



# Rochester Public Utilities Board

## 2019 Budget Review

October 30, 2018

**VISION:** We will set the standard for service.

**CORE VALUES:** Safety • Integrity • Service • Stewardship • Accountability • Skill

# Strategic Alignment

## Five “R’s”

- Reliability: Obligation to Serve
- Rates: Affordability, Sustainable
- Responsibility: Sustainability, Safety & Compliance
- Reputation: Community Involvement
- Relationships: Customer Intimacy

# Water Utility Budget 2019 - 2023



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# ROCHESTER PUBLIC UTILITIES WATER UTILITY 2019 OPERATING BUDGET

## ASSUMPTIONS

- ◆ Cost center budgets and non-bonded projects set at level used in cost-of-service study
- ◆ Other than specifically identified projects, no assumptions have been made in regards to DMC
- ◆ Interest Earnings Rate: 0.75%
- ◆ Average Salary Expense Change: 3.60%  
(consists of COLA, merit and promotion increases)
- ◆ Change in Full-time Equivalents: 1
- ◆ Minimum Cash Reserve Requirement: Policy \$7,641,200

## RETAIL REVENUES / SALES

- ◆ Revenue Adjustment: 6.00% proposed  
(\$0.76/mo for avg residential 6.4CCF customer)
- ◆ Water CCF Sales Forecast: 3.12% Increase from 2018  
Projected Sales
- ◆ Total Water Utility Customers: 1.2% Increase over Y/E 2018  
Projected Customers
- ◆ Forecast Based on Normal Weather : 523 Cooling Degree Days,  
23.9 Inches Summer Rainfall

## OTHER ITEMS

- ◆ In Lieu of Tax forecast increasing \$ 19,000 to a total of \$398,146.

## Business Drivers

- Water conservation programs and education
- Water main replacement study Started in 2018
- Cost of service study deferred to 2019
- 3 year rate track set for 2016 – 2018, No adjustment approve for 2019 to date.
- DMC project impacts – Contribution in Aid?
- Water projects are impacted by the plans of the City Public Works Department and developers

## Business Risks

- Ground water supply dependent
- Incremental regulation – water testing, backflow monitoring, DNR Permitting
- Cell Tower rental revenue
- Aging Infrastructure



