement
- **Relationships**      Customer Intimacy





# Rochester Public Utilities | Financial Strategy

## Maintain Cost-Based Rates

- No subsidization between rate classes (cost causation)
- Reduce subsidization within rate classes (cost causation)
- Rates that promote conservation and reduce costs (demand reduction)
- Financial Stability – Alignment of fixed and variable cost with fixed and variable rates

## Stay Regionally Competitive

- Enrich People's Lives & Help Businesses Prosper – **Inclusive Growth Management**
- Promote Community Welfare – **Housing Access**

## Provide Resources for Strategic Objectives

- **Reliability** | **Transformational Capital Projects**, Extreme Weather Resilience, & Investment in Infrastructure for Growth and Asset Management
- **Rates** | **Economic Resilience**, AA Bond Rating, Targeted Income, Debt Coverage, & Equity %
- **Responsibility** | **Responsible Environmental Stewardship**, Conservation, Compliance, & Safety
- **Relationships** | Quality Services, Education, & Customer Intimacy
- **Reputation** | Community Service, Engagement, & Contribution to the City

# Water Utility Budget 2026-2030





# Water Utility | 2026-2027 Recommended Operating Budget

ASSUMPTIONS		
	2026	2027
• Interest Earnings Rate:	3.0%	3.0%
• Average Salary Expense Change:	4.5%	3.0%
	(consists of COLA, merit and promotion increases)	
• Change in Full-time Equivalents:	1	0
• Minimum Cash Reserve Requirement:	\$ 9.208 Million	\$ 8.502 Million
• Revenue Adjustment:	9.0% Proposed General Rate Change	9.0% Proposed General Rate Change
	(Average residential customer impact \$2.01 per month)	
• Water CCF Sales Forecast:	0.9% Increase from 2025 F2	0.8% Increase from 2026
	Projected Sales	Projected Sales
• Total Water Utility Customers:	0.9% Increase over Y/E 2025	0.9% Increase over Y/E 2026
	Projected Customers	Projected Customers
• Forecast Based on Normal Weather :	538 Cooling Degree Days, 27.85 Inches Summer Rainfall	
• In Lieu of Tax forecast increasing \$16,000 to a total of \$517,000 in 2026		
• In Lieu of Tax forecast increasing \$21,020 to a total of \$538,020 in 2027		

## Business Drivers

- Maintain levels of service
- Secure future source water supply
- Water system comprehensive plan
- Lead service line replacement (2025-2027)
- Advanced metering project (2025-2028)
- Sustainable water main replacement rate
- Bold. Forward. Unbound. & DMC projects
- Shared services allocation
- Water conservation programs & education
- Weather – precipitation
- Citywide project coordination

## Business Risks

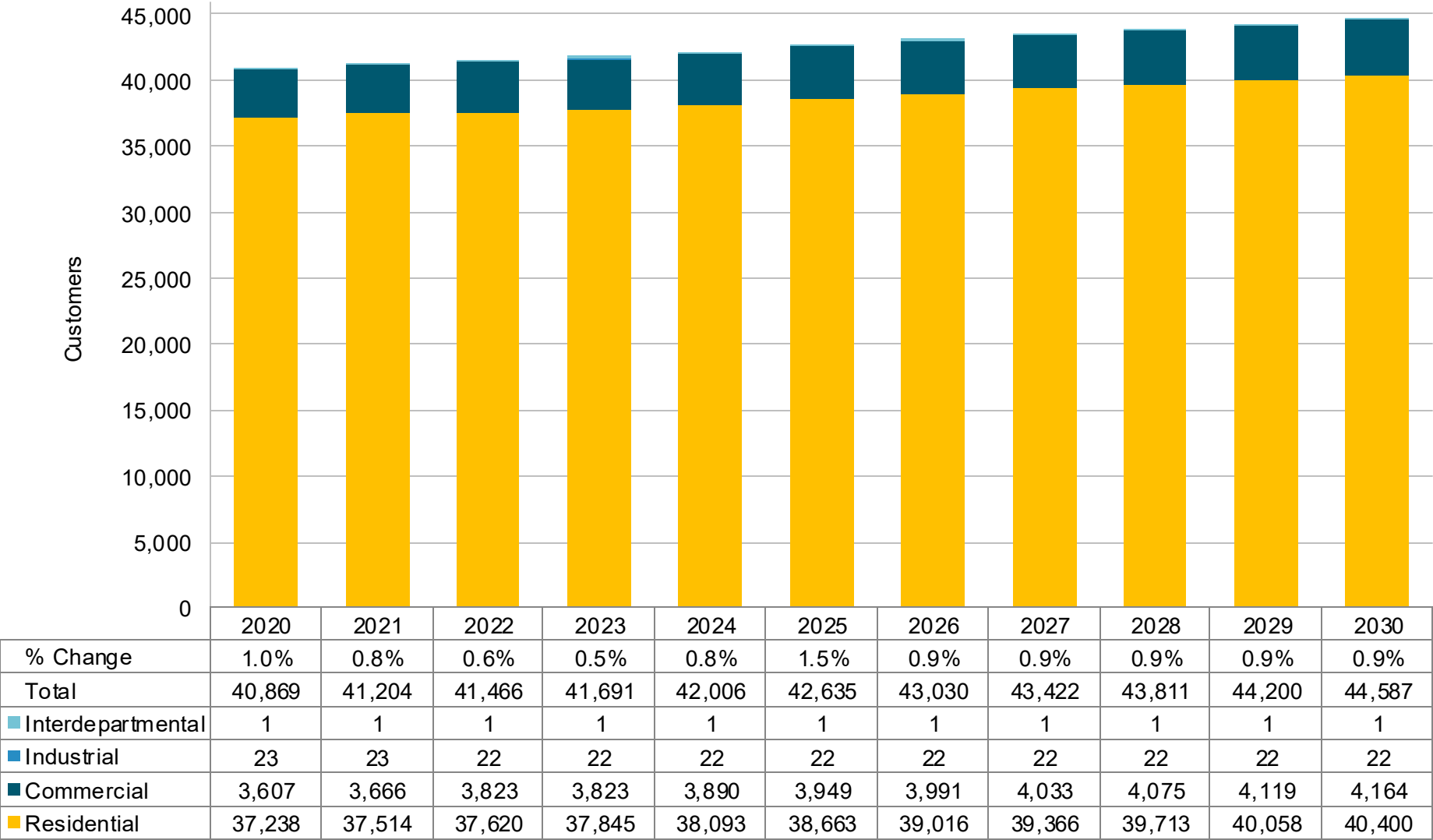
- Regulatory changes – primary & secondary water quality standards, testing requirements, backflow monitoring, DNR permitting, & water appropriations
- Backlog of aging infrastructure
- Infrastructure expansion costs due to growth
- Water tower cell antenna attachment revenue stability
- Extreme weather patterns, including drought and excessive rainfall
- Geothermal use of water aquifer
- Potential need for centralized water treatment





