INDIANOLA MUNICIPAL UTILITIES

IMU

Electric • Communications • Water

IMU Board of Trustees
November 10, 2014
City Hall Council Chambers
5:30 p.m.

Agenda

1. Roll Call
2. Consent
    - A. Claims
    - B. Minutes
3. Reports
    - A. General Manager
    - B. Chairperson
4. Presentation by NMPP Energy and discussion of wholesale power topics
5. 2013 W. Hwy 92 Transmission Project
    - A. Change Order #6 in the amount of $66,004.00
6. Recess
7. Discussion of Strategic Plan working draft
8. Other Business
9. Adjourn

IMU Regular Downstairs **2. A.**
Meeting Date: 11/10/2014

Information

Subject

Claims

Information

The November 3, 2014 Claims List was distributed last week.

Financial Impact

N/A

Staff Recommendation

IMU Regular Downstairs **2. B.**

Meeting Date: 11/10/2014

Information

Subject

Minutes

Information

Minutes of the October 27, 2014 meeting are attached to this agenda item.

Financial Impact

N/A

Staff Recommendation

Attachments

Minutes

BOARD OF TRUSTEE MINUTES
REGULAR SESSION – OCTOBER 27, 2014

The Board of Trustees met in regular session at 5:30 p.m. on October 27, 2014 in the City Hall Council Chambers. Chairperson Eric Vander Linden called the meeting to order and on roll call the following members were present: Heather Hulen, Grant Johnson, Pat Reding, Eric Vander Linden and Deb White.

The consent agenda consisting of the following was approved on a motion by White and seconded by Johnson. Question was called for and on voice vote the Chairperson declared the motion carried unanimously.

October 20, 2014 claims

October 13, 2014 minutes

Amounts to be forwarded to the State Offset Program $16,911.80 (electric) and $3,830.77 (water)

A motion was made by Reding and seconded by Johnson to approve the September 2014 Treasurer's Report and budget variance reports. Question was called for and on voice vote the Chairperson declared the motion carried unanimously.

General Manager Todd Kielkopf presented the Quarterly Performance Report.

It was moved by Johnson and seconded by White to approve the certificate of final completion – Dig America Contract for the 2011 Indianola Hwy 65/69 Underground Conversion Project. Question was called for and on voice vote the Chairperson declared the motion carried unanimously.

White moved and Hulen seconded to approve the certificate of final completion – Vanderpool Plumbing, Heating and Electrical Contract for the 2011 Indianola Hwy 65/69 Underground Conversion Project. Question was called for and on voice vote the Chairperson declared the motion carried unanimously.

Todd Kielkopf, General Manager, presented the Strategic Plan working draft.

Meeting adjourned on a motion by White and seconded by Hulen.

Eric Vander Linden, Chairperson

Diana Bowlin, City Clerk

IMU Regular Downstairs **3. A.**

Meeting Date: 11/10/2014

Information

Subject

Administrative News Items

Information

Financial Impact

N/A

Staff Recommendation

Attachments

News Items

NEWS ITEMS

TO: IMU Trustees
FROM: IMU Administrative Staff
DATE: November 7, 2014

1. **Streetlights on The Square:** Due to the faulty electric service on the north side of The Square, temporary galvanized poles (from inventory) were installed until the black poles arrive. It was decided to avoid a potential similar problem on the west side so galvanized poles were installed there also. As recap, pole sleeves are now installed on the south and east sides. Electric Supt. Bob Miller and GM Todd Kielkopf now intend to have crews temporarily install galvanized poles (from inventory) on the south and east sides for consistent lighting and aesthetics given upcoming events on The Square and the start of the holiday season. It will also allow concrete to be poured before winter where the bases of the old lights were removed, which otherwise could have been delayed.

2. **Labor Negotiations:** One action bullet point in the draft FY 2015-17 plan is for there to be tighter coordination between IMU and city policymakers pertaining to labor negotiations and in analyzing employee benefit programs. The City of Indianola has a wage & insurance opener in their FY 2015 labor contract, which means only those two issues can be negotiated this year. IMU is under a 2-year contract and has no openers. GM Todd Kielkopf relayed Trustees' intent to support more coordination in the future to the Mayor and City Manager at separate meetings.

3. **Water Meter Replacement:** Water Supt. Lou Elbert reports that he replaced one relatively large meter at Simpson and continues to monitor others that appear to be not reading correctly. This happens as water meters age and they under-register actual consumption.

4. **Customer meetings:** There are 4 commercial or industrial customer meetings set for this week.

5. **NMPP Meetings:** A Joint Operating Committee meeting is scheduled for Wednesday afternoon in Linclon, with the NMPP board (utility services affiliate) meeting following on Thursday. Agendas include items pertaining to the position of NMPP Energy Executive Director. Board members will also review upcoming fiscal year budgets pertaining to NMPP staffing, benefits, and allocation of costs between affiliate entities. These items are recommended to the larger boards such as MEAN, so it is important that IMU continues to have a voice within the recommending boards.

Information

Subject

Presentation by NMPP Energy and discussion of wholesale power topics

Information

NMPP Energy staff will attend to present a brief update about their recent challenges, the wholesale energy operating environment, and outlook.

Attached are three documents that may assist in Trustees having an informed discussion.

The first is a summary of how wholesale energy is purchased and factors impacting its cost.

The second, distributed previously, is the final working draft of MEAN's Mission, Values and core Competitive Strategies. It is quite appropriate for Trustees to inquire about these and how MEAN is performing in those areas. They are part of a larger 10-page document prepared by the MEAN Risk Oversight Committee that will be recommended to their board at the upcoming mid-November meeting. The organization will next prepare and discuss risk profiles for functional objectives in the areas of finance, power supply, services, governance, administration, etc. to improve the organization's performance.

