

**SOUTHERN MINNESOTA MUNICIPAL POWER AGENCY**  
**Minutes of the Board of Directors' Meeting**  
**February 14, 2024**

President Reimers called the meeting to order at 9:00 a.m. at the Redwood Area Community Center in Redwood Falls, Minnesota.

Mr. Halvorson, Redwood Falls Public Utilities Superintendent, welcomed the members to Redwood Falls.

**Board Members Present:**

President Bruce A. Reimers, New Prague; Vice President Peter T. Moulton, Saint Peter; Secretary Roger E. Warehime, Owatonna; Treasurer James R. Bakken, Preston; T. Scott Jensen, Lake City; and Timothy M. McCollough, Rochester.

**Board Member Absent:**

Mark E. Nibaur, Austin.

**Others Present:**

David P. Geschwind, Executive Director & CEO; Miles Heide, Fairmont; Keith R. Butcher, Princeton; Jason Halvorson, Redwood Falls; Chris Rolli, Spring Valley; Beth A. Fondell, Naomi A. Goll, Joseph A. Hoffman, and Mark S. Mitchell of the Agency staff.

**Others Present Via Conference Call:**

Alex Bumgardner, Austin; Julie Zarling, Fairmont; Shane Steele, Grand Marais; Michael B. Geers, Litchfield; and Joe Kohlgraf, Mandi Yoder, Mora.

**#1 Agenda Approval:**

Mr. Bakken moved to approve the agenda, seconded by Mr. Moulton, passed upon a unanimous vote of the board members present.

**#2 Consent Agenda:**

Mr. Jensen moved to approve the consent agenda, seconded by Mr. Warehime, passed upon a unanimous vote of the board members present.

APPROVED the January 11, 2024 board meeting minutes.

APPROVED the Rutland Substation Oil Containment Project. (Attachment A.)

**#3 Quick Start Program-Mitchell:**

Mr. Mitchell reported on the Quick Start Program.

The Agency's resource planning has identified a long-term need for 63 MW of dispatchable generating capacity with a focus on a 49 MW natural gas plant and 14 MW of diesel generation. Previous discussions about a new Quick Start program offering to members identified a possible capacity payment for new member units of \$7.50/kW-month based on estimates for installed costs for new diesel generation developed in the fall of 2023. Recent cost estimates for new diesel units are considerably more expensive than the previous estimates. Depending on the number of units and the installation configuration, the new costs range from approximately \$9.50 to \$10.50/kW-month.

Mr. Mitchell presented updated cost estimates and discussed the costs for various options for additional capacity. He reported that MISO's Cost of New Entry for generation for the 2024-2025 planning year is \$10.38/kW month, which is consistent with the Agency's estimate for new natural gas generation. He also presented information on the cost of capacity-only batteries that could be used to meet the Agency's capacity needs, but do not provide any energy value. Those costs range from \$7.50 to \$8.25/kW-month.

Mr. Mitchell said the Agency primarily views diesel generators as capacity resources because of their fairly high cost of energy and past dispatch levels in MISO. Diesel units and batteries can be viewed as providing similar value. He did acknowledge that diesel units do provide some energy hedge value that capacity-only batteries do not. Because the Agency could use batteries to meet capacity requirements, Mr. Mitchell suggested the board consider a new Quick Start program capacity price of \$8.00/kW-month.

Board members discussed that, while batteries might provide comparable capacity credit to diesel generators in MISO, diesel generators provide additional energy hedge value by being able to run for long periods, as opposed to four hours for batteries. For those reasons, the Agency should consider paying more for diesels than for batteries. Following discussion, a suggestion was made that perhaps a \$10/kW-month capacity payment would be more appropriate.

The Agency will plan to bring a proposed Quick Start program with a \$10/kW-month capacity payment for board consideration and approval at the March 2024 board meeting.

#### **#4 New Resource Status-Mitchell:**

Mr. Mitchell reported on the new resource status.

Working with DGR Engineering to finalize requests for proposals for both reciprocating natural gas engines and combustion turbines that are expected to be issued by the end of February. Recently met with Owatonna Public Utilities (OPU) and the City of Owatonna to discuss natural gas supply line and potential locations for a new plant. DGR Engineering is evaluating options for interconnecting to the OPU system.

#### **Renewable Projects**

The Agency met with Xcel Energy (Xcel) recently to explore opportunities to work jointly on renewable projects. The Agency initiated the discussion following Xcel's issuance of a request for proposal (RFP) for 1200 MW of new wind generation. Xcel is interested in and willing to explore ways to work together on new projects. The discussion included details about the

amount and timing of the Agency's need for renewable resource, potential cost structures (PPA and ownership), and opportunities to use the Agency's interconnection rights at Sherco.

