CITY OF HASTINGS, NEBRASKA
MINUTES OF UTILITY BOARD REGULAR MEETING
Thursday, December 14, 2017

Pursuant to due call and notice thereof, a Regular Meeting of the Utility Board of Hastings, Nebraska was conducted in the Council Chambers of City Hall, 220 N. Hastings Avenue, on December 14, 2017.

ROLL CALL:

The meeting was called to order at 9:00 a.m. in Regular Session by Chairman Schreiner with the following members present: Jack Shreiner, Bill Hitesman, Willis Hunt, Shawn Hartmann, Joanne Seberg.

PLEDGE OF ALLEGIANCE:

The Chairman led the group in recital of the Pledge of Allegiance to the United States of America.

MOTION TO ADOPT CURRENT AGENDA FOR DECEMBER 14, 2017 REGULAR MEETING.

Moved by Joanne Seberg seconded by Bill Hitesman to adopt the current agenda for December 14, 2017 regular meeting. Roll Call: Ayes: Shawn Hartmann, Bill Hitesman, Willis Hunt, Jack Schreiner, Joanne Seberg. Nays: None. Absent: None. The motion carried.

PUBLIC NOTICE - Official Notice of the Regular Meeting was published in the Hastings Tribune on Tuesday, December 12, 2017.

Chairman Shreiner read the Public Notice - Pursuant to Nebraska Revised Statute Section 84-1412, the public is advised that a copy of today's agenda and all reproducible written material which will be discussed at today's meeting is located at the back of the Council Chambers. Also, a current copy of the Nebraska Open Meetings Act is posted on the south wall of the Council Chambers which is accessible to members of the public.

MANAGER'S COMMUNICATIONS:

Manager of Utilities Kevin Johnson informed the Board that several of our staff are here today because his approach to most agenda topics is to bring in the "subject matter experts". They will speak on the topics, as a general rule, even though he will have some awareness and understanding of the topic. Johnson said that the real knowledge lies with our "subject matter experts".

Johnson said that he and Chairman Shreiner have visited about how the agenda could flow smoother and they have come up with categories under General Business. They will be Administration, Finance, Production, Operations, and Other.

Johnson said that when the appropriate time comes in the meeting, he will introduce our new auditing group and they will answer basic general questions. We are not in a position to report current financials at this point. The finance department is continuing to work on backlog and continuing to try to get the position to a point where we can end the fiscal year and have the general ledger available for the auditors. We are still not quite there, even though the auditors are here in Hastings at this time.

Johnson said that he would like conversation with the Board to discuss if this format (setup and location) is the right one for this Advisory Board. Options can be discussed.

BOARD CHAIRMAN'S COMMUNICATIONS:

Chairman Schreiner said that his only communication was that he no longer has a conflict with meeting early in the month. So the only reason he can see to move the meeting would be to have the possibility of more current information from a report standpoint. Manager Johnson stated that if the Board wants more current financials, meeting after the 15th of the month would help. The Board will discuss making this change after the financials are caught up and current.

BOARD MEMBERS' COMMUNICATIONS:

Hitesman voiced his concern that staff give the Board notice of budget worksessions or discussion of the budget as far in advance as possible because of each of the Board members' busy schedules.

Schreiner said that when the budget worksessions begin, the Board and staff need to be sensitive to rate increases and sensitive to running out of money. He stated that the Board will have to look at a budget that doesn't dip any further into our cash reserves.

Hunt asked staff if the new auditing firm could be hired to help catch up the accounting workload. Johnson said that the auditor can answer that at the appropriate time in the meeting.

CITIZEN COMMUNICATIONS:

None.

CONSENT AGENDA:

1. All Consent Items.

Moved by Willis Hunt seconded by Shawn Hartmann to approve all Consent Items. Roll Call: Ayes: Shawn Hartmann, Bill Hitesman, Willis Hunt, Jack Schreiner, Joanne Seberg. Nays; None. Absent: None. The motion carried.

(a) Approval of the minutes of the Hastings Utility Board Meeting of November 9, 2017

REGULAR AGENDA:

2. Unfinished Business of Preceding Meeting.

None.

3. General Business.

(a) Administration - Integrated Resource Plan (IRP) with the Western Area Power Administration (WAPA)

Jim DeTour gave a presentation on the Integrated Resource Plan (IRP with the Western Area Power Administration). As required by the Energy Policy Act of 1992 and WAPA's adoption of the Energy Planning and Management Program, Hastings is required to prepare and submit an

IRP to WAPA every five years to maintain our energy allocation of hydropower. Staff asked the Board to recommend approval by the City Council of adopting Resolution No. 2018-02 to submit to WAPA along with the IRP for the City of Hastings.

Moved by Bill Hitesman seconded by Willis Hunt to recommend approval by the Hastings City Council of the Integrated Resource Plan (IRP) and to submit it to the Western Area Power Administration (WAPA) along with Resolution No. 2018-02. Roll Call: Ayes: Shawn Hartmann, Bill Hitesman, Willis Hunt, Jack Schreiner, Joanne Seberg. Nays: None. Absent: None . The motion carried.