The third is a cover memo prepared by Ivan Webber of Ahlers that is attached to a detailed prepared by the IMU General Manager. They address key contract structure, terms and conditions. Ivan reviewed the attached General Manager's memo, the MEAN contracts, and related statutes to determine termination options.

The attorney's cover memo confirms staff's analysis in the Executive Summary that there is only one contractual method by which the MEAN Schedule M contract can be terminated. That is to not approve the addition of new generation resources (when MEAN requests an addition) and to become MEAN's first Contract Purchaser. Under that scenario, IMU is not committed to future resources and must self-supply or purchase any needed future capacity (that above current demand levels), likely in the MISO market. Since that has not occurred before within MEAN, there are numerous implementation procedures not specified in the contract that would be unknown risks today.

Note that Ivan does agree that an extra contractual separation is legal, however NMPP Energy has not shown a willingness to voluntarily negotiate terms with other communities expressing displeasure with MEAN's recent rate history. That may change over time as more MEAN communities seek alternatives and staff changes.

IMU staff continues to collect information on the various attributes of resources listed in Schedule D, to which IMU is committed, so that IMU Trustees can eventually make an informed choice as to if, how, and when IMU should become a Contract Purchaser. Specialized professional services are needed for that ongoing evaluation, as it is difficult to predetermine what information will be most valuable and pertinent to that decision. Continued Trustee engagement on this topic is beneficial.

In any wholesale purchasing strategy, Trustees and staff make assumptions about growth rates of Indianola's power supply needs, the lifespan of IMU's turbines and capital reinvestment needed to self-supply capacity, and the future regulatory & market environment in which generation units will be operating. These factors are complex and ever-changing, which is one reason a portfolio approach is beneficial.

Historically, MEAN's rates were below market-based costs, below competitive providers, and rising at a relatively low rate. Generation owners sold excess supply at profitable levels. That all has changed in recent years.

The ongoing debate in the electric industry is if recent trends will continue. Will market prices continue to be less than the typical generation portfolio can produce at?   Or will that trend reverse and generators will again profit from the pending supply/demand equilibrium that is predicted for 2016 and beyond? It is not a debate with a clear answer.

Financial Impact

N/A

Staff Recommendation

Attachments

Summary Memo
Mission and Strategies
Contract Terms Memo

About Wholesale Electricity

Wholesale electricity is generated at various power plants throughout the Midwest. IMU is currently in a contract with the Municipal Energy Agency of Nebraska, or MEAN, to purchase wholesale electricity for resale. MEAN supplies electricity to member communities, like IMU, through its ownership of generation facilities and through their own purchased power contracts from plants owned by others. Both types of electricity supplies incur both fixed and variable annual costs.

Fixed costs are like a home mortgage. MEAN must pay its annual fixed costs regardless of the market price of energy or power plant output. Approximately 40% of MEAN's power supply costs are fixed in nature and paid for through rates charged to its long-term Participants like IMU. As such, MEAN's ability to build and own generation facilities and to attract new Participants to enter into wholesale electricity contracts, is dependent on MEAN's existing Participants committing to purchase electricity under long-term contracts.

MEAN participates in three regional transmission footprints. Two of these are known as Regional Transmission Organization markets (RTOs). The RTO's dispatch, or call for, the production of electricity from these generation plants and then sets the market price for that electricity in accordance with the respective region. Plants with low marginal cost of production are dispatched first, with the highest being dispatched last, if at all, depending on the total demand in the entire region or sub-region. MEAN collectivizes the sales of all its energy produced into its net cost of energy.

MEAN then collectivizes the cost of its wholesale energy that is delivered to all of its member communities. The cost of purchased energy from the market, plus fixed costs, less sales of energy are the primary drivers of MEAN's rates charged to long-term Participants like IMU for wholesale electricity. If MEAN is able to annually profitably sell more energy into the markets than what member communities require, that revenue reduces MEAN's wholesale rate charged to long-term Participants over the long run.

Factors that influence MEAN's total sales, and in turn their wholesale rate per kWh, include the dispatch order and generator downtime. Dispatch order is determined by the price of the commodity used to produce electricity (like natural gas, coal, nuclear, and diesel fuel) and the efficiency rate at which the generator converts commodities into electricity. Generator downtime is controlled by repair cycles, environmental run-time limitations, and availability of transmission paths to transport the energy to the larger grid.

Another factor affecting MEAN's wholesale rate is the price of natural gas, which is now at or near the same marginal cost per unit to produce electricity as when burning coal. The growing amount of wind generated on any given day also impacts the amount of output needed in the RTO market from the combination of all gas and coal generating plants. These conditions all change the dispatch order, so MEAN now still incurs fixed costs without any offsetting revenue more days per year than in the recent past.

Prior to the development of the RTO markets, MEAN was successful in capturing positive net revenue from selling its excess electricity to non-MEAN members that needed purchases to meet short-term demand. The imposition of the RTO markets has limited those sales due to higher transmission costs to deliver electricity. Also prices between markets have equalized, so those that need short-term supplies simply buy from a neighboring market instead of directly from MEAN or their own market when prices are more favorable.

The historical advantage to being a member-owner of power plants is that utilities such as IMU are able to contract a reliable and stable source of long-term wholesale power supply at a less volatile price than market rates. There are times this is highly beneficial and times when it is not. It's important to remember utilities plan and make decisions for the long term – decades into the future. Short-term market conditions and other factors can adversely affect utilities. Recently, market conditions have trended in ways that adversely impact MEAN's rates. These trends may stabilize and indeed may even reverse as environmental regulations, tax credits, and RTO rules change over time.