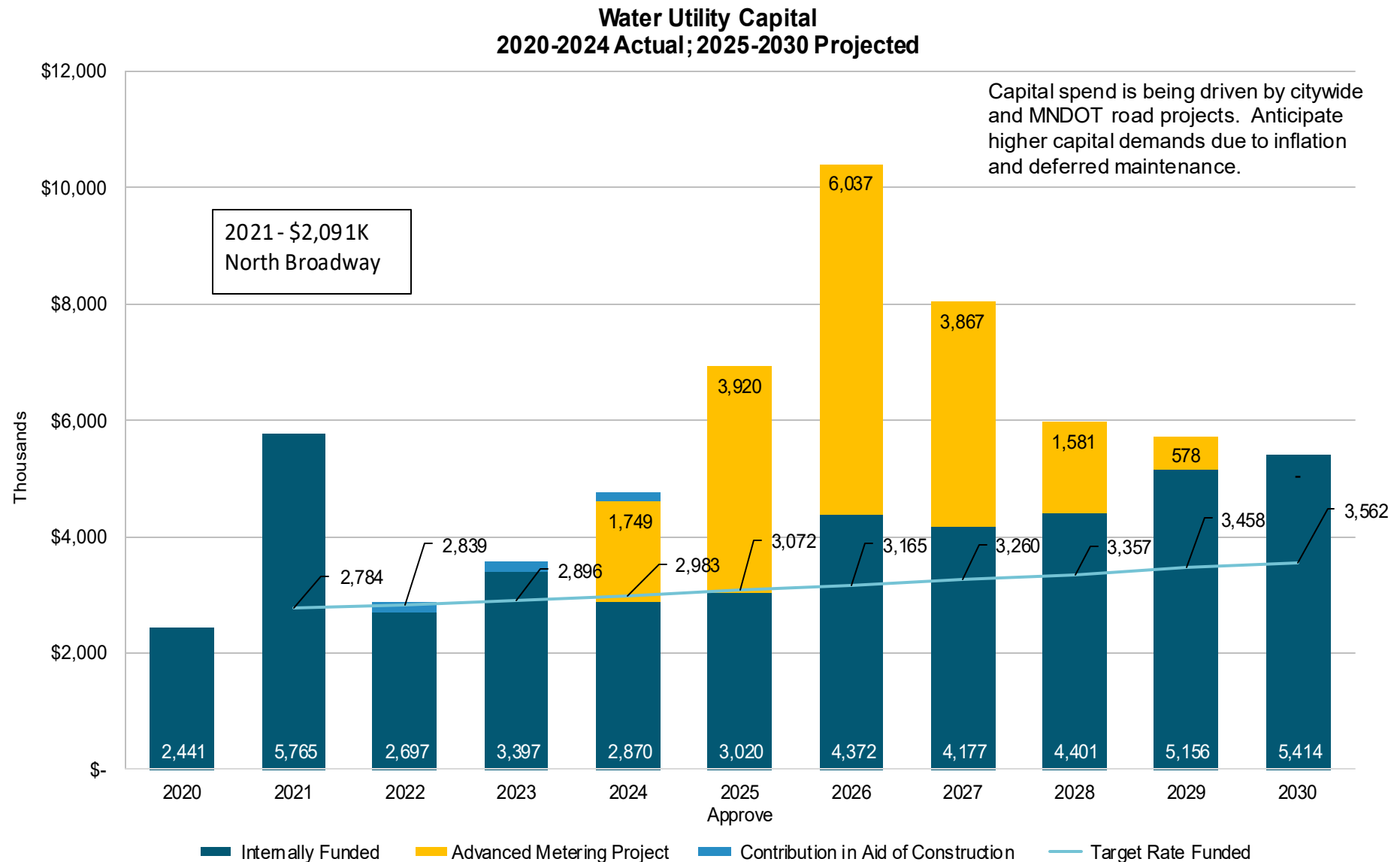
# Water Utility Number of Customers

2020-2024 Actual, 2025 Forecast, 2026-2030 Budget





# Water Utility Capital External Spending





## Business Drivers | 2026-2027 Water Utility Budget

- Continued investment in system to maintain reliability, improve service and safety, and serve City expansion

Capital Expenditures	2026	2027
• Advanced Metering Project	\$ 6,037K	\$ 3,867K (2023-2029: \$17,732K)
• Distribution System Allocation	\$ 750K	\$ 705K
• Citywide Road Project - DMC Area	\$ 340K	\$ -
• Citywide Road Projects	\$ 1,790K	\$ 1,835K
• Developer Projects	\$ 375K	\$ -
• RPU Projects - Water Main	\$ -	\$ -
• Tower Tank Coating/Rehab	\$ 715K	\$ 715K
• Capital Contingency	\$ 185K	\$ 190K
Major Maintenance		
• Master Plan Update	\$ 695K	\$ - (2025-2026: \$1,080K)
• Lead Service Line Replacement	\$11,956K	\$ 6,948K (2025-2029: \$22,907K)
• Service Assured	\$ 268K	\$ 281K
• Operating Contingency	\$ 93K	\$ 96K





# Water Utility 2025 Operating Budget

FORECAST BY YEAR, 2025 THROUGH 2030  
(\$000'S)

	Forecasted Rate Change Plus: AMI Customer Charge	5.5%	9.0%	9.0%	7.0%	7.0%	5.0%
		\$ 1.32					
		2025*	2026	2027	2028	2029	2030
1	Total Revenues	16,284	17,794	19,403	20,850	22,450	23,744
2	Total Cost of Revenue	2,399	2,347	2,388	2,439	2,501	2,568
3	Total Gross Margin	13,885	15,447	17,015	18,411	19,948	21,176
4	Total Operating Expenses	7,607	18,927	13,684	10,138	7,293	7,707
5	Total Capital Expenditures	8,249	11,217	8,044	5,982	5,734	5,414
6	Net Other Operating Expenses	(3,678)	(5,595)	(1,849)	874	1,365	2,037
7	Total Operating Expenses	12,179	24,549	19,878	16,994	14,393	15,158
8	Net Operating Income (Loss)	1,706	(9,102)	(2,863)	1,417	5,555	6,019

\* 2025 forecast contains 4 months actuals and 8 months forecast



# Water Utility 2025 Operating Budget

FORECAST BY YEAR, 2025 THROUGH 2030  
(\$000'S)

