

SOUTHERN MINNESOTA MUNICIPAL POWER AGENCY
Minutes of the Board of Directors' Meeting
February 12, 2025

President Moulton called the meeting to order at 9:00 a.m. at the Lake City Public Safety Building in Lake City, Minnesota.

Mr. Rigelman, Lake City Public Utilities Assistant Public Works Director, welcomed the members to Lake City.

Board Members Present:

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

Board Members Absent:

Treasurer T. Scott Jensen, Lake City; and Mark E. Nibaur, Austin.

Others Present:

David P. Geschwind, Executive Director & CEO; Julie Zarling, Fairmont; Mitchell Rigelman, Lake City; Jason Halvorson, Redwood Falls; Chris Rolli, Spring Valley; Craig Anderson, Wells; Beth A. Fondell, Naomi A. Goll, Todd W. Heins, Joseph A. Hoffman, and Jeremy B. Sutton of the Agency staff.

Others Present Via Conference Call:

Alex Bumgardner, Austin; Jerry Mausbach, Blooming Prairie; Shane Steele, Grand Marais; and Joe Kohlgraf, Mora.

#1 Agenda Approval:

Mr. Geschwind suggested moving item #8 2025/2026 Planning Year Capacity Position after the consent agenda and moving item #6 NERC Compliance Review to a future board meeting.

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

#2 Consent Agenda:

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

APPROVED the January 8, 2025 board meeting minutes.

APPROVED the Administrative Policy 502.3 Authorized Signatures. (Attachment A.)

#8 2025/2026 Planning Year Capacity Position-Heins:

Mr. Heins reported on the Agency's capacity position for the 2025-2026 planning year.

The Agency is expected to be short of capacity in the spring and summer seasons and to have excess capacity in the fall and winter seasons. Options for addressing the capacity shortfall were reviewed. The completed and possible transactions are:

- Possible purchase in the spring from Rochester Public Utilities.
- Summer swap and sale with Dairyland Power Cooperative (DPC).

Discussion.

Next Steps

- Continue working on the spring shortfall prior to April 1 planning resource auction.
- Seeking other swap opportunities.
- Sell excess capacity.

#3 FES & OES 2024 Annual Performance Review-Sutton:

Mr. Sutton reported on the 2024 performance review of Fairmont Energy Station (FES) and Owatonna Energy Station (OES).

Information on actual hours of operation, capacity factor, energy production, availability, and forced outage rates were reviewed.

Discussion.

Summary

- Both plants had operational impacts due to leaking cylinder heads. Anticipate replacement cylinder heads installation by 4th quarter 2025.
- Staff did their best to limit the MISO capacity credit impacts from forced outages.
- Both plants ran for energy, reliability, and ancillary services.
- Combined positive operating margins of over \$.5 million.
- Staff is reviewing ways to adjust the assumptions in the Aurora planning model to more accurately forecast the dispatch of OES and FES.

#4 Member Payments in Lieu of Taxes-Fondell:

Ms. Fondell reported on the Member payments in lieu of taxes (PILOT). She showed a comparison of payments made by the various SMMPA members over time versus the median of payments made by Fitch-rated utilities.

While municipal utilities are generally exempt from property tax, it is customary for utilities to contribute money and/or other services to their cities. Accurately capturing PILOT assists in demonstrating the value of public power.

Discussion.

Cash payments are easily tracked, but in-kind services such as free or reduced cost of utilities for city buildings, utility employee labor, utility equipment usage, technical expertise, non-utility locating services, rebates, and engineering assistance are more difficult to capture. Using a separate general ledger account for PILOT provides an opportunity for costs to be isolated and easily reported to stakeholders. The APPA website contains additional resources.

#5 Debt Retirement and Future Rates-Fondell:

Ms. Fondell reported on the debt retirement and future rates.

The Agency is considering options for setting rates with the upcoming debt service decrease resulting from the maturity of the 1994 bonds used to refinance the original Sherco 3 debt, followed by cost increases from MISO capacity requirements, new bond issuances, and additional renewable resources. A rate smoothing approach may be desirable to avoid a “roller coaster” of rate changes over multiple years.