Municipal Energy Agency of Nebraska
(MEAN)

Our Vision:

To be the power supplier of choice for West and Midwest municipal electric utilities.

Our Mission:

To provide highly valued, responsive, long-term, reliable, and economical power supply resources and utility-related services to MEAN Participant communities.

Our Values:

Working Together. Professional and engaged collaborations between Participant representatives, NMPP employees, industry partners and other stakeholders.

Inclusive Governance. Active participation in guiding the delivery of products and services that best serve the collective needs of both the organization and Participant communities.

Integrity. Mutual trust built through responsible actions, transparency, openness, respect, and regulatory compliance.

Accountability. Prudent management of proven & reliable sources of power and financial resources based on best practices.

Sustainability. Long-term strength gained through financial stability, growth in economies of scale, diversity, and environmental impact planning.

Foresight. Continual analysis, planning, implementation, and feedback that lead to improved outcomes.

Competitive Strategies

Participant guidance & feedback on matters pertaining to governance, strategic direction, rates, and resources that fosters organizational continuity.

An economy of scale that adds to available professional expertise, minimizes overhead costs per Participant community, and provides resource portfolio diversification.

Regional diversity and growth that optimizes exposure to energy markets, minimizes sales & operating unit concentration, levels long-term resource utilization, and reduces the impact of localized deviations from expectations.

A mix of operating resources at the lowest anticipated long-term average and sustainable cost through ownership, member contracts, and partnerships.

Leverage ratemaking authorities to economically purchase & finance resources, using tax-exempt financing where feasible.

Sales of electricity based on fair, reasonable, and mostly cost-based pricing that are appropriate in contractual length.

Dispatching energy in a manner that maximizes power supply delivery opportunities, best use available transmission routes, and marketplace prices.

Providing energy-related services, products, and support that help local utilities meet regulatory obligations and maximize their value to end-customers, including the environmental attributes of purchased power.

Maintaining financial resources and operating ratios that provide long-term rate stability, minimize financing costs, and the ability to benefit from strategic opportunities.

Strategic and other management information systems that identify, communicate, evaluate, and mitigate risks and that result in regulatory compliance.

Partnering with other NMPP-affiliated entities to add value to MEAN's relationship with Participant communities through the work of NMPP staff, outside resources, and use of common facilities.

AHLERS & COONEY, P.C.
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DES MOINES, IOWA 50309-2231
FAX: 515-243-2149
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Ivan T. Webber
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Direct Dial:
515.246.0304

October 28, 2014

Todd Kielkopf
General Manager
Indianola Municipal Utilities
111 South Buxton
P. O. Box 356
Indianola, Iowa 50125

RE: MEAN Membership
Our File No. 10616.013

Dear Todd:

At your request I have reviewed the MEAN documents and your Memo to the IMU Board of Trustees dated November 10, 2014. I am in agreement with your Memo as to the outline of the contractual mechanism available to terminate the agreement with MEAN. I would add that an extra contractual negotiated separation is always legally possible, but would require cooperation by MEAN. Please let me know if you need more elaboration from me.

Sincerely,

AHLERS & COONEY, P.C.

By:

Ivan T. Webber

ITW:gc
01062489-1\10616-013

Memo

Date: November 10, 2014
To: IMU Board of Trustees
From: IMU General Manager
Re: MEAN Contract Terms & Conditions

Executive Summary:

There are two primary components to IMU's contractual relationship with the Municipal Energy Agency of Nebraska (MEAN):

1. The Electrical Resources Pooling Agreement (ERPA)
2. Service Schedule M (classification of type of service contract)

The ERPA provides for the type services to be provided by MEAN to IMU. One of those services is "Total Power Requirements Power Purchase Agreement" (Service Schedule M) as noted in Article X. Note, however, that the Service Schedule M has standing as a separate legal agreement.

From a contractual standpoint, Article II explicitly limits termination of the contract to "ten years or the term of the Related Bonds", which refers to Schedule D (list of Projects). In simplistic terms, it means that outstanding debt needs repaid before releasing a Participant of its obligations.

The statute under which MEAN is organized, Nebraska Code section 18-2439, provides a manner for a municipality to withdraw from MEAN, but preserves all existing contractual obligations the municipality has with MEAN. There are parallel provisions in MEAN's bylaws, also preserving for termination or withdrawal municipalities existing obligations.

The most simplistic legal path for terminating IMU's ongoing obligations to MEAN is to not adopt a revised Schedule D (list of Projects) and to become a Contract Purchaser under Service Schedule M. Once that is done, IMU may give notice to become a Service Power Participant under the ERPA and negotiate with the Management Committee, in writing, the terms & conditions by which that will occur. That will likely entail, at a minimum, commitment to support IMU's percentage of outstanding debt that is currently imbedded in its rates & charges. Therefore it will not be feasible for some time, given MEAN's current outstanding debt, however it very well could be at some point prior to the full retirement of debt.

It may also be feasible to amass support for multiple communities to assume generating assets and the underlying debt and to form, or merge with, another wholesale power agency. This will likely entail forfeiting any claim to cash net assets at the time, which may be substantial.

Background:

The Schedule M agreement is what was bid to IMU in 2009 when IMU solicited new power supply quotations attempting to opt out if its prior MEAN contract and has rates lower than its Service Schedule K rate. MEAN now limits offering new Schedule K contracts in an attempt to encourage full joint ownership.

IMU formally joined MEAN, and thus its board, conditional upon the 2008 determination by the Iowa Attorney General's Office that the basic powers and operations are compatible with Iowa law. In particular, the question was posed was whether MEAN met the requirements of Iowa Code section 28E.9 and whether participation would be "compatible" with Iowa law to which they opined that "participation of the Indianola Municipal Utility in MEAN is compatible with the laws of Iowa". It is not a requirement of the ERPA or Service Schedule M for a participant to be a member of MEAN, nor does it convey any additional financial responsibilities for being a member.