	Forecasted Rate Change Plus: AMI Customer Charge	5.5%	9.0%	9.0%	7.0%	7.0%	5.0%
	\$	1.32					
		2025*	2026	2027	2028	2029	2030
9	Total Financing & Non-Operating Items	2,040	7,943	8,380	4,676	1,389	330
10	Income Before Transfers or Cap Contributions	3,746	(1,159)	5,516	6,093	6,945	6,348
11	Transfers (In Lieu of Taxes)	(501)	(517)	(538)	(547)	(560)	(618)
12	Capital Contributions	1,100	1,103	1,100	1,100	1,100	1,100
13	Transfers from City/Intercompany	-	-	-	-	-	-
14	Change in Net Assets	4,345	(573)	6,078	6,646	7,485	6,830
15	Change in Net Assets (Excl Contrib & Tfrs)	3,245	(1,676)	4,978	5,546	6,385	5,730
16	Target Change in Net Assets	5,983	6,358	6,620	6,812	6,998	7,172
17	Excess (Deficit) from Target	(2,738)	(8,034)	(1,641)	(1,265)	(613)	(1,441)

\* 2025 forecast contains 4 months actuals and 8 months forecast



# Water Utility 2025 Operating Budget

FORECAST BY YEAR, 2025 THROUGH 2030  
(\$000'S)

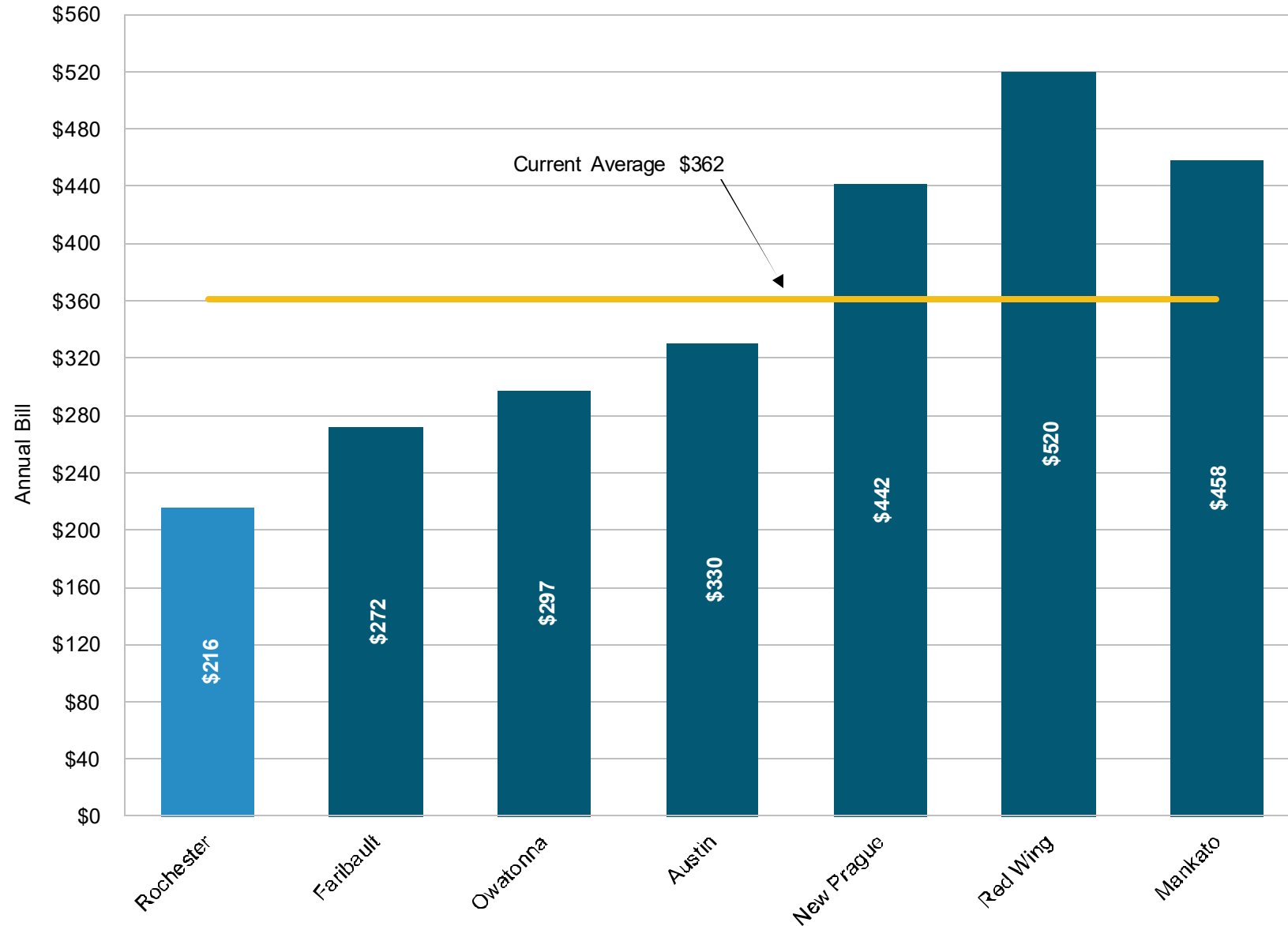
Forecasted Rate Change Plus: AML Customer Charge		5.5%	9.0%	9.0%	7.0%	7.0%	5.0%
		\$ 1.32					
		2025*	2026	2027	2028	2029	2030
18	01/01 Cash Balance	15,519	13,360	8,606	7,649	9,463	13,035
19	Cash From Operations	7,766	3,773	10,326	11,158	12,206	11,785
20	Capital Additions	(8,873)	(12,091)	(8,430)	(6,203)	(5,989)	(5,621)
21	Debt Principal Payments	-	-	(1,428)	(1,743)	(1,274)	(144)
22	Debt Proceeds	383	4,206	-	-	-	-
23	Non-Cash Contributions	(1,100)	(1,103)	(1,100)	(1,100)	(1,100)	(1,100)
24	Net Change in Other Assets/Liabilities	(334)	460	(324)	(298)	(271)	(243)
29	Net Changes in Cash	(2,158)	(4,755)	(956)	1,814	3,572	4,677
30	12/31 Cash Balance	13,360	8,606	7,649	9,463	13,035	17,712
31	Minimum Cash Reserve	8,630	9,208	8,502	8,262	7,996	7,882
32	Excess (Deficit) from Minimum Cash Reserve	4,731	(602)	(852)	1,201	5,039	9,830

\* 2025 forecast contains 4 months actuals and 8 months forecast



# Residential Class Water Rate Comparison

(Jan '24 through Dec '24)

