

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

President Moulton called the meeting to order at 9:00 a.m. at the Litchfield Eagles Club in Litchfield, Minnesota.

Mr. Geers, Litchfield Public Utilities Operations Engineer, welcomed the members to Litchfield.

Board Members Present:

President Peter T. Moulton, Saint Peter; Vice President Roger E. Warehime, Owatonna; Secretary James R. Bakken, Preston; Mark E. Nibaur, Austin; and Bruce A. Reimers, New Prague.

Board Member Present Via Conference Call:

Timothy M. McCollough, Rochester.

Others Present:

David P. Geschwind, Executive Director & CEO; Mike Geers, Litchfield; Keith Butcher, Princeton; Jason Halvorson, Redwood Falls; Chris Rolli, Spring Valley; Craig Anderson, Wells; Beth A. Fondell, Naomi A. Goll, Joseph A. Hoffman, Seth T. Koneczny, Rebecca J. Schmitz, and Jeremy B. Sutton of the Agency staff.

Others Present Via Conference Call:

Jerry Mausbach, Blooming Prairie; Miles Heide, Julie Zarling, Fairmont; Shane Steele, Grand Marais; Mitchell Rigelman, Lake City; and Joe Kohlgraf, Mora.

#1 Agenda Approval:

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

#2 Consent Agenda:

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

APPROVED the February 12, 2025 board meeting minutes.

#3 Financial Forecast Assumptions-Schmitz:

Ms. Schmitz reviewed the annual financial planning calendar and presented the proposed financial assumptions and scenarios for the upcoming financial forecast.

Financial Planning Calendar

- May – Develop short-term forecast (formerly five-year). Budget preparation begins.
- June – Short-term forecast to board.
- August – Load forecast summary to board.
- September – Budget and rates preview. Budget & Rates Workshop.
- October – Budget and rates for board approval.
- November – Develop long-term forecast.
- December – Long-term forecast to board.

Projected General Operating Reserves target includes a 3.3% inflationary increase in 2025. Data from the Bureau of Labor Statistics and Energy Information Administration (EIA) is used to apply inflation rate historical averages for the next year, and EIA forecasted inflation is used for subsequent years.

Sherco 3 planned outage is scheduled from February 2026 into May 2026, which will require the Agency to purchase replacement capacity.

Recommended Forecast Case Run Options

- Base case.
- High LMPs and natural gas prices.
- Sherco 3 unavailable for 6 months.
- Large weather event LMPs.

After discussion, these assumptions and sensitivities will be used in the short-term forecast. It was suggested that a case be built around Sherco 3 being unavailable for 6 months and a large weather event occurring during that time.

#4 Debt Retirement and Future Rates Continued-Fondell:

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

The Agency is evaluating how to adjust rates to reflect the decrease in debt service 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.

There is general agreement that retail customers of the Agency's members would prefer smooth or stable rates as opposed to rates that change significantly from year to year. Accordingly, Agency-managed rate smoothing and member-managed rate smoothing options were reviewed.

Discussion.

There was board consensus for the Agency staff to proceed with further developing the member-managed rate smoothing option. Under such an approach, the Agency would adjust rates each year as necessary to reflect changes in costs, and Agency members would internally manage any rate-smoothing efforts.

Ms. Fondell will request feedback from the members to determine interest in having a

prepayment option available. If there is interest, Agency staff will begin working on updating the 1988 Power Bill Pre-Payment Program.

#5 NERC Compliance Review-Koneczny:

Mr. Koneczny reported on the NERC compliance activities. SMMPA is subject to certain mandatory standards to ensure the reliability and security of the electric grid.

2024 NERC Audit

In May 2024, Midwest Reliability Organization staff performed an audit of the Agency's compliance program and there were no findings.

SMMPA/Utility Services, Inc.

Mr. Shawn Timbers, SMMPA NERC Regulatory Compliance Program Manager, has been a valuable addition to the SMMPA team. In 2021, SMMPA contracted with Utility Services, Inc. to assist with NERC compliance efforts and in September 2024 SMMPA shifted away from Utility Services, Inc.

Wildfire Mitigation Plan

Wildfire Mitigation Plan coordination continues with facility operators (Xcel Energy, Great River Energy, and Dairyland Power Cooperative).

Discussion.

FERC Order 881 Compliance

Transmission lines are traditionally rated on two seasons (Summer and Winter), with fixed ambient temperature assumptions. FERC Order 881 requires transmission providers to begin using ambient-adjusted ratings (AAR). SMMPA will utilize various Transmission Operators as the ratings providers for submission of ratings to MISO. The FERC Order requires compliance by summer 2025.

After a short break, the board reconvened at 10:44 a.m.

#6 Quick Start Contract-Sutton:

Mr. Sutton reported on the Quick Start Contract.

The Quick Start Working Group met on February 5, 2025 to review the contract language and reflect on the change in the MISO accreditation rules and how that should be incorporated into the new contract.

The draft Quick Start Contract will be sent to the members to review.

Discussion.

This topic will be brought to the April board meeting for approval depending on feedback from the members.

#7 Vestas Maintenance Agreement-Sutton:

Mr. Sutton reported on the Vestas Maintenance Agreement.

The wind turbine service and maintenance agreement for the six Agency-owned wind turbines expired. Vestas no longer offers “full coverage” and will only cover preventative maintenance activities. Remote monitoring remains in place 24/7, responding to event codes, clearing them remotely, and having personnel onsite during normal business hours, if needed.