Significant ERPA terms & conditions:

The ERPA outlines many operational terms & conditions for participants. These include:

- Mandatory participation in the Nebraska Municipal Power Pool (NMPP)
- IMU is a Bulk Power Participant in that it receives all required power supply, both today and in any amount required in the future, from MEAN, who is responsible to acquire the capacity resources needed in order to serve IMU's load.
- Establishes the powers and duties of the Management Committee, in which IMU participates as a member; this includes the setting of rates under Service Schedule M under Section 6.07(o), dispatching of energy, and setting compensation for capacity purchased from those members (like IMU) that agreed to pool generating resources (only 15MW of IMU's capacity was accepted by MEAN and thus subject to the ERPA).
- Arbitration of disputes

IMU can terminate the ERPA upon providing 2 years notice under Section 2.03. However, under Section 2.05, termination of the ERPA does not terminate "previous contracts or agreements" such as the Schedule M entitled the "Total Power Requirements Power Purchase Agreement" currently in effect.

Alternately, under Section 5.02, IMU can change its participation status under the ERPA to a Service Power Participant subject to the approval of the Management Committee and two years written notice. Again, this change does not "excuse the performance of any existing contractual obligations" which inherently include the Schedule M agreement currently in effect. If mutually approved, IMU would transition to being fully responsible to obtain the resources need to meet its load (vs. MEAN being responsible). This status allows IMU to purchase electricity from MEAN under mutually beneficial terms & conditions while still receiving services, such as dispatch, under the ERPA.

My perspective is that no action is needed on IMU's status under the ERPA until it changes its status under Schedule M (see below). And that if IMU desires to have the option to change its status in the future, it will require that IMU has a positive ongoing relationship with, and be active on, the Management Committee.

Significant Service Schedule M, the Total Power Requirements Power Purchase Agreement terms and conditions:

Service Schedule M also outlines many operational terms & conditions for participants. These include:

- Delivery of energy is subject to the terms of the ERPA.
- Authorizes payments received under binding contracts to be pledged towards the issuance of debt (Related Bonds by definition) by the MEAN Board of Directors in order to supply power from a Project.
- Establishes the term of the contract (Article II) as "longer of a period of ten years or the term of the Related Bonds".
- Creates a mechanism by which individual utilities voice their commitment to a Project by adopting a revised Schedule D. Should the utility choose not to participate, then it becomes a Contract Purchaser committed to its firm power requirement. (To-date, all participants have accepted today's Schedule D, so the parallel contract status with the ERPA and any pricing differential for this status has not been tested.)
- Rates charged are on the basis of costs incurred, including working capital funds, and are set by the Board of Directors.
- The utility cannot re-sell (Article VIII), at wholesale, energy provided by MEAN to another utility for its resale without the written consent of MEAN.
- Non-payment of non-disputed charges (typically in terms of kWh used) is considered a default.
- MEAN is required to commence legal action immediately against defaulting participants (to protect other participants).
- The agreement can only be assigned (Article XVII) by mutual consent, and assignment does not relieve the utility or its city of its obligations so long as "Related Bonds" for projects agreed to under any revised Schedule D are outstanding.

IMU Regular Downstairs **5. A.**

Meeting Date: 11/10/2014

Information

Subject

Change Order #6 in the amount of $66,004.00

Information

Al Powers of P&E Engineering has been negotiating a final change order for work on this project by Michels Power. There were several issues that arose, mostly with work associated with the MidAmerican distribution lines that were built under the transmission lines on the same IMU-owned transmission poles. There were also delays due to lack of right of way acquisition by IDOT that led to delays as plans were revised.

The original request was for $91,164, however that has been reduced to $66,004. Of that, IMU is liable for $18,440. A minimum of 78% of this cost, or $14,383, will be billed to IDOT under the reimbursement agreement. IMU representatives will attempt to negotiate for even a higher percentage since the conditions that led to the costs were generally outside of IMU control.

Financial Impact

N/A

Staff Recommendation

Simple motion approving Change Order #6 to the Michels Power contract in the amount of $66,004 is in order. The new contract amount is $942,859.00.

Attachments

Change Order

P&E ENGINEERING CO.
POWER SYSTEMS ANALYSIS AND DESIGN
Allan R. Powers, P.E. Richard D. Kline, P.E.
Timothy G. Ernst, P.E.
245 S. 5th St., PO Box 620, Carlisle, IA 50047
p.515-989-3083 f.515-989-3138 pe@peengr.com

CHANGE ORDER NO. 6

Owner:	Indianola Municipal Utilities
Contractor:	Michels Power, a division of Michels Corporation
Project:	2013 Hwy 92 Transmission Relocation Project
Date	Nov. 3, 2014

Original Contract Amount		$	815,283.00
Previous Change	CO1	$	8,500.00
Order Adjustments	CO2	$	-
	CO3	$	(6,750.00)
	CO4	$	28,472.00
	CO5	$	31,350.00
	Total	$	61,572.00
Amount of this Change Order		$	66,004.00
Current Value of Contract		$	942,859.00

Items included in this Change Order

Item	Description		Amount
1	Extra costs incurred due to delays in tree trimming	$	1,400.00
2	Changes in IMU pole framing during constructon period	$	3,120.00
3	Extra costs incurred because of water line at pole 13	$	4,320.00
4	Changes in IMU pole locations during construction period	$	3,750.00
5	Included on CO 5	$	-
6	Extra costs incurred due to difficulty in obtaining materials from MEC storeroom	$	2,690.00
7	No cost	$	-
8	Extra costs incurred due to MEC pole staking issues	$	1,877.00
9	Changes in MEC pole framing during constructon period	$	2,350.00
10	Extra costs incurred due to delay in providing MEC drawings	$	7,877.00
11	Extra costs incurred due to delay in providing MEC stringing charts	$	14,500.00
12	Extra costs incurred due to delay in providing MEC stringing charts	$	2,670.00
13	Extra costs incurred when final construction tasks were delayed and crews were moved to another project	$	21,450.00
	Total Value of Change Order	$	66,004.00

Recommended for Approval

Allan Powers

Date 11/3/2014

Allan Powers, PE
P & E Engineering Co.