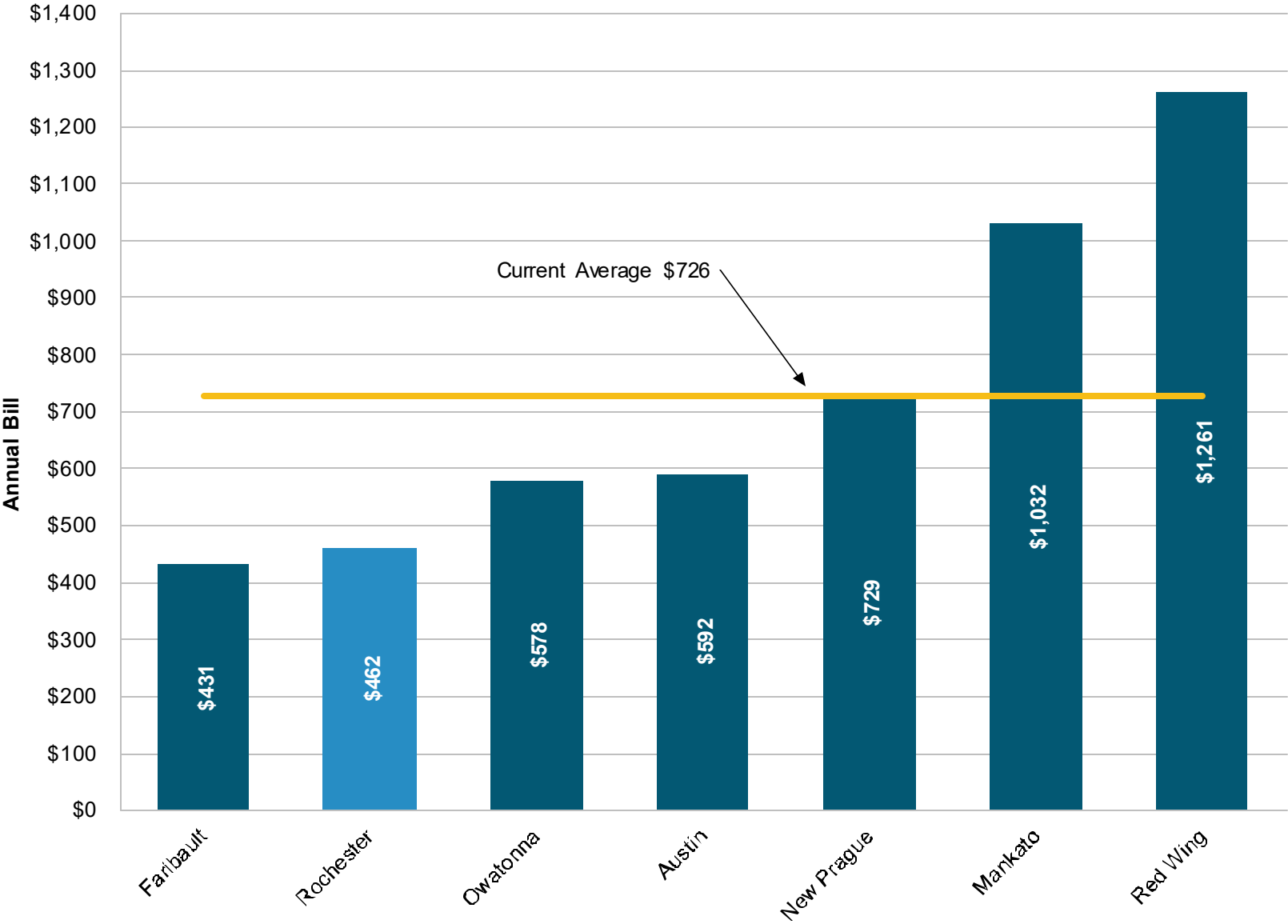


SOURCE: OWATONNA PUBLIC UTILITIES



# Commercial Class Water Rate Comparison

(Jan '24 through Dec '24)



SOURCE: OWATONNA PUBLIC UTILITIES

# Water Utility Recommendation

## Recommendation

- 9.0% General rate change in 2026 and 2027
- Rate tariff informed by the 2025 cost-of-service study may vary by up to 2% by customer class.

Cost impact to the average residential water customer is:  
\$2.01/month





# Questions on Water Utility?



# Electric Utility Budget 2026-2030





# Electric Utility | 2026-2027 Recommended Operating Budget

## ASSUMPTIONS

2026

2027

• Interest Earnings Rate:	3.0%	3.0%
• Average Salary Expense Change:	4.9%	3.0%
	(Consists of COLA, merit and promotion increases)	
• Anticipated bonding:	None	\$ 240.7 Million
• Change in Full-time Equivalents:	2 incremental	2 incremental
• SMMPA Wholesale Power Cost:	6.0% decrease	10.0% decrease
• SMMPA CROD Level:	216 MW	216 MW
• Minimum Cash Reserve Requirement:	\$ 67.875 Million	\$ 58.185 Million
• In Lieu of Tax:	\$ 11.586 Million	\$ 11.918 Million
• Revenue Adjustment:	6.0% Proposed General Rate Change	6.0% Proposed General Rate Change
	(Average residential customer impact \$5.78 per month)	
• Electric KWH Sales Forecast:	1.0% Decrease from 2025 Projected Sales	0.4% Increase from 2026 Projected Sales
• Total Electric Utility Customers:	1.9% Increase over Y/E 2025 Projected Customers	1.8% Increase over Y/E 2026 Projected Customers
• Based on normal weather	30Yr Average heating/cooling degree days per year	
• Estimated Cost of Fuel:	\$5.18/mcf	\$5.18/mcf

# Power Supply Resource Plan | 2026-2027 Budget Assumptions

**Recommended Budget – Scenario 4**  
100% net renewable energy by 2030

**Alternative – Scenario 5**  
100% net renewable energy by 2040

2028	2029	2030	2033
<ul style="list-style-type: none"> <li>200MW Wind Power Purchase Agreement (PPA)</li> <li>100MW Solar PPA</li> <li>30 MW Repair / Replace Cascade Creek 1</li> </ul>	<ul style="list-style-type: none"> <li>&lt;50 MW – Mt Simon Station</li> <li>50 MW Battery PPA</li> <li>50 MW Capacity PPA</li> </ul>	<ul style="list-style-type: none"> <li>100 MW Wind PPA</li> </ul>	<ul style="list-style-type: none"> <li>100 MW Wind PPA</li> </ul>
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## Business Drivers

- Power supply resource plan implementation
- End of steam by end of 2027 (or 2028)
- Advanced metering project (2025-2027)
- Enterprise resource planning (ERP) project
- Demand side management (MN Eco Act)
- Demand response investments
- Citywide growth & capital projects
- Weather variability – heating and cooling degree days
- New system loads & design standards
- Material and construction cost inflation