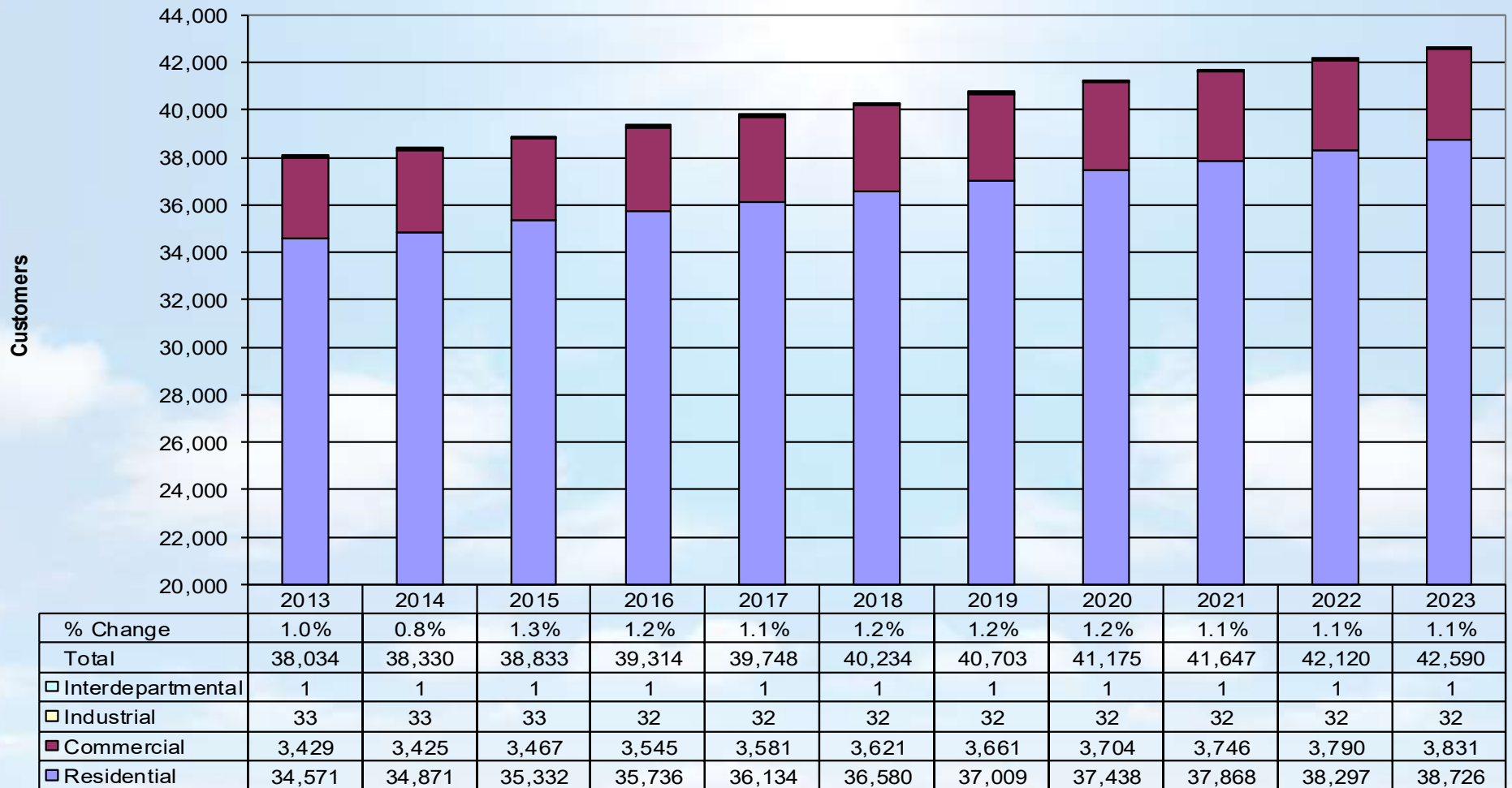
# WATER UTILITY 2019 OPERATING BUDGET

FORECAST BY YEAR, 2018 THROUGH 2023  
(\$000's)