Discussion.

The next step is for Xcel to evaluate the responses to their recent RFP with SMMPA's needs in mind and develop a proposal for SMMPA's consideration. Xcel also noted that they will be issuing additional RFP's in the near future.

#### **#5 Annual Economic Development Report-Hoffman:**

Mr. Hoffman reviewed the annual economic development report.

The Economic Development Program provides incentives to attract new business customers to SMMPA member communities. The program includes two rates: Economic Development Credit Program and Load Acquisition Credit Program.

##### Economic Development Credit Program

The credit program is available to new or expanding businesses with a load of 250 kW or greater, or with a load that exceeds the demand of the member's tenth largest current retail customer. There is a 5-year credit on energy charges (40%, 20%, 10%, 5%, and 2.5%) and the credit is paid by SMMPA to the member.

##### Load Acquisition Credit Program

The program provides credit to members who are making lost revenue payments for service territory acquisitions. Five members (New Prague, Owatonna, Preston, Rochester, and Saint Peter) participated in the Load Acquisition Credit Program. Based on a 60% load factor, over the last five years, this is equivalent to approximately 14.5 megawatts of load.

Discussion.

##### Other Economic Development Initiatives

- Member economic development professionals' meeting (if there is interest).
- The Agency developed customized Economic Development Program brochures for member communities.
- Exploring potential partnership with the Small Business Development Centers (SBDC) located in Rochester, Austin, and Owatonna. SBDC provides assistance to small businesses with business plan development, financial projections, accounting, marketing, loan packaging, and succession planning.
- The Agency developed a commercial and industrial building and site webpage for member communities.

After a short break, the board reconvened at 10:35 a.m.

#### **#6 Confidential Board Report Summary-Mitchell:**

Mr. Mitchell summarized the confidential board report.

## **Government Affairs/Member Services Report-Hoffman:**

Mr. Hoffman summarized the government affairs/member services report detailed in the board book.

### MMUA Legislative Conference

Members were reminded of the MMUA Legislative Conference March 26-27, 2024 in St. Paul, Minnesota.

### APPA Legislative Rally

Members were reminded of the APPA Legislative Rally February 26-28, 2024 in Washington, D.C.

### Electric Vehicles Rebates

The Minnesota Department of Commerce started accepting electric vehicle rebate applications on February 7, 2024. Applicants may receive a rebate up to \$2,500 for new electric vehicles, no income limits, and on a first-come, first-served basis.

### Electric Vehicle Charging Network Usage

The 2023 electric vehicle charging network usage results reflect a growth among the members. On-peak and off-peak kWh charging was split evenly between Level 2 and DC fast chargers. Members experiencing DC fast charger screen issues should contact Mr. Hoffman to have the issue addressed with ZEF Energy.

### Electric Vehicle Retail Rate Working Group

Some member communities are seeing an installation of DC fast chargers at car dealerships. The Agency will host an Electric Vehicle Working Group meeting to provide assistance to the members on electric vehicle charging rates.

### SMMPA Member Orientation

A SMMPA member orientation will be scheduled in the upcoming months.

### SMMPA/Frontier Grant Webinar

The next SMMPA/Frontier Grant Webinar is scheduled for February 22, 2024 at 10 a.m.

### 2024 APPA DEED Membership

SMMPA pays the APPA DEED membership dues on behalf of all members.

## **Operations Report-Mitchell:**

Mr. Mitchell reported:

### Sherco 3 Status Report

Xcel Energy (Xcel) is anticipating a fall outage to connect steam supply from Sherco 3 to Liberty Paper, Inc. The Agency is waiting for a draft agreement from Xcel that will address how Xcel will ensure that SMMPA is not economically or operationally disadvantaged by steam sales from Sherco 3 by Xcel to Liberty Paper, Inc.

### Owatonna Energy Station Air Permit Renewal

The Owatonna Energy Station air permit renewal application was filed with the Minnesota Pollution Control Agency in 2020. Draft air permit is expected to be issued by March 4, 2024, public comment period begins March 18, 2024, and final permit issuance in May 2024.