(b) Administration - Cost of Service Study Overview

Johnson said that he wanted staff to give an overview of what a cost of service study entails and give the Board an opportunity to understand what staff is thinking going forward in the near term relative to analyzing our costs.

Don Cox gave a presentation on Cost of Service Study overview. Cox said this is a non-action item at this time, but is a good time to start thinking about this and planning on when to do a cost of service study. He said the study is the primary tool used in determining appropriate rate levels for the various classes of customers and the main object is to identify the costs associated with each rate class and then designate those costs to each rate class.

Cox said that staff will recommend an external study be done for electric rates, as a study has not been done since 1983. He said that the WEC-1 debt will be paid off in 2018 and would be a good time to look at it. The consultant may pull in some of the PPGA debt into the base rate, versus running it through the monthly fuel adjustment as is currently done. Staff may recommend a study be done on gas rates the following year, as the last study was done in 1994. Neither study is budgeted at this time. The Board asked staff to come back with a proposal looking at the cost of the study we would do, when we would do it, how it would be pulled into the budget. Staff will come back with the proposal at budget time or before with this information.

(c) Finance - Financial Q&A

Kevin Johnson Introduced the new auditor, Marcy Luth of Almquist, Maltzahn, Galloway, & Luth, PC of Grand Island, Nebraska. She said that they are the new auditors for both the city and department of utilities. Luth said they are currently onsite doing the city's side audit and still coordinating when the utilities side will be ready for them to come in. Originally it was to start today and tomorrow but is now on hold.

Hunt addressed the problem of receiving timely financial reports. Luth said that timely information to the Board from staff is outside the scope of the audit. She addressed an earlier question asking if there is something the auditors can do to get this caught up. She said they cannot help because they have to maintain complete independence from HU's set of books. Luth said that often times companies can hire an outside accounting firm to help. She said that their firm has a very full schedule and is ready to do the audit. They were just notified two days prior that HU was not ready.

The Board discussed showing depreciation. Luth said that governmental budget uses a cash basis. Utilities is called a business-type activity and as such, Governmental Standards require that depreciation be accounted for similar to a business.

Dave Ptak asked if part of their function in performing the audit will be to look at processes and give any recommendations they may see to become more efficient. She said that they will look at that and they are very familiar with many processes because of the quantity of municipal audits that they perform. Luth thanked the Board for their time and said she is looking forward to working with them in the future.

(d) Finance - HU Budget for HEDC Background

Allen Meyer gave a presentation on HU's 2017-2018 budget for HEDC. There is no action required at this time. Meyer said there is $125,000 for promotion of economic development and an economic development fund that is part of the Gas Department budget in the amount of $2,488,000. The Nebraska Revised Statutes allow the City of Hastings to expend revenues for the purpose of economic development through the services of HEDC. An agreement originated between the Board of Public Works and HEDC in 1987 provided $100,000 annually. In 2014, this was increased to $125,000. The background of the economic development fund was an agreement initiated in 2011 between the Board of Public Works and HEDC. They recognized the need for load growth with the addition of the WEC-2 resource. The term of this agreement was 2012-2016. It provided $3,000,000 from the Gas Rate Stabilization Fund to encourage growth to existing business and industry and introduction of new business and industry.

There was also a component that provided $100,000 per year for publicity from the Gas Rate Stabilization Fund over five years to promote the resources of Hastings. It also provided $2,000,000 of temporary partial demand rate reduction by the electric department, which was made a part of the electric rate schedules.

The usage of that economic development fund of $3,000,000 was broken down as such: $600,000 to Thermo-King for plant expansion and $12,000 to Drake Tool for expansion. Of that $3,000,000 component, $2,388,000 was left plus the $100,000 for a total of $2,488,000.

A new economic development program and agreement with HEDC will be required for future expenditures. Meyer said HEDC and the City are looking for ideas for new development incentives. He said that the recently approved residential/commercial development incentive policy could be part of that. Schreiner said that he would like the Board to look at the guidelines used to distribute the money. He said we need some bang for the buck for giving away ratepayer money.

(e) Finance - Budget Workshop Target

Kevin Johnson had mentioned that he heard February was an earlier timeframe for budget meetings. At the February Board meeting, he would like to start identifying a better time-frame for the budget as opposed to starting the process in February. Schreiner said that instead of being presented a budget resolution, he would like to see choices, ie. rate information, not spending down cash, etc. Hartman reiterated his displeasure that the accounting is not current and feel the auditors are being cheated of their time. Johnson said that he was happy to hear that the audit could include some process improvements as many of our processes are still paper. Hitesman said that the frustrating part of making good recommendations is not knowing all the information needed. He asked staff to keep the Board informed of the progress being made.