## Business Risks

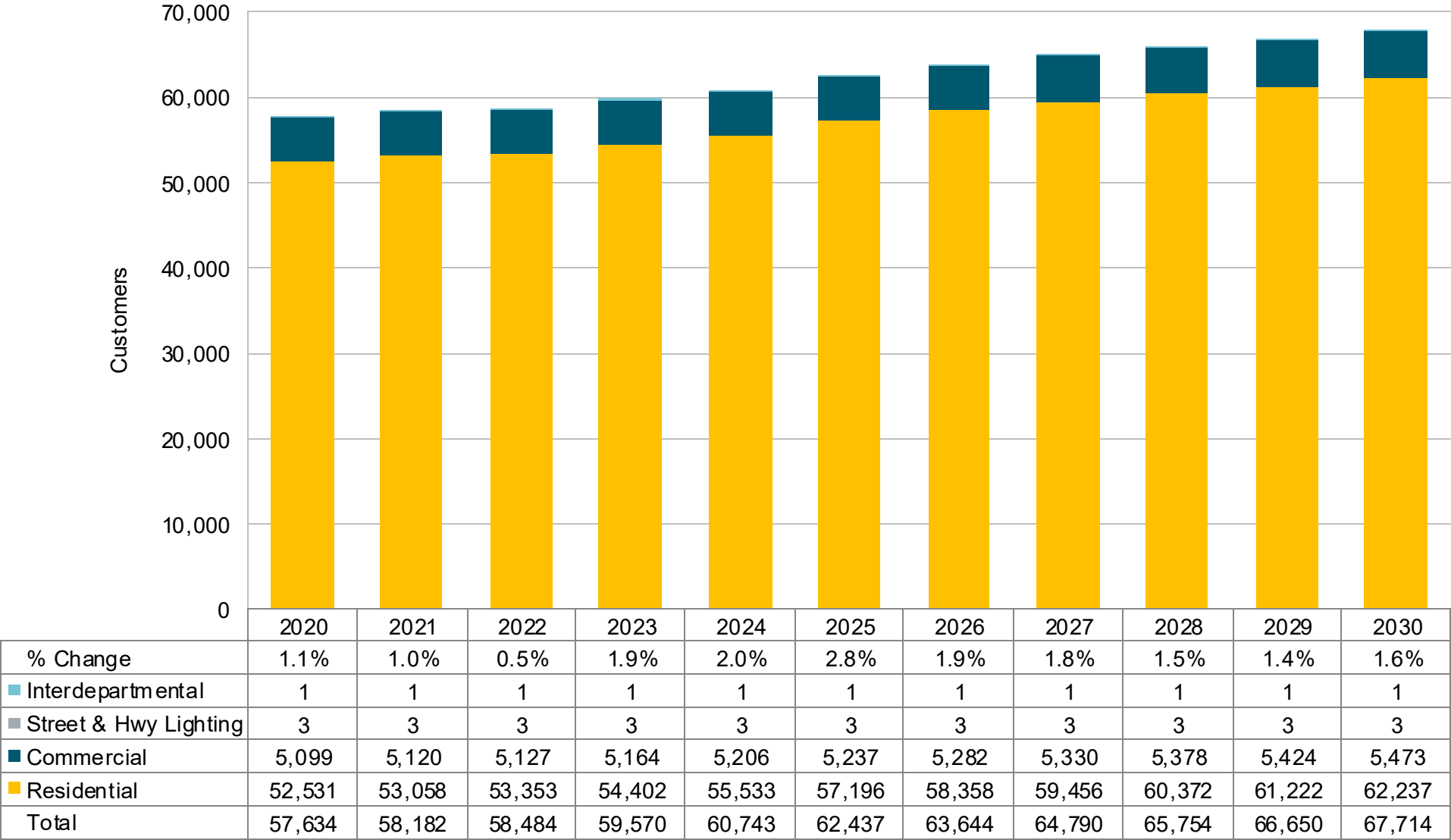
- **Legislative & Regulatory:** Further loss of tax credits, tariffs, air quality regulation changes
- **Energy Sector:** market capacity accreditation, transmission interconnection delays & costs
- **Compliance:** MN carbon free standard, FERC & NERC requirements, conservation (MN Eco Act)
- **Local Economy:** business changes, work-from-home, lack of local business sector diversity, workforce retention & competitiveness
- **Technology:** cybersecurity. concurrent technology projects. (Advanced Metering & ERP)
- **Supply Chain:** equipment & commodity lead times & cost escalations.





# Electric Utility Number of Customers

2020-2024 Actual, 2025 Forecast, 2026-2030 Budget



# Business Drivers | 2026-2027 Electric Utility Budget

- Continued investment to: Maintain reliability, improve service and safety, serve City expansion and customer growth.
- Staffing: 2 Incremental Positions in 2026 and 2027,
- Staffing Limited Term: 2026 - Enterprise Resource Planning Project 8 positions (2 yrs)  
2026 - Engineering Project Manager (2 yrs), Benchmarking (1 yr)  
2027 - Project Engineer – Communications (2 yrs)
- Major Capital Projects (Bonded)
 

	2026	2027
• Power Supply Resource Plan	\$ 26,392K	\$ 76,278K (2026-2029 \$226,471K)
• Grid North Partners	\$ 2,490K	\$ 1,720K (2026-2030 \$31,230K)
- Major Maintenance:
 

• Tree Trimming	\$ 1,920K	\$ 1,958K
• New Services	\$ 393K	\$ 490K
• Cayenta Upgrade	\$ 293K	\$ -
• Power Resources	\$ 697K	\$ 695K
• Technology Allocation	\$ 300K	\$ 159K
• Operating Contingency Reserve	\$ 370K	\$ 380K



## Business Drivers | 2026-2027 Electric Utility Budget

Capital Expenditures	2026	2027
• Advanced Metering Project	\$ 7,540K	\$ 1,881K (2025-2027 \$16,752K)
• New Services - Distribution	\$ 1,406K	\$ 1,435K
• Distribution System Allocation	\$ 3,668K	\$ 3,683K
• System Growth - Feeders	\$ 2,400K	\$ 8,575K
• Mayo Downtown Feeders	\$ 300K	\$ 300K (2026-2030 \$3,900K)
• 6 <sup>th</sup> Street SE Bridge	\$ 350K	\$ 600K (2026-2029 \$1,750K)
• Bus Rapid Transit	\$ 600K	\$ 550K
• NE Substation - Land	\$ 2,800K	\$ -
• Zumbro River Sub - T1 replace	\$ 800K	\$ 750K (2026-2029 \$1,900K)
• Outage Management System	\$ -	\$ 1,050K
• Enterprise Resource Planning	\$ 4,795K	\$ 2,219K (Subscription asset \$6,060K)
• Power Resources/Facilities	\$ 963K	\$ 656K
• Fleet Allocation	\$ 851K	\$ 623K
• Project Contingency Reserve	\$ 825K	\$ 850K
• Total CIAC	(\$ 1,426K)	(\$1,893K)