### Potential MISO Fine for June 2022 Sherco 3 Operation

Xcel Energy (Xcel) is continuing to provide information to MISO to explain why the way Sherco 3 was operated in June 2022 when the fuel oil meter was being replaced was appropriate and that MISO should reject the Independent Market Monitor's (IMM) recommendation to fine Xcel \$1.5 million. Most recently Xcel provided an opinion from the boiler manufacturer supporting Xcel's method of operation at the time. The IMM believes Xcel ran the unit ran uneconomically when market prices dropped, but Xcel argued they operated as agreed in advance with MISO and in a manner that minimized the possibility of tripping the unit while the meter was being replaced. Xcel is continuing discussions with MISO.

### Tranche 1 Transmission Investments

SMMPA expects to have the opportunity to invest in two long-range transmission projects (LRTP-4 Wilmarth-North Rochester-Tremval in Minnesota and LRTP-6 Tremval-Rocky Run in Wisconsin) totaling approximately \$32 million. In a revised draft memorandum of understanding (MOU) between Xcel Energy and SMMPA, it appears the Agency's investment opportunity may increase if actual costs for LRTP-4 are higher than estimated. Allowing the investment to increase will help the Agency offset more of the transmission costs that will be charged by MISO as a result of the construction of all of MISO's Tranche 1 projects. Meetings are being scheduled to discuss the details of the new MOU.

### Quarterly Wind & Solar Update

Mr. Mitchell presented information on the performance of the Agency's wind and solar resources, including capacity factor and costs relative to market energy prices and net margins.

### Market Price Update

A graph of recent natural gas and on-peak electricity prices was discussed.

### **Financial Report December 2023-Fondell:**

Ms. Fondell summarized Agency financial results through December as provided in the board book materials. December's financial results are preliminary as the 2023 books are held open until the annual audit is completed.

### Revolving Credit Agreement Paydown

The Revolving Credit Agreement 2023 tax-exempt paydown of \$2.4 million will be done next week. The 2024 paydown is currently planned for the end of the year since money market interest rates are currently higher than the short-term borrowing interest rate. Agency staff will monitor interest rates throughout the year to determine the best time to do the 2024 paydown transaction.

### 2023 Investment Results

The 2023 year-end investment results were reviewed. The investment portfolio balance at the end of 2023 was \$218 million.

### Short-Term & Long-Term Debt Review

The RCA 2023 short-term borrowing program activity was reviewed along with an amortization schedule and paydown plan. The long-term debt payment schedule for 2024 through 2046 was reviewed.

### Sherco 3 Billing Audit

Baker Tilly reviewed Xcel Energy's 2022 Sherco 3 billing audit, which was completed in 2023. SMMPA owes Xcel Energy a net billing discrepancy of approximately \$2,400.

### Fitch Ratings 2024 Outlook

Fitch Ratings projects a neutral 2024 outlook for Public Power, representing an improvement from their prior outlook of deteriorating.

### SMMPA Financial Audit

The SMMPA financial audit fieldwork was held February 5-9, 2024.

### Annual Review of Financial Information

Ms. Fondell will email materials to the members explaining the financial and operations reports provided in monthly board books.

### MUDF Requests

Member utility data file (MUDF) requests were sent to members earlier than normal due to upcoming maternity leaves.

### Transmission Rate Change

The SMMPA transmission rate structure change will be effective February 2024. Members' bills in early March will have two line items for the transmission charge.

### Build America Bonds

The taxable Build America Bonds were issued in 2010 and SMMPA received interest subsidy payment.

### **President's Report:**

Mr. Reimers reported:

- **SMMPA Executive Director & CEO Evaluation:** At the close of today's board meeting, there will be an Executive Session of the Board of Directors to discuss the SMMPA Executive Director & CEO's performance review.

### **Executive Director & CEO's Report:**

Mr. Geschwind reported:

- **Electric Prepay:** On January 17, 2024, SMMPA met with Jack Kegel, Minnesota Community Energy, and Royal Bank of Canada (RBC) to discuss the electric prepay concept. Other pre-pay participants have seen savings of 5-10% with 30-year

commitments. The topic will be brought back depending on the results of additional analyses by the Agency.

- Xcel Energy IRP: Xcel Energy filed their Integrated Resource Plan on February 1, 2024. Among other resources, Xcel Energy plans to add significant battery storage by 2030 and proposes to add two gas plants.
- Xcel Energy Time of Use Rate: Xcel Energy is proposing a time of use rate in 2025 for all of its customers.

**Member Forum:**

None.

**Other Business:**

There was no other business.

**Adjourn:**

A motion to adjourn the meeting was made by Mr. McCollough, seconded by Mr. Warehime, passed upon a unanimous vote of the board members present.

The meeting was adjourned at 11:54 a.m.

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Secretary