Approved

Date ____________

For Indianola Municipal Utilities

Accepted by Contractor

Date ____________

For Michels Power, a division of Michels Corporation

Indianola Municipal Utilites
2013 Hwy 92 Hwy 92 Relocation Project
Transmission Relocation Contract
Change Order 6

			Responsitbility		
Item	Original Claim	Final Resolution	IMU	MEC	Comments
1	$1,400	$1,400	$1,400		
2	$3,120	$3,120	$3,120		
3	$4,320	$4,320	$4,320		
4	$3,750	$3,750	$3,750		
5					Item 5 was covered on Change Order 5
6	$3,580	$2,690		$2,690	
7	$320	$0			
8	$1,877	$1,877		$1,877	
9	$2,350	$2,350		$2,350	
10	$7,877	$7,877		$7,877	
11	$25,000	$14,500		$14,500	
12	$2,670	$2,670		$2,670	
13	$34,900	$21,450	$5,850	$15,600	
Total	$91,164	$66,004	$18,440	$47,564	

Al Powers

From: Brian Olsen [bolsen@michels.us]
Sent: Thursday, October 23, 2014 7:31 PM
To: Al Powers
Cc: Nick Warland; Alan Ames
Subject: RE: Extra cost resolution
Attachments: 4321_001.pdf

Al,

Please see the attached spreadsheet outlining the hours for each of the agreed upon claim items. Please send over the Change proposal for signature at your earliest convenience so we can close this out.

Thanks!

Brian Olsen | Project Manager Estimator - Line II

Michels Power
A Division of **MICHELS Corporation**
office: 920.721.9153 | fax: 920.720.5214 | cell: 920.539.7053
bolsen@michels.us | www.michels.us
1775 E Shady Ln
Neenah, WI 54956

From: Al Powers [mailto:arpowers@peengr.com]
Sent: Monday, October 13, 2014 11:48 AM
To: Brian Olsen; Nick Warland; Alan Ames
Cc: Bob Miller (bmiller@i-m-u.com); Martinson,Ryan(RMartinson@midamerican.com); Bettes,David M
Subject: RE: Extra cost resolution

Thanks, Brian. We are all pleased to get these items resolved!

Al Powers
P & E Engineering Co.
515-989-3083

P & E ENGINEERING CO.
POWER SYSTEM ANALYSIS AND DESIGN

From: Brian Olsen [mailto:bolsen@michels.us]
Sent: Monday, October 13, 2014 9:32 AM
To: Al Powers; Nick Warland; Alan Ames
Cc: Bob Miller (bmiller@i-m-u.com); Martinson, Ryan(RMartinson@midamerican.com); Bettes, David M
Subject: RE: Extra cost resolution

Al,

We discussed the outstanding item #13 this morning internally, We appreciate IMU and MEC working through this item with Michels and we agree to settle Item #13 for the IMU/MEC revised figure of $21,450. The table in your letter looks accurate to what has already previously been agreed upon. We will assemble a breakdown list of the hours and get that over to you this week so you can finalize drafting up the formal CO.

Thanks,

Brian

Brian Olsen | Project Manager Estimator - Line II

Michels Power
A Division of **MICHELS Corporation**
office: 920.721.9153 | fax: 920.720.5214 | cell: 920.539.7053
bolsen@michels.us | www.michels.us
1775 E Shady Ln
Neenah, WI 54956

From: Al Powers [mailto:arpowers@peengr.com]
Sent: Sunday, October 12, 2014 11:01 PM
To: Brian Olsen; Nick Warland; Alan Ames
Cc: Bob Miller (bmiller@i-m-u.com); Martinson, Ryan(RMartinson@midamerican.com); Bettes, David M
Subject: Extra cost resolution

Brian,

See attached for our response to the conference call on 9/17/14 related to the extra costs claimed by Michels for the Hwy 92 transmission relocation project.

Al Powers
P & E Engineering Co.
515-989-3083

P & E ENGINEERING CO.
POWER SYSTEM ANALYSIS AND DESIGN

August 29, 2014

Indianola Municipal Utilities
110 N. First Street
Indianola, IA 50125

RE: 2014 Hwy 92 Relocation project Change Items

Dear Bob Miller / Al Powers (P&E),

Starting in the early onset of the Hwy 92 project, there has been quite a few stumbling blocks that Michels has encountered while trying to keep this job moving forward. Many of the road block items were caused by IDOT resulting in design changes to the project. A few others were derivatives of other contractors working for IMU on the project, but the vast majority of the issues incurred by Michels on the project were a direct result of the inability to receive information and materials for the MEC portion of the work.

Listed below are items that Michel's feels should be cause for additional compensation for work performed in addition to our bid scope, or that had to be performed outside of the way the project was bid and planned to construct. We hope IMU can appreciate the good faith efforts that Michels has been striving for to keep this project moving forward as it has faced a vast amount of challenges. Michels would like to request that IMU discuss this thoroughly at an internal level prior to preparing a response.