Forecasted Rate Change	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%
	2018*	2019	2020	2021	2022	2023
1 Total Revenues	10,797,833	11,858,257	12,632,517	13,446,556	14,346,823	15,296,496
2 Total Cost of Revenue	1,896,015	1,867,433	1,865,954	1,851,419	1,837,166	1,823,012
3 Total Gross Margin	8,901,818	9,990,824	10,766,563	11,595,137	12,509,657	13,473,484
4 Total Operating Expenses	4,540,005	5,033,957	5,314,769	5,246,880	5,478,368	5,667,377
5 Total Capital Expenditures	3,834,568	3,775,186	6,341,300	6,662,660	4,729,837	2,981,550
6 Net Other Operating Expenses	(85,501)	190,283	(2,319,460)	(2,506,827)	(541,256)	1,348,639
7 Total Operating Expenses	8,289,071	8,999,426	9,336,609	9,402,712	9,666,950	9,997,565
8 Net Operating Income (Loss)	612,747	991,397	1,429,955	2,192,425	2,842,707	3,475,918
9 Total Financing & Non-Operating Items	128,210	44,090	31,760	13,397	6,525	18,521
10 Income Before Transfers or Cap Contribution:	740,957	1,035,487	1,461,714	2,205,822	2,849,232	3,494,440
11 Transfers (In Lieu of Taxes)	(379,141)	(398,146)	(412,150)	(426,064)	(441,373)	(456,788)
12 Capital Contributions	1,100,000	1,100,000	1,100,000	1,100,000	1,100,000	1,100,000
13 Cash Transfers from City						
14 Change in Net Assets	1,461,816	1,737,341	2,149,564	2,879,758	3,507,859	4,137,652
15 Target Change in Net Assets		3,148,388	3,096,810	3,060,701	3,017,422	3,017,422
16 Excess (Deficit) from Target		(1,411,047)	(947,246)	(180,943)	490,437	1,120,230
17 01/01 Cash Balance	7,122,783	6,193,838	5,607,462	2,893,566	692,497	1,054,101
18 Cash From Operations	4,149,761	4,507,341	4,960,564	5,745,758	6,443,859	7,106,652
19 Capital Additions	(4,122,377)	(4,065,717)	(6,646,460)	(6,918,827)	(5,054,256)	(3,229,361)
20 Debt Principal Payments	-	-	-	-	-	-
21 Debt Proceeds	-	-	-	-	-	-
22 Non-Cash Contributions	(1,100,000)	(1,100,000)	(1,100,000)	(1,100,000)	(1,100,000)	(1,100,000)
23 Net Change in Other Assets/Liabilities	143,672	72,000	72,000	72,000	72,000	72,000
28 Net Changes in Cash	(928,944)	(586,376)	(2,713,896)	(2,201,069)	361,604	2,849,290
29 12/31 Cash Balance	6,193,838	5,607,462	2,893,566	692,497	1,054,101	3,903,391
30 Minimum Cash Reserve	7,671,100	7,641,200	7,102,200	6,494,700	6,285,700	6,458,200
31 Excess (Deficit) from Minimum Cash Reserve	(1,477,262)	(2,033,738)	(4,208,634)	(5,802,203)	(5,231,599)	(2,554,809)

\* 2018 forecast contains 8 months actuals and 4 months forecast for components of Gross Margin, 6 months actuals and 6 months forecast for operating expenses, and 7 months actuals and 5 months forecast for capital and major maintenance projects.