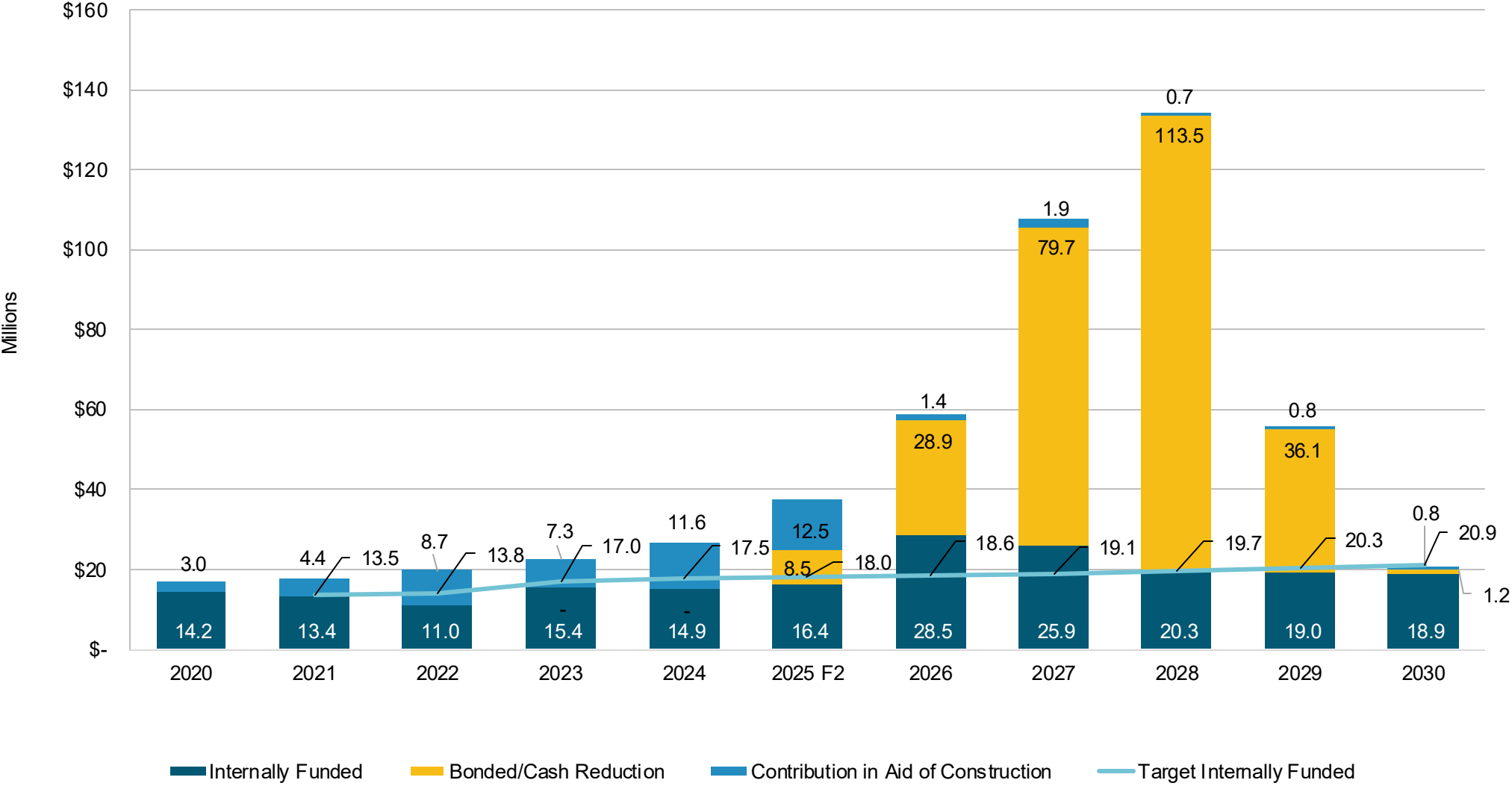
(CIAC – Contribution in Aid of Construction)





# Electric Utility Capital External Spending

Electric Utility Capital  
External Expenditures  
2020-2024 Actual; 2025-2030 Projected