New Contract:

- \$66,788 per wind turbine per year.
- Contract price increases by:
 - Measured Cost Increase Percentage =
 - $(\text{Labor Increase} \times 0.75) + (\text{Materials Increase} \times 0.25)$
 - Labor = Employment Cost Index
 - Material = Producer Price Index

Discussion.

Next Steps

- Negotiate final terms of contract.
- Ensure the termination clause allows for the decommissioning of the turbine in the event repair would be deemed too costly to remain in service.
- Future repairs beyond the scope of the maintenance contract would be individually evaluated.

#8 Steele Energy Station (SES) Property Tax Exemption-Hoffman:

Mr. Hoffman reported on the Steele Energy Station (SES) property tax exemption.

SMMPA plans to construct a combustion turbine generation facility fueled by natural gas with expected capacity of 49 MW on the western edge of Owatonna, Minnesota.

The Agency met with House Tax Committee Chair Rep. Greg Davids (R-Preston) to initiate the tax exemption process. Senator Jasinski (R-Faribault) representing the Owatonna community agreed to be the chief author of the bill in the Senate.

Discussion.

SES commercial operation is anticipated in 2028, so the Agency has some flexibility regarding the timing of when the exemption is granted.

President Moulton thanked Mr. Hoffman for his efforts.

#9 SMMPA Board Treasurer-Board of Directors:

Mr. Bakken moved to appoint Mr. Reimers, New Prague, as treasurer for the Board of Directors of Southern Minnesota Municipal Power Agency replacing Mr. Jensen, seconded by

Mr. Warehime, passed upon a unanimous vote of the board members present.

Government Affairs/Member Services Report-Hoffman:

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

MPCA New Carbon-Free Standard

The Minnesota Department of Commerce submitted comments that the Minnesota Public Utilities Commission should require hourly matching of RECs, as opposed to annual matching, for utilities to demonstrate compliance with the new carbon-free standard. SMMPA expects to sign the joint letter of IOUs, G&Ts, and other joint action agencies to share concerns with the proposal.

Federal Continuing Resolution

The House is proposing a “clean” Continuing Resolution to fund the government through September 30, 2025. To reduce the federal budget deficits, the Community Funding Projects may be eliminated, which earmarked projects in some member communities.

APPA Legislative Rally

SMMPA members from Austin, Blooming Prairie, Owatonna, Rochester, and Saint Peter, along with SMMPA staff, attended the APPA Legislative Rally February 24-26, 2025 in Washington, D.C.

SMMPA Member Orientation

SMMPA Member Orientation will be held April 3, 2025. A virtual meeting option will be available.

SMMPA Member Scholarship Program

Members may tailor the scholarship program to their needs and may contact SMMPA for assistance.

Operations Report-Sutton:

Mr. Sutton reported:

Solar Turbine Procurement Contract Update

The Solar Turbine Procurement Contract for the Steele Energy Station Project was signed on February 28, 2025. The total engine amount is \$37,540,806. Four generator step-up transformer bids are being reviewed. Anticipate filing full air permit before the end of the month.

Meter Replacement Project

Replacing and upgrading metering equipment at members’ power plants and substations. SMMPA will begin the project in North Branch so we can work out any obstacles that we encounter without causing issues with city loads and MISO before continuing with the other locations.

Sherco 3 Outage Capacity Replacement

The Sherco 3 planned outage is scheduled from February 21, 2026 through May 22, 2026, which will create capacity issues. This year's change at the 2025 planning resource auction is the implementation of MISO's new reliability-based demand curve. The change would make capacity more expensive, encouraging utilities to add generation. The Energy Authority (TEA) recommends having the Independent Market Manager exclude Sherco 3 from the planned resource auction and hedge the shortfall capacity exposure.

Market Price Update

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

Financial Report January 2025-Fondell:

Ms. Fondell summarized Agency financial results through January as provided in the board book materials.

Rating Agency Update

Moody's affirmed SMMPA's A1 credit rating with a stable outlook. Standard & Poor's formal review is underway and nearing completion.

Annual Review of Financial Information

Ms. Fondell asked if there was any feedback on the materials emailed to the members explaining the financial and operational reports included in monthly board books. No suggestions were noted.

ECA Budget Error

The 2025 monthly ECA budget was loaded incorrectly into the SMMPA accounting system and corrected after the board meeting materials were distributed. The actual results for January were not impacted, and the correction eliminated a \$88,581 variance between the budget and actual results.

SMMPA Finance & Audit Committee Meeting

The SMMPA Finance & Audit Committee will review the Capital Financing Policy for revisions. 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.

President's Report:

Mr. Moulton reported:

- SMMPA Alternate Representative: The change of alternate representative for the City of Lake City from Travis Dunn to Mitchell Rigelman was effective January 13, 2025. (Attachment A.)
- SMMPA Alternate Representative: The change of alternate representative for the City of Owatonna from David Olson to Christian Fenstermacher was effective February 25, 2025. (Attachment B.)

- SMMPA Staff Recognition: SMMPA staff members recognized for their efforts were Jeremy Sutton, Joe Hoffman, and Beth Fondell for bringing information to the SMMPA Board; Becca Schmitz and Seth Koneczny for their presentations today; and Naomi Goll for her work behind-the-scenes as well as her ability to work well with others.

Executive Director & CEO's Report:

Mr. Geschwind reported:

- Tariffs: Ontario, Canada, suspended announced tariffs on electricity exports to the United States. SMMPA does not purchase energy directly from Canadian utilities.
- SMMPA Key Metrics: The SMMPA key metrics document was modified with a new format.

Member Forum:

None.

Other Business:

There was no other business.

Adjourn:

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

The meeting was adjourned at 12:10 p.m.

Secretary