<u>IMU Related Change Items:</u>

#1) Incomplete Tree Trimming

- On 6-24-14 the Michels crew couldn't perform tasks at structures 133, 122, & 114 due to uncompleted tree trimming. Vanderpool's tree trimming service was supposed to have the project complete before Michels arrived on site. Crew had to perform partial task and mobilize to new location, then re-mobilize back. Crew was getting ready to set pre-framed poles but couldn't due clearance issues.
    - Cost Impact: $1,400.

#2) Changed Framing Specs on STR's 3B, 9B, and 21

- After structures 3b, 9b, and 21 were framed and set per the original IFC Drawings, there was a design change issued that required these three structures to be reframed and re-drilled. Crew had to gather different framing material from yard to complete construction.
    - Cost Impact: $3,120

#3) Structure 13 Water line.

- The staked location for structure 13 happened to fall directly on top of customer water line. When the situation was noticed, Michels approached Al powers (P&E) and Bob Miller (IMU) about bringing in a Hydro-Vac truck to locate water line. Al and Bob agreed this would be the best approach and gave Michels the approval to bring in the unit and pass the costs through to IMU. Once the Hydro-Vac unit was on site, it was discovered that the water line was dead center of hub and it was determined that the hole needed to be shifted south. Crew had downtime while waiting on IMU to make sure the location was ok. Due to the close proximity of the water line was, and where structure 13 needed to be placed, it was too close to dig with a conventional truck and auger and Michels had to vac the entire 60" x 16' hole
  - Cost Impact: $4,320.

#4) Structure 36 Pole Shuffling

- Structure 36 was stake dropped into location by Michels crew and subcontractor on 6-6-14. After pole was spotted, the line design had changed for what was needed at this location. As a result of the new design, Michels was to use the original pole slated for STR 6a at the STR 36 location. Michels swapped these poles on 6-16-14. On 6-23-14 design changed yet again and as a result of this second design change, STR 36 was changed to a Laminate pole. The final result being that Michels had to stake drop the new Lam pole for STR 36 as the third pole drop at same point. The pole dropped after the 1st design change then also needed to be relocated to a new STR location.
  - Cost Impact: $3,750.

#5) Change Order Propsal #5

- Design changes from IFB to IFC as noted on the change proposal CO5 received 7/13/14. This change covers all associated Labor, Equipment, and Material.
  - Cost Impact: $24,600

MEC Related Change Items:

#6) Additional / Wasted Trips to MEC Storeroom in Des Moines

- On 7-21-14 Michels crew had to make an additional trip to Des Moines to pick up MEC material due to design changes. When Michels Crew arrived to the MEC Storeroom, material wasn't ready for Michels to pick up, the crew then returned to Bevington jobsite after 3 hours. On 7-22-14 the crew went back to pick up the material for the second trip, again when Michels Crew arrived at the MEC

Storeroom with pick tickets, the material wasn't readily available. The Michels crew had to wait approximately 4 hours until material was assembled to load into trucks. Lastly, after having to demobilize from site due to MEC issues, A Michels crew will have to make yet another trip to MEC Storeroom to pick up the remainder of the material missing to complete construction. Anticipated at 3 hours to pick up remainder of materials.

  - Cost Impact: $3,580

#7) Reclosure Framing STR 52

- On 6-16-14 Michels couldn't perform task at point 52 due to missing reclosure framing. Crew called Ryan Martinson and waited 1 hour for instructions.
  - Michels Labor and Equipment for this additional work and downtime is valued at approximately $320

#8) MEC Staking Issues

- On 6-24-14, the Michels crew was framing and setting the MEC distribution poles. When crew arrived to point #128, the pole was staked significantly out of line. Crew had to pull off and wait on MEC to re-stake location. At that time the crew jumped ahead to set points 123, 124, 125 but MEC hadn't had them staked at all. Crew had to pull off to move along further on the project, and then come back at later date to complete framing and setting at these points
  - Cost Impact: $1,877.

#9) Distribution point #547 – Design change after work was completed.

- On 7-1-14, Michels crew hauled, spotted, framed, set and hung transformer, installed anchor at distribution point #547. On 7-10-14 Ryan Martinson made a design change in the field to have Michels remove this point entirely and to transfer the transformer and install underground service on transmission pole # 48, and feed customer from adjacent pole. Crew had to mobilize back to point twice to remove existing work completed, and reframe new spec on IMU Transmission pole in the air, and install new underground service.
  - Cost Impact: $2,350

#10) MEC Missing Prints for STR's 52-42

- Michels framing crew had to make additional setups on already framed and set IMU transmission structures #42,43,44,45,46,47,48,49,50,51,52 for a total of 11 structures due to missing distribution prints. Crew had to Aerial frame distribution in the air. MEC did not have material on site because of specifications on materials

were missing; Michels did not have specifications of material needed to perform the construction.
    - Cost Impact = $7,877

#11) Double Set ups for MEC Underbuild Conductor stringing

- Due to MEC not having stringing charts established for wire pulling ready to go when Michels was pulling conductor, Michels was only able to string the transmission conductor for the majority of the project, rather than being able to simultaneously pull the MEC UB conductor in while all stringing equipment was setup in the same locations. Because of this, Michels has/had to remobilize and re set up at least two wire pulls that otherwise would have been completed at the same time. (Michels bid and planned construction on this job that all materials and prints would be ready for construction by the start of the job and that all conductor work would have been able to have been performed consecutively). The first missed opportunity by MEC was on 6/24 when Michels pulled in STR's 52 – 43, and the second missed opportunity was on 7/18 for STR's 35 – 6B.
    - Cost Impact: $25,000

#12) MEC UB STR's 6B-3B

- On 7-19-14 Michels had strung in the distribution wire from STR 6B to 3B and was ready to sag. Upon moving into the sagging process, the sag charts were missing information. The crew was unable to perform task and had to regroup and relocate to other work, and at a later date remobilize back to the section once sag information was received from MEC.
    - Cost Impact $2,670.