The Mayor Stutte said that when the City Council passed Ordinance 4473, he knew that there were a lot of inefficiencies within the organization. He said that we also understood that there was going to be a long ramp-up and we are going to need some runway to make sure we get this right. We are a little bit behind. He said he thinks we need to look at the fact that we are a

little bit outdated in our systems and we need to improve on that. Mayor Stutte said that the Director of Finance position has been advertised and applications are due December 20th. He said we hope to have new leadership at the top of the department and he is confident that we are going to get there, but this is a process. He said that he is confident we will get there, it's just going to take some time. He trusts Kevin Johnson, who has been on the job for two months. Stutte said he knows he's going to get some of these things squared away. Stutte said that overall he is very proud of our staff and that they've done a good job. The staff has had a lot of changes over the past year but Stutte thinks that what we can put together is probably what the Board is asking for and that is a clear implementation plan.

Stutte said that the RFP is due next week on the new ERP system. We will start evaluating those and we should have some recommendations with a decision in March. Then we will go into procurement and start implementation which will take 18-24 months. This is a long ramp-up that we will be chugging away at and I know staff is on top of that.

(f) Production - WEC2/WEC1 (Dec) Outage Update

Chairman Schreiner asked the Board if they were attending the Customer Meeting. This update of WEC1 and WEC2 will be given at those meetings so he will not have this update given at this meeting.

(g) Production - PPGA Operating Agent Update

Allen Meyer gave a presentation on the PPGA Operating Agent on behalf of Hastings Utilities. The PPGA budget was approved on December 6, 2017. Debt service is 60% of the expenditures. The 2018 budget is $78,236,126 compared to 2017 budget of $77,249,480. The difference is an increased level of generation being forecasted for 2018.

WEC-2 is still off line from the outage and is currently in market status. They are waiting for the Southwest Power Pool to give the go ahead to get on line.

Hunt asked if labor costs could be cut during these outages. Meyer said that those operators help with the outage and have to be ready within 17 hours when notified by the Southwest Power Pool to bring the plant back online.

(h) Production - Energy Supply - Strategy Development

Kevin Johnson said that there is no action required on this item. He wanted to communicate to the Board that he is very intrigued by Kearney, Grand Island, Lincoln, Nebraska City, Fremont that are dipping their toes further into renewables. He feels Hastings needs to further along what we can do. He would like to get involved in other opportunities because he feels if you have that mix, you can ride the ebb and flow of the energy market. He said that when incentives go out the door from the Federal Government, our coal and natural gas are going to come back into play. There is an opportunity to revisit this issue and strategy development into renewables.

Hitesman said that battery technology could really change the game and he understands the industry is about two years out from developing that technology.

Johnson concurred and said that battery, solar, wind, hydro and other technology are all in his vision and will be continually analyzed. Hunt thanked him for his approach and looking forward to see how that turns out.

(i) Production - Recommendation from Staff for Award of Contract for Electrical Equipment Installation at WEC-1. (B.I. 2.01)

Moved by Shawn Hartmann seconded by Bill Hitesman to recommend approval to the City Council to accept the recommendation from staff to award a contract for replacement of WEC-1 5KV switchgear and 480V SUS (B.I. 2.01) to IES Commercial, Inc. for $1,248,818 which includes applicable sales tax.

Along with this contract, Keith Leonhardt said that the design and construction supervision is done by Black & Veatch for approximately $300,000.

Roll Call: Ayes: Shawn Hartmann, Bill Hitesman, Willis Hunt, Jack Schreiner, Joanne Seberg. Nays: None. Absent: None. The motion carried.

(j) Other - NMPP Member's Council Representatives

Moved by Willis Hunt seconded by Joanne Seberg to recommend approval to the Hastings City Council of Resolution No. 2018-01 designating Kevin Johnson to serve as the City's representative to the Nebraska Municipal Power Pool Member's Council and Donald Cox designated the alternate. Roll Call: Ayes: Shawn Hartmann, Bill Hitesman, Willis Hunt, Jack Schreiner, Joanne Seberg. Nays: None. Absent: None. The motion carried.

4. Possible Closed Session (if necessary or requested).

Moved by Bill Hitesman seconded by Shawn Hartmann, that this Board go into Closed Session, which Closed Session is clearly necessary for the protection of the public interest in that said Closed Session will consist of a strategy session relative to negotiations and litigation. Roll Call: Ayes: Shawn Hartmann, Bill Hitesman, Willis Hunt, Jack Schreiner, Joanne Seberg. Nays: None. Absent: None . The motion carried.

The meeting closed to the public at 10:31 a.m.

Moved by Hunt, seconded by Seberg, that the meeting be reopened to the public at 11:10 a.m., and that no decisions were made nor official actions taken during said Closed Session. Roll Call: Ayes; Hunt, Seberg, Schreiner, Hiteman, Hartmann. Nays; None. Absent: None. Motion carried.

ADJOURN:

Moved by Bill Hitesman seconded by Shawn Hartmann there being no further business to adjourn the meeting at 11:10 am. Roll Call: Ayes: Bill Hitesman, Shawn Hartmann, Willis Hunt, Joanne Seberg, Jack Schreiner. Nays: None. Absent: None . The motion carried.

APPROVED:

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Board Secretary