# **Water Utility Number of Customers** 2013-2017 Actual, 2018 Forecast, 2019-2023 Budget



# Water Utility

## Total CCF All Cst

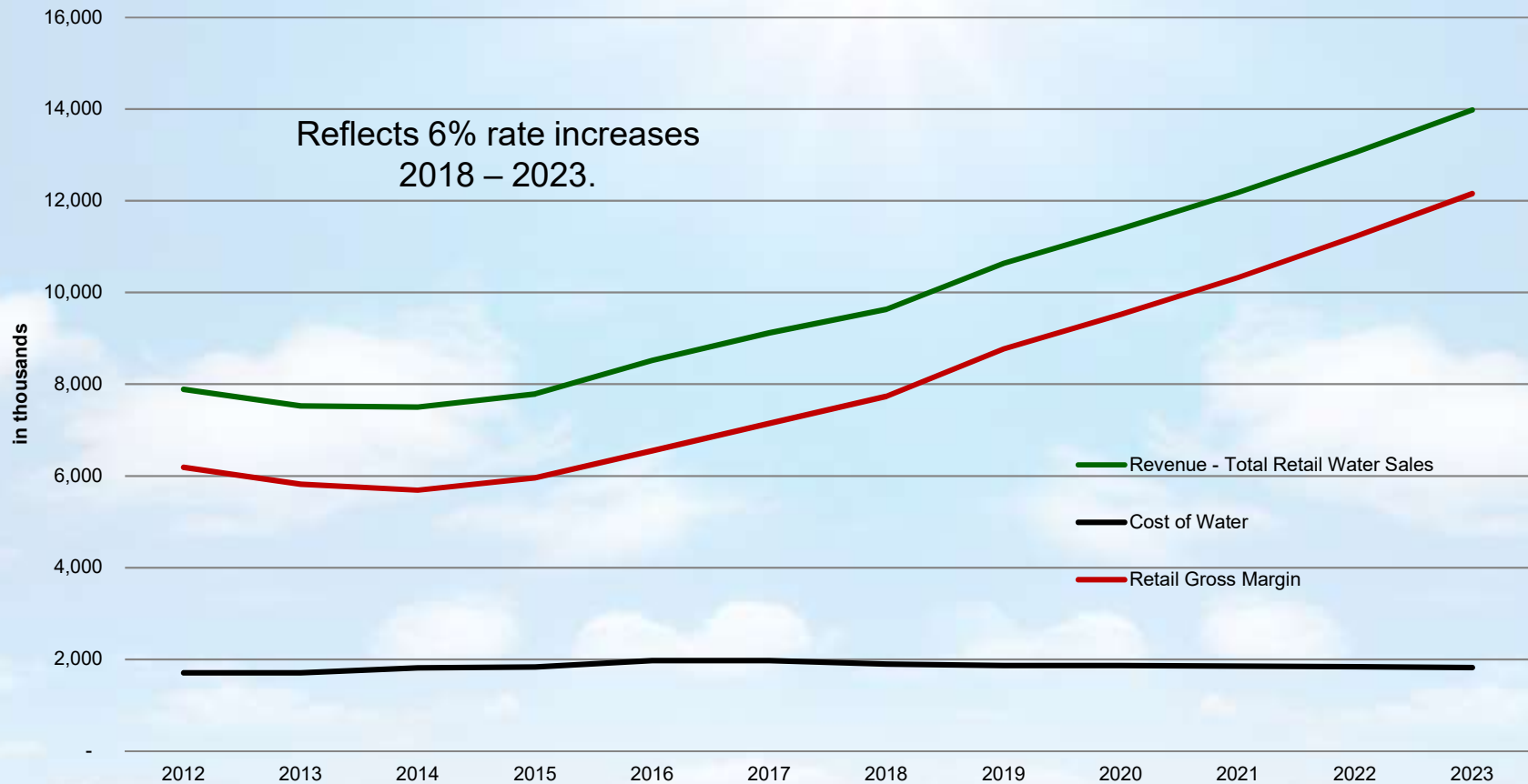


	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Actual CCF	6,118,97	4,894,78	5,482,16	5,439,66	5,728,26	5,774,50						
Budget CCF	5,375,07	5,657,39	5,727,55	5,772,01	5,660,23	5,729,07	5,966,57					
Forecast CCF							5,779,15	5,959,37	6,048,03	6,129,60	6,225,34	6,316,44