Future Rate Structure Options:

1. Rate Smoothing - Maintain 2025 rates through 2030 as Agency cash balances grow through 2029. Excess cash balances are used in 2030 and beyond to eliminate or reduce annual rate increases. For each year Rochester is a member, Rochester’s share of the surplus cash balances generated from the foregone rate changes could be calculated and passed through to Rochester annually after final billing data is available.
2. “Business as Usual” Rate Changes - Rate changes are implemented to maintain General Operating Reserves within or trending toward the target bandwidth. Members could choose to keep any excess funds generated by rate decreases in their own bank accounts or with the Agency. Members’ funds held by the Agency or in their own accounts could be used to offset future rate increases. In 1988 the SMMPA Power Bill Pre-Payment Program was developed where SMMPA would invest members’ funds and this program could be updated and used for this purpose.

Discussion.

Ms. Fondell will email the 1988 Power Bill Pre-Payment Program information to members. This topic will be further discussed at a future board meeting.

After a short break, the board reconvened at 10:40 a.m.

#6 NERC Compliance Review-Koneczny:

The NERC Compliance Review was deferred to a future board meeting.

#7 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. In 2024, six members participated in the Load Acquisition Credit Program. Over the last five years, the acquired load was equivalent to approximately 14.5 megawatts.

Small Business Development Centers

In 2024, SMMPA began a funding partnership with the Small Business Development Centers (SBDC) to support entrepreneurs and small businesses in member communities. SBDC provides assistance to small businesses with business plans, financial projections, accounting, marketing, and loan packaging.

Discussion.

Other Economic Development Initiatives

- The Agency developed customized Economic Development Program brochures for member communities.
- The Agency developed a commercial and industrial building and site webpage for member communities.

#9 Confidential Board Report Summary-Sutton:

Mr. Sutton 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.

Minnesota Nuclear Energy Alliance

SMMPA recently signed the Minnesota Nuclear Energy Alliance (MNEA) letter of support for lifting the moratorium. MNEA is a group made up of eight utilities, utility associations, labor groups, and others that have some level of interest in nuclear energy.

MPCA New Carbon-Free Standard

The Minnesota Public Utilities Commission (MPUC) continues to develop rules related to the new carbon-free standard. SMMPA will likely join a group of aligned parties that will include Xcel Energy, Great River Energy, Missouri River Energy Services, Minnesota Municipal

Utilities Association, and Minnesota Rural Electric Association to file a joint letter expressing concerns with the proposal from the MPUC.

APPA Legislative Rally

Members were reminded the APPA Legislative Rally is February 24-26, 2025 in Washington, D.C.

SMMPA Member Orientations

SMMPA Member Orientations will be held March 6, 2025 and April 3, 2025. A virtual meeting option will be available.

SMMPA Scholarship Program

The SMMPA Scholarship Program was launched on February 4, 2025, and members may start awarding scholarships this spring. Members may contact SMMPA for assistance with setting up the program.

LIHEAP Letter of Support

APPA is encouraging members to sign the National Energy and Utility Affordability Coalition (NEUAC) annual letter in support of Low Income Home Energy Assistance Program (LIHEAP) funding. In previous years, SMMPA and several of the SMMPA members signed the letter.

Electric Vehicle Charging Statistics

The 2024 electric vehicle charging network usage data reflects 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 issues should contact ZEF Energy.

Operations Report-Sutton:

Mr. Sutton reported:

Quick Start Contract Status

The Quick Start Working Group met on February 5, 2025 to discuss a variety of issues related to the proposed revised Quick Start Contract. The Agency needs additional capacity and has an appetite for 40 MW. The draft Quick Start Contract will be presented at next month's board meeting.

Vestas Wind Turbine Contract Renewal

The Vestas Wind Turbine Contract (expiring five-year term) with the Agency is being reviewed. Vestas provides operation and maintenance service on the Agency-owned wind turbines.

Market Price Update

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

Quarterly Wind and Solar Update

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, was reviewed.

Financial Report December 2024-Fondell:

Ms. Fondell summarized Agency financial results through December as provided in the board book materials. December's financial results are preliminary, as the 2024 books are held open until the annual audit is completed.