#13) MEC Final missing material and Designs Causing Michels to Demob & Remob for project.

- After Fighting through the MEC portion of this project, Michels was forced to suspend construction due to missing MEC material and designs. This decision was collectively made between Michels, IMU and MEC. Michels ultimately had to demobilize crews and all equipment on 7/26 with remobilization set to occur around 9/11./14
    - Cost Impact $34,900.

DRIVING INNOVATION.
TRANSFORMING CONSTRUCTION.

I would like to emphasize the fact that Michels very much values the working relationship that we have with IMU & MEC as I strongly believe that the construction of the project has went as smooth as it could so far given all the obstacles that our Michels/IMU/MEC team have been faced with. Again, we ask that IMU review the above listed items and review them from the perspective of both sides. We feel that what we have listed here are all fair items; and each item is well justified and deserving of additional compensation.

Respectfully Submitting,

Brian Olsen

Brian Olsen

IMU Regular Downstairs **7.**

Meeting Date: 11/10/2014

Information

Subject

Discussion of Strategic Plan working draft

Information

The latest draft for the current 1-3 year planning cycle is attached.

Additions to the draft discussed at the last IMU Board meeting are highlighted. These have been added following input and discussions with the IMU management team, the Mayor, City Manager, and other city staff.

The IMU management team is invited to attend this work session to receive direct feedback and direction.

It is anticipated that more changes will be made following this discussion, so no action is required.

Financial Impact

N/A

Staff Recommendation

Attachments

Plan draft

Indianola Municipal Utilities

Strategic Plan,
Service Objectives,
& Operating Strategies

(FY 2015 – 2017 edition)

Fall 2014 - Version 2

INDIANOLA MISSION STATEMENT

The City of Indianola and the Indianola Municipal Utilities will cooperatively provide essential, high-quality, and cost-effective services that give opportunities for residents to pursue the highest possible quality of life.

We Value…

A dedicated, creative, professional, and skilled workforce including appointed and elected officials that possess integrity and perform their duty in an ethical and impartial manner;

A safe and efficient workplace and community;

Attaining a high level of customer service;

Sustainable service delivery based on research and foresight;

Protection and responsible use of natural resources;

Affordable rates that balances needs in the community;

Working as partners within our community and with other entities;

Fairly and consistently imposing and applying regulatory actions;

Providing equal access to resources that benefit people's lives;

Citizens that are knowledgeable and engaged in our community.

EXECUTIVE SUMMARY

The purpose of this Strategic Plan is to identify areas in which the Indianola Municipal Utilities (IMU) can both build upon traditional strengths while also taking advantage of new opportunities over the next 3 fiscal years.

It is a comprehensive planning resource for policymakers and staff of Indianola Municipal Utilities. The intent is for policymakers to periodically provide direction on:

1. Purpose
2. Services that define our roles
3. Objectives that guide our delivery of services
4. Strategies that fit within overall objectives
5. Goals for improving each strategy

Management staff provides input on the above items plus:

1. An implementation plan and benchmarks
2. Task management
3. Proposed budgets, financial analysis, and rates

For this planning cycle, Core Services are consistent with those contained in previous plans.

The Strategic Analysis (page 4) contained in this Executive Summary compiles Trustees' and management staff's assessment of the organization's operating environment to provide those Core Services. The analysis identifies:

1. Traditional strengths of IMU.
2. Activities that can improve those traditional strengths without being detrimental to capitalizing on new opportunities.
3. New opportunities arising in the electric, water, communications industries.
4. Activities that can help IMU capitalize on new opportunities and be complimentary to traditional organizational strengths.

Using the Strategic Analysis, Trustees and staff developed 10 Action Items (page 5) that impact the broader organization in the areas of:

- Personnel/staffing
- Infrastructure
- Financial resources
- Customer service
- Community support

These Action Items are then placed into the detailed plan as Strategies or Goals for individual Core Services (page 6) and marked as priorities (*). Additional steps and milestones are also noted within the detailed plan.

No planning system is complete without a method to determine progress, successes, and warning signs of impending challenges. IMU uses a quarterly performance report with indicators to communicate these.

Strategic Analysis-

Traditional strengths:

Educated, trained and committed stakeholder team that is supportive of new ideas, adaptable to change, and focused on positive outcomes

Local workforce sized to respond to outages and emergencies in a timely manner

Utility plant assets are proactively maintained to provide long-term reliable services with the capacity to meet future needs

Competitive rates and fees built on a relatively conservative and stable financial plan

A commitment to safety

Diverse wholesale sources with relatively predictable long-term cost per unit trends

Brand name associated with quality, community leadership and customer service

Stable economy & consumption patterns

New opportunities to capitalize on:

Ability to attract strategic partners that bring dynamic perspectives & new auxiliary network services that benefit both residential & commercial customers and drive telecom sales growth

Build on IMU's electric and telecom investments as a community differentiating factors highlighting reliability, technology, and sustainability

EPA-mandated generation unit retirements may increase the value of peaking capacity, resulting in funds for priority capital projects

Improving economic viability of customer-owned solar arrays as on-peak resources that reduce demand charges; potential grant-funded study by IAMU how to best integrate solar into local systems

Ways to improve traditional strengths & overcome known challenges:

Hire team-oriented employees with the abilities to implement the utility's strategies and mentor them during the upcoming retirement transition

Train, plan, and equip for unexpected events that disrupt commerce, workforce activities & customers