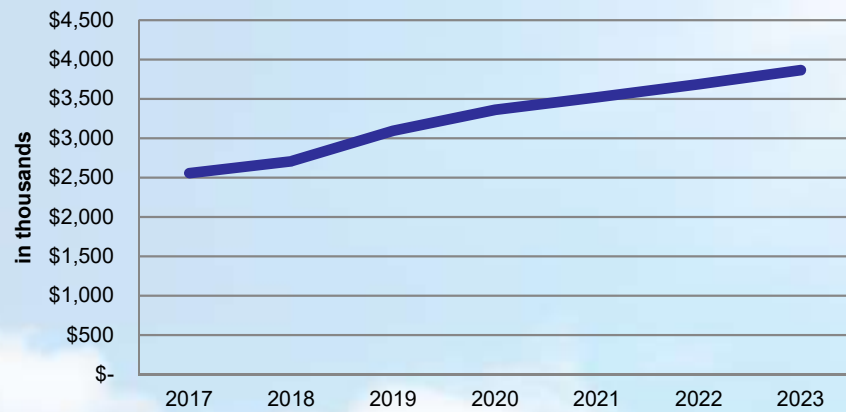
# Revenue Trends

## Retail Gross Margin

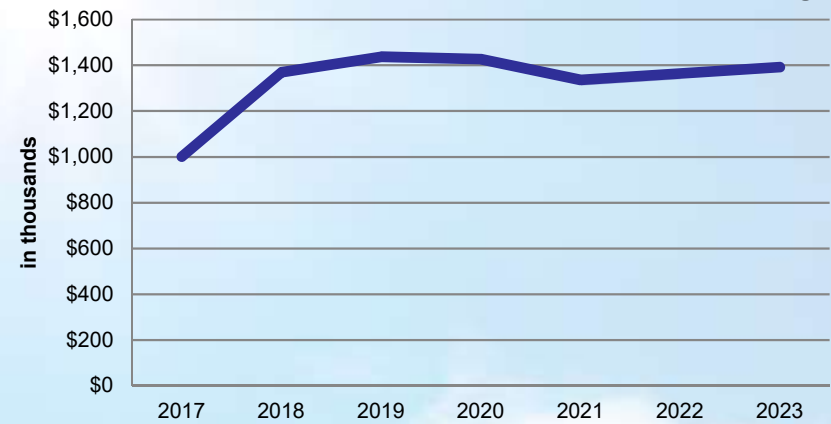


# Expense Trends

## Salaries & Benefits



## Materials, Services & Supplies - Operating



## Major Maintenance



**ROCHESTER PUBLIC UTILITIES  
CAPITAL AND MAJOR MAINTENANCE PLAN  
MATERIALS, SUPPLIES & SERVICES  
5 YEAR SUMMARY (2019 - 2023)**