Transmission Billing Error

On February 1, 2024, the transmission charge was divided into two components to transition from a fixed charge each month based on the prior summer's highest coincident peak (ratchet) to a charge based solely on monthly metered coincident peak (CP) demand. A transmission billing error occurred when SMMPA used the billed demand (which includes ratchet impact) instead of the actual metered demand. The Agency owes the members \$293,533 for the 11 months (February 2024 – December 2024). Grand Marais is not impacted.

Ms. Fondell will send a follow-up email to all members to recap the billing error. Emails will then be sent to each member showing the overbilling calculations and the total refund amount. Refunds will be applied to the members' February 2025 bills that will be sent out in early March 2025. A process change has been implemented to include an additional layer of review any time a rate change becomes effective.

2024 Investment Results

The 2024 year-end investment results were reviewed. The investment portfolio balance at the end of 2024 was approximately \$234 million.

Short-Term & Long-Term Debt Review

The 2024 Revolving Credit Agreement short-term borrowing program activity was reviewed along with an amortization schedule and paydown plan. The long-term debt payment schedule for 2025 through 2046 was reviewed.

SMMPA Budget & Rates Workshop Date

The SMMPA Budget & Rates Workshop will be scheduled for September 22, 2025 from 10 a.m. to 1 p.m. at Owatonna Public Utilities. A virtual option will be available.

SMMPA Finance & Audit Committee Meeting Recap

The SMMPA Finance & Audit Committee met on January 15, 2025. Baker Tilly conducted the 2024 audit entrance conference providing an audit overview and the audit schedule. The Agency's internal control processes are reviewed every five years and Baker Tilly will provide the internal controls review report with recommendations.

SMMPA Financial Audit

Baker Tilly, outside auditor, is conducting the final fieldwork of the 2024 SMMPA financial audit February 11-13, 2025. The SMMPA financial audit report will be presented at the April SMMPA Board meeting and the SMMPA Finance & Audit Committee will meet prior to the board meeting.

Investment Policy and Capital Financing Policy

The SMMPA Finance & Audit Committee will assist with updating the Investment Policy and the Capital Financing Policy in 2025. These policies are reviewed every three years and

approved by the board.

Rating Agency Presentation

S&P Global Ratings and Moody's are currently conducting reviews of the Agency.

Sherco 3 Billing Audit

Baker Tilly reviewed Xcel Energy's 2023 Sherco 3 billing audit, which was completed in 2024. SMMPA owes Xcel Energy a net billing adjustment of approximately \$22,000.

Austin-Adams Transmission Storm Damage

Received claim proceeds of \$243,826.42 (75% of \$325,101.89 total cost) from the State of Minnesota Homeland Security and Emergency Management related to the May 2024 Austin-Adams transmission storm damage.

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 will be sent to the members.

Transmission Rate Change

The SMMPA transmission rates will change in February 2025, reflecting the second year of the transition from a fixed charge based on the prior summer's highest CP (ratchet) to a charge based solely on the actual monthly metered demand (CP). Members' bills in early March will reflect the updated transmission rates.

All-In Cost of Power Data

SMMPA will send the all-in cost of power data to each member. Going forward, the final all-in cost of power for the prior year will be communicated to members when available.

President's Report:

Mr. Moulton reported:

- **SMMPA Staff Recognition:** SMMPA staff members recognized for their efforts were Joe Hoffman for the legislative work and APPA Legislative Rally; John O'Neil for member services correspondence; Beth Fondell for audit information; Kevin Hafner for providing requested information; Todd Heins for capacity planning; and Kelly Gangelhoff for accounting logistics.

SMMPA Board of Directors Recognition: Mr. Scott Jensen, Lake City, was recognized for his outstanding work on the SMMPA Board of Directors and as the SMMPA Board Treasurer.

Executive Director & CEO's Report:

Mr. Geschwind reported:

- Lake City: The SMMPA Board of Directors position held by the City of Lake City is vacant due to Mr. Jensen's departure. The successor Representative appointed by the City can fill the SMMPA Board of Directors position held by the City. An Alternate Representative may exercise all rights of the Representative when attending a Representatives meeting but cannot function as a Board Member.
- SMMPA Board Treasurer: The SMMPA Board of Directors will need to designate a SMMPA Board Treasurer to fill the position previously held by Mr. Jensen.

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 12:26 p.m.

Secretary