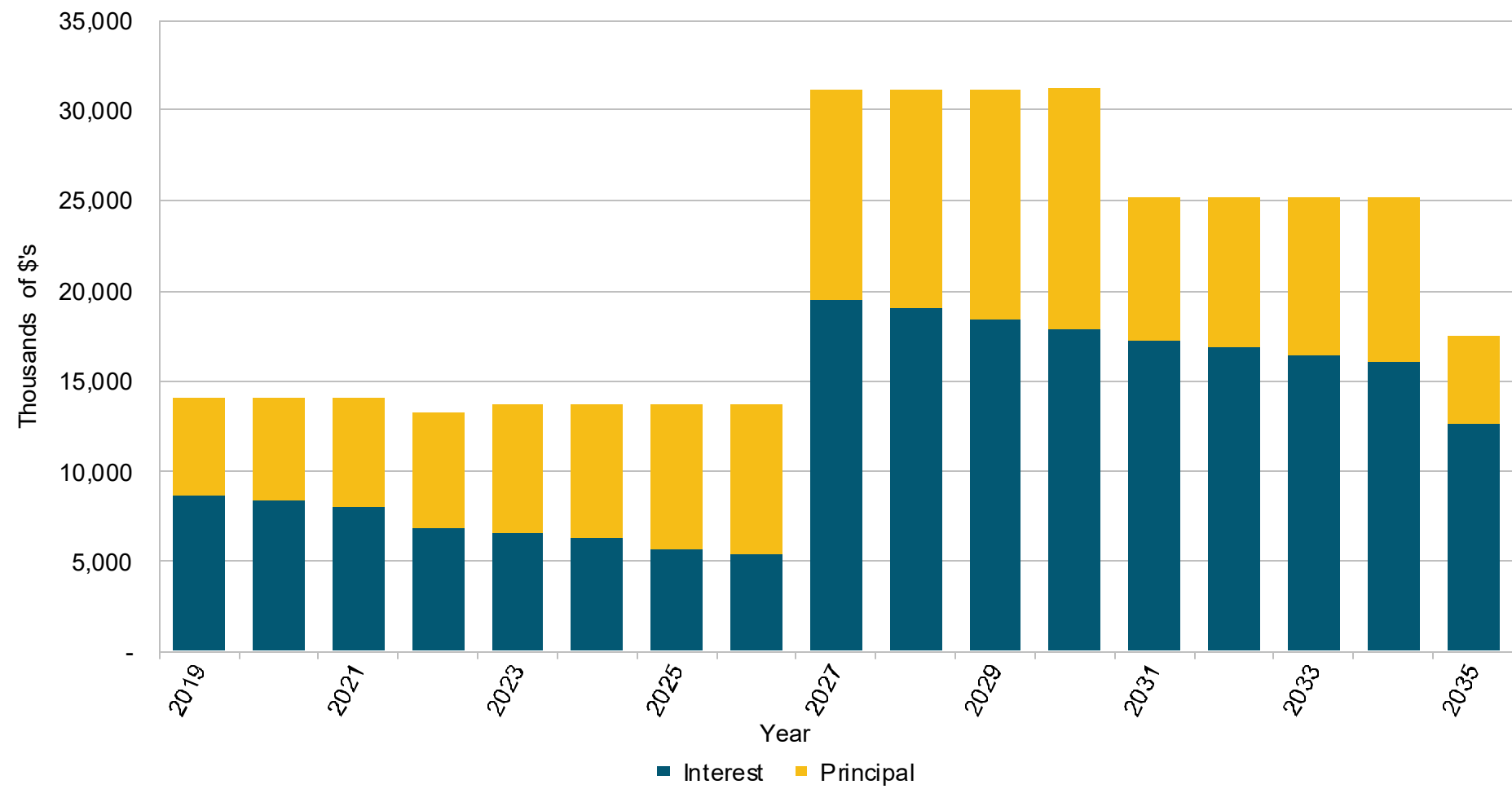






# Debt Service

2019-2024 Actual, 2025-2035 Budget/Forecast

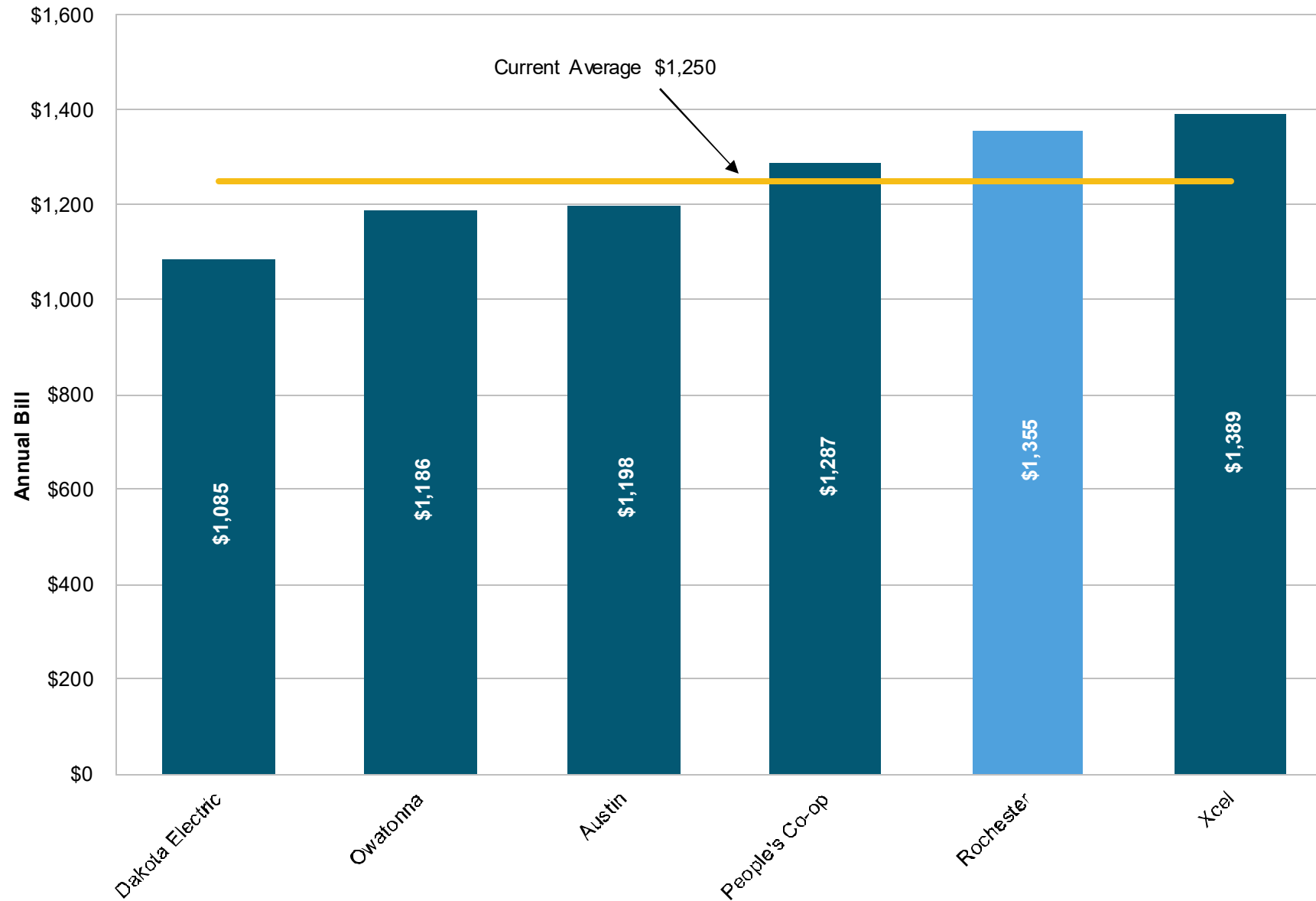


	(in millions)						
	<u>2024</u>	<u>2025</u>	<u>2026</u>	<u>2027</u>	<u>2028</u>	<u>2029</u>	<u>2030</u>
Debt Issues	\$ -	\$ -	\$ -	\$ 240.7	\$ -	\$ -	\$ -



# Residential Class Electric Rate Comparison

(Jan '24 through Dec '24)