**WATER UTILITY  
(\$000's)**

**Major Maintenance:**

**Allocations**

Distribution System Maintenance

RPU Water Facilities

**Total Allocations**

**Operating Contingency Fund**

**Other**

Water Cost-of-Service/Rate Design Study

Municipal Well Abandonment

Old Municipal Wells Sealing Project

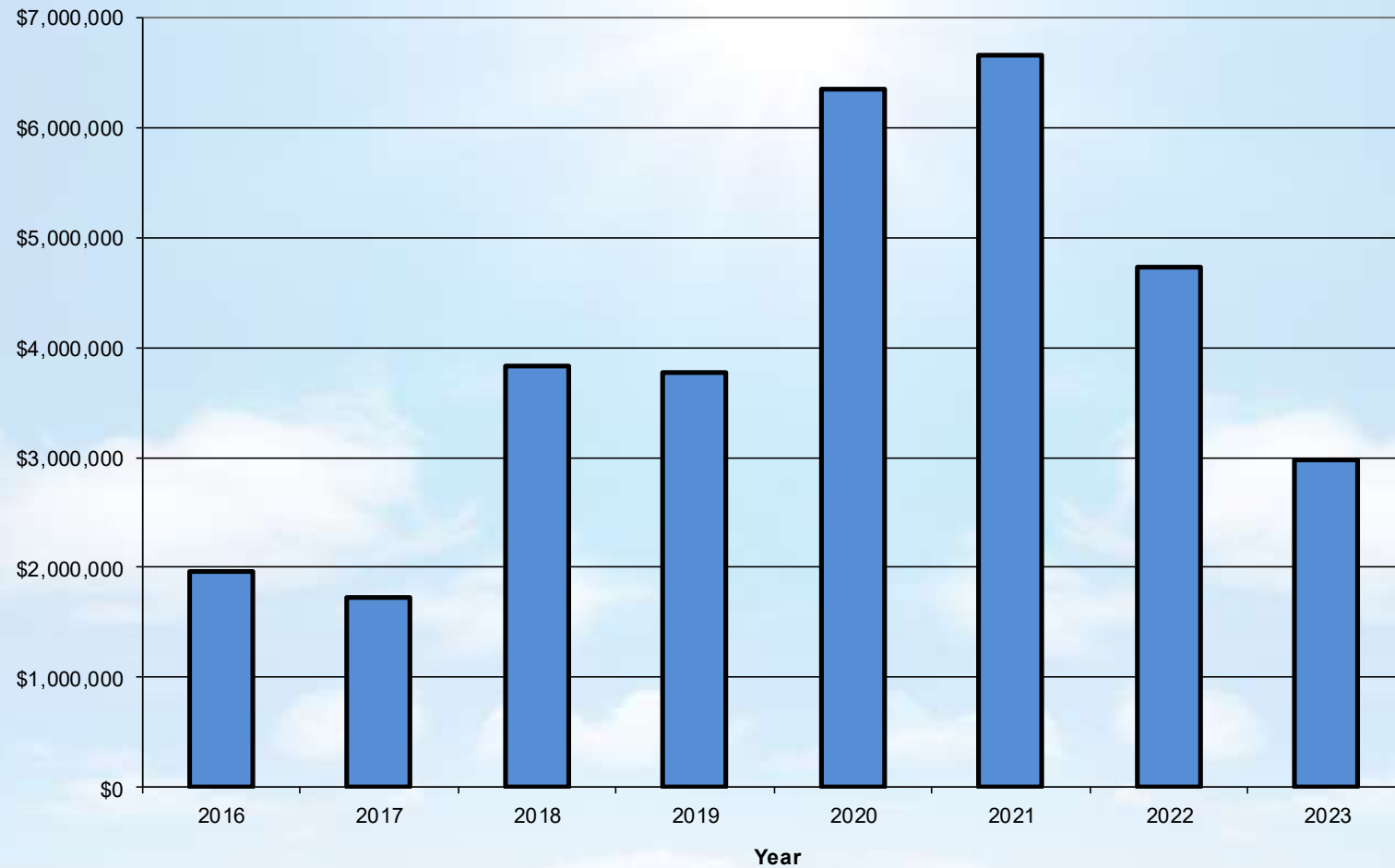
**Total External Expenditures**

**Total Internal Expenditures**

**Total Major Maintenance Plan**

	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>5-Yr Total</u>
Distribution System Maintenance	240	400	265	255	275	1,435
RPU Water Facilities	50	51	52	53	54	260
<b>Total Allocations</b>	290	451	317	308	329	1,695
<b>Operating Contingency Fund</b>	70	75	75	80	80	380
<b>Other</b>						
Water Cost-of-Service/Rate Design Study	37	-	-	40	-	77
Municipal Well Abandonment	45	-	-	-	-	45
Old Municipal Wells Sealing Project	60	-	-	-	-	60
<b>Total External Expenditures</b>	502	526	392	428	409	2,257
<b>Total Internal Expenditures</b>	47	48	49	50	51	245
<b>Total Major Maintenance Plan</b>	549	574	441	478	460	2,502