Review long-term wholesale energy strategies

Consistently reinvest ratepayer funds in projects that proactively counteract decaying infrastructure & facilities based on updated long-term plans

Broader marketing and expansion of the fiber system

Improve customers' experiences, feedback systems through use of more streamlined technologies, new service programs, and positive internal relations

Address cyber security issues to avoid negative perceptions and events

Ways to capitalize on opportunities & overcome potential challenges:

Integrate new media/technology platforms that create public relations synergies between public/utility services, including those provided by private partners

Proactively maintain high customer satisfaction by communicating reliability, programs, and services including sustainability efforts; consistently address IMU's roles on city projects and with service partners

Work with community leaders and metro-area developers on smart growth strategies & policies

Plan how to adapt to regulatory changes, particularly those impacting air quality, carbon footprint, and fluoride tolerance levels

Action Plan-

1. Enhance marketing and customer awareness/outreach to communicate the holistic value of IMU and its services, including economic development efforts:
    - Coordinate marketing and community engagement leveraging the IMU Partners program, including positioning Indianola & Simpson College as destinations for innovation and sustainability within the metro-
        - Debut of IMU Partners and its TV channel(s) by end of October, 2014
        - Issue memberships by December, 2014 (target of 50 by July 2015)
        - Produce IMU-specific videos by March, 2015
        - Work with committees and interns (start in October 2014 but ongoing).
    - Develop target markets and key messages using a combination of staff, interns, and contracted professionals-
        - IMU logo and web site
        - Images & core messages
        - Chamber of Commerce
        - IMU Partners Associate Members
        - 125th year of Public Power (various dates throughout the year)
    - Deployment strategies using both in-person and multi-platform video-
        - Print, slide shows, video, and external/newspaper
        - Conduct routine one-on-one meetings with key accounts of all utilities
        - Host IMU Partners Program and sustainability events
        - Coordinate with City & other community marketing efforts as opportunities arise

2. Develop and adopt viable Capital Improvement Plan (CIP) schedules for each utility and implement budgeted projects annually (IMU Trustees, GM & Dept. Heads):

    - Resolve CenturyLink & Mediacom pole attachment issue/demo pole lines via formal compliance agreements
    - Design & engineering for a target of $5 million in electric, conduit, and fiber to serve the NW quadrant of Indianola. Begin with conceptual designs that are divided into 3 to 4 prioritized sub-areas (April 2015)
    - Transition to spending capital-based revenues & water loan principal payments on asset/facility replacements (eliminate spending these on O&M activities)-
        - Generation & transformer capacity payments to address future major maintenance at generators/controls & substations
        - 69kV credits to re-build the transmission line over time
        - Remove water loan principal payments from the retail rate base by 2020; currently equal to vehicles & major maintenance

    - Pro-active maintenance projects at the Water Plant to prolong its lifespan
    - Engineer and construct prioritized main replacements; alternate between 2 projects in FY 2014 then 1 project the next year, 2 projects the next, etc

    - Continue fiber extensions where conduit exists and other fill-in projects; bolster the IMU/MCG brand and build a wider geographic customer base by tracking neighborhood interest in services offered elsewhere in Indianola

3. Participate in utility growth planning discussions and activities:
    - Assist with business retention, expansions, and attraction using IMU-matched incentives offered in conjunction with the City of Indianola, WCEDC facilitated-projects, and regionally with the Greater Des Moines Partnership
    - Review how other municipal utilities work to encourage community growth and public engagement
    - Promote the adoption of smart growth strategies and economically viable sustainability policies
    - Analyze and report on community engagement collaborations that promote energy efficiency such as Grants to Green and energy efficiency project funding.
    - Pursue a 2nd USDA Revolving Loan Fund
    - Plan with MidAmerican on commercial/industrial growth outside of IMU electric territory to ensure long-term capacity will exist on their system when it is needed (and that is partially fed by IMU)
    - Evaluate commercial & industrial electric rate design in conjunction with any structural changes to the pricing of wholesale energy
    - Promote the development of ventures, start-ups, and new opportunities through support of the IMU Partners Program

4. Enhance plans for staffing levels, development & training (GM & Dept. Heads):
    - Continue hiring plan for the lineman retirement transition (October 2015)
    - Evaluate boring options to extend electric & fiber systems
    - Hire the planned 20 hrs/week PT position for Network Services and IMU Partners support activities (funds were derived from savings incurred following a prior retirement)
    - Develop formal succession & training plan (by June 2016)
    - Workforce Connection as a source for internal staff & crew information

5. Evaluate services shared between the City & IMU to determine if strategic options exist to improve finance, GIS mapping, information technology, safety programs, disaster/recovery and outage reporting (GM & IMU and city departments):
    - Improve the IMU Board's understanding of shared functions, roles of each, and level of involvement in setting expectations
    - Improve the coordination of union negotiations and analyzing employee benefits with City of Indianola policymakers
    - Monthly accrual-based accounting reports.
    - Integrate the use of teleconferencing.
    - Increase the GIS Committee's coordination of add-on software options.
    - Develop hazard mitigation plans and funding options
    - Push notification systems (WINS) for outages and customer notifications
    - Accounting & HR workflows
    - OSHA workflow systems
    - Evaluate the value of deploying a "City App"

6. Use technology and programs to improve both the customer experience & information flows throughout the service delivery process, including customer sign-ups, permits, work orders, metering and auditing, etc. (GM & IMU and city departments).
    - Review Service Plans with Clerk's Office to improve the customer experience; review fee structures as needed
    - Establish standardized telephone scripts and phone tree menus to improve transfer and escalation processes
    - Work to find & contract with technology solution providers as needed.
    - Investigate service line insurance options