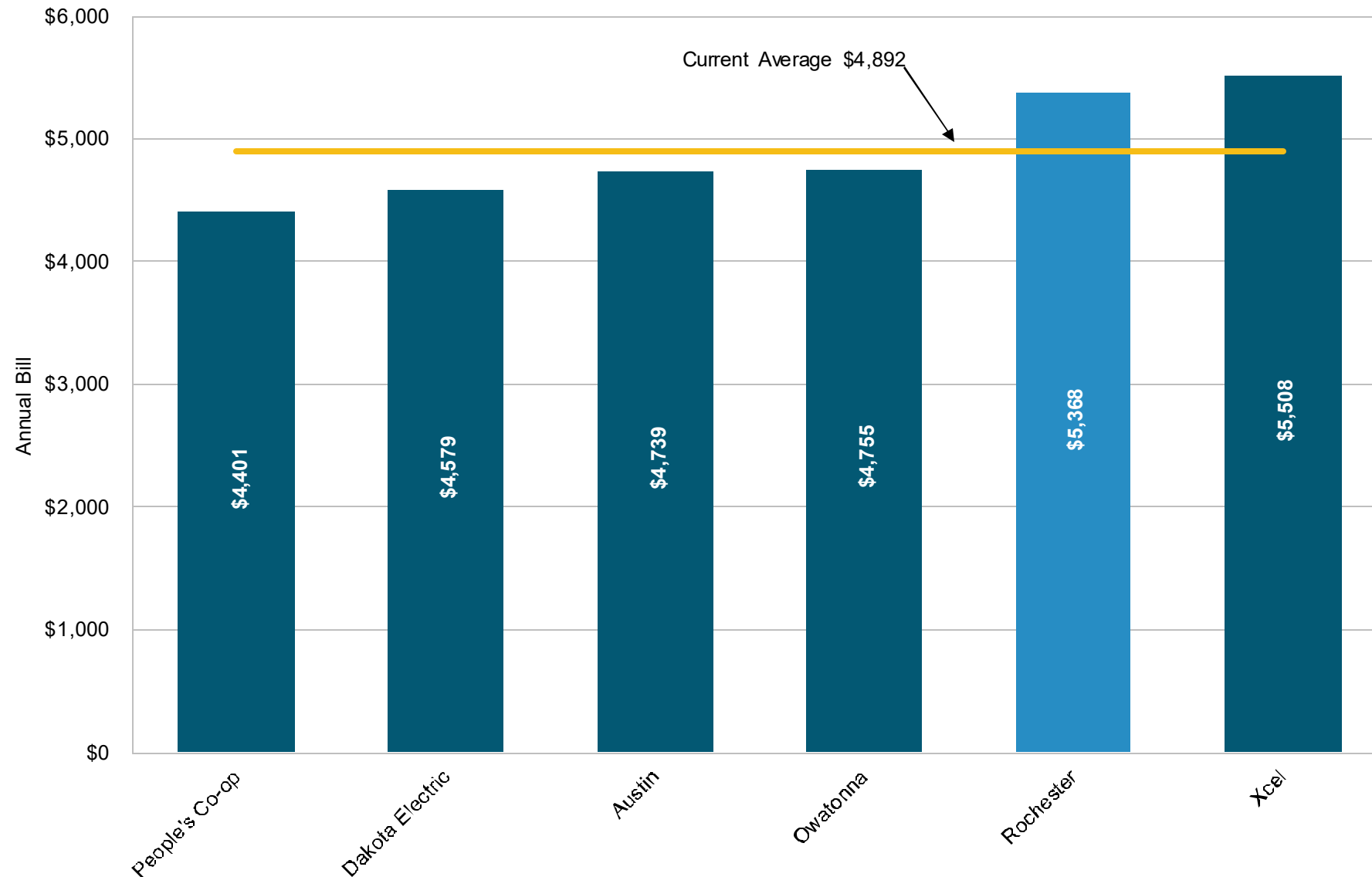


SOURCE: OWATONNA PUBLIC UTILITIES



# Commercial (SGS) Class Electric Rate Comparison

(Jan '24 through Dec '24)



SOURCE: OWATONNA PUBLIC UTILITIES



## Electric Utility 2026 -2027 Operating Budget

FORECAST BY YEAR, 2025 THROUGH 2030  
(\$000'S)

Forecasted Rate Change	4.0%	6.0%	6.0%	6.0%	6.0%	6.0%
Plus: AMI Customer Charge	\$ -					

	2025*	2026	2027	2028	2029	2030
1 Total Revenues	198,741	205,064	217,016	247,676	267,079	327,714
2 Total Cost of Revenue	103,364	99,366	90,633	117,866	129,299	182,590
3 Total Gross Margin	95,377	105,698	126,383	129,810	137,781	145,124
4 Total Operating Expenses	56,798	66,462	66,718	71,538	76,782	83,638
5 Net Operating Income	38,579	39,236	59,665	58,272	60,999	61,486

\* 2025 forecast contains 4 months actuals and 8 months forecast



# Electric Utility 2026 -2027 Operating Budget

FORECAST BY YEAR, 2025 THROUGH 2030  
(\$000'S)

Forecasted Rate Change	4.0%	6.0%	6.0%	6.0%	6.0%	6.0%
Plus: AMI Customer Charge	\$ -					
	2025*	2026	2027	2028	2029	2030
6 Total Financing & Non-Operating Items(Interest)	(146)	(1,924)	(12,183)	(13,423)	(14,774)	(14,484)
7 Income Before Transfers/Capital Contributions	38,433	37,312	47,483	44,850	46,225	47,002
8 Transfers (In Lieu of Tax Payments)	(11,140)	(11,586)	(11,918)	(11,378)	(11,186)	(11,194)
9 Capital Contributions	13,790	1,426	1,893	750	750	750
10 Change in Net Assets	41,082	27,152	37,457	34,222	35,790	36,558
11 Change in Net Assets (Excl Capital Contrib)	27,293	25,726	35,565	33,472	35,040	35,808
12 Target Change in Net Assets	21,346	24,474	19,760	26,354	29,430	31,051
13 Excess (Deficit) from Target	5,947	1,252	15,805	7,118	5,609	4,757

\* 2025 forecast contains 4 months actuals and 8 months forecast



# Electric Utility 2026 -2027 Operating Budget

FORECAST BY YEAR, 2025 THROUGH 2030  
(\$000'S)

Forecasted Rate Change	4.0%	6.0%	6.0%	6.0%	6.0%	6.0%
Plus: AMI Customer Charge	\$ -					
	2025*	2026	2027	2028	2029	2030
14 01/01 Cash Balance	130,383	122,379	92,579	89,356	100,580	117,789
15 Cash from Operations	41,082	27,152	37,457	34,222	35,790	36,558
16 Capital Additions/Services Territory Comp	(41,900)	(50,086)	(103,607)	(122,112)	(41,424)	(3,425)
17 Bond Principal Payments	(8,005)	(8,305)	(11,670)	(12,207)	(12,771)	(13,336)
18 Bond Sale Proceeds	-	-	240,700	-	-	-
19 Net Change in Other Assets/Liabilities	818	1,439	(166,104)	111,321	35,615	(11,323)
20 Net Changes in Cash	(8,005)	(29,799)	(3,223)	11,224	17,209	8,473
21 12/31 Cash Balance	122,379	92,579	89,356	100,580	117,789	126,262
22 Minimum Cash Reserve	66,647	67,875	58,185	58,654	62,456	66,494
23 Excess (Deficit) from Minimum Cash Reserve	55,732	24,704	31,171	41,926	55,333	59,768
24 Cash Balance as % of Reserve Policy	183.6%	136.4%	153.6%	171.5%	188.6%	189.9%
25 Debt Service Coverage Ratio	4.39	4.42	2.75	2.66	2.76	2.84

\* 2025 forecast contains 4 months actuals and 8 months forecast

# Electric Utility Recommendation

## Recommendation

- 6.0% General rate change in 2026 and 2027
- Rate tariff informed by the 2023 cost-of-service study may vary by up to 2% by customer class.

Cost impact to the average residential electric customer is:  
\$5.78/month



# Combined Utility Recommendations

- Electric Utility 2026 and 2027 Budget Recommendation
  - General rate change of 6% in 2026 and 2027
  - Each customer class rate may vary up to 2% based on the 2023 cost-of-service study
  - Cost impact to the average customer is \$5.78/month
- Water Utility 2026 and 2027 Budget Recommendation
  - General rate change of 9% in 2026 and 2027
  - Each customer class rate may vary up to 2% based on the 2025 cost-of-service study
  - Cost impact to the average customer is \$2.01/month







# Questions on Electric Utility?

# Next Steps

August 25, 2025	City Council	Recommended Budget Review Study Session
August 26, 2025	RPU Board Meeting	Public Comment
September 30, 2025	RPU Board Meeting	Public Comment Public Notice of Proposed 2026 Rate Changes
October 28, 2025	RPU Board Meeting	Public Comment Request Approval of Budgets and Rate Proposal
December 1, 2025	City Council	Request Approval of Budgets and Rate Recommendation