**Water Utility Capital External Spending**  
2016-2017 Actual, 2018 Forecast, 2019-2023 Budget



**Capital:****Allocations**

Distribution System Replacement

Metering

Distribution System Expansion

RPU Water Facilities

Fleet

**Total Allocations****Project Contingency Fund****Other**

Well &amp; Booster Station Metering

Bulk Water Dispensing Station

Well House Manual Switchgear

Water Leak Correlator

New Wells

New Marion L 1.0MG Reservoir

Water Modeling Software

DMC-12th Ave SW from Center St W to 2nd St SW

Building Replacement - Well #26

DMC-1st Ave SE - Railroad Crossing

DMC-6th &amp; 7th Ave &amp; 3rd St NW Phase 1

1.0 MG Baihly High Level Tower

DMC-Broadway from Civic Center Dr to 13th St N

DMC-1st St NW from Broadway to 1st Ave

DMC-2nd St SE from Broadway to 1st Ave

DMC-3rd Ave SE North of 4th St

Well Conversion

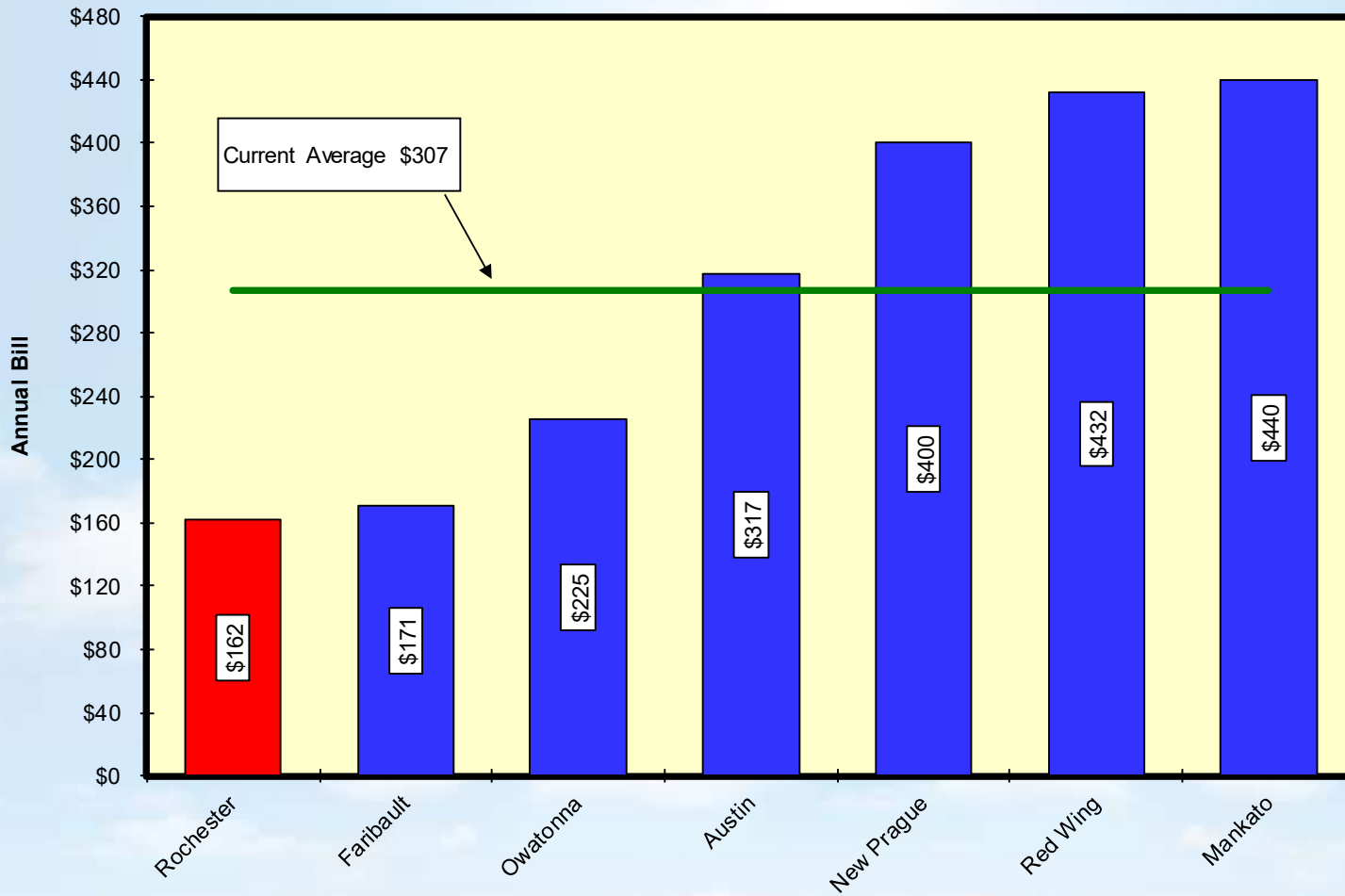
**Total External Expenditures****Total Internal Expenditures****Total Contributed Assets****Total Capital Plan****Total Capital & Major Maintenance Plan**

	<b><u>2019</u></b>	<b><u>2020</u></b>	<b><u>2021</u></b>	<b><u>2022</u></b>	<b><u>2023</u></b>	<b><u>5-Yr Total</u></b>
Distribution System Replacement	115	112	105	96	74	500
Metering	300	306	312	318	325	1,561
Distribution System Expansion	1,599	2,224	1,778	1,867	1,960	9,428
RPU Water Facilities	20	20	21	22	23	106
Fleet	29	172	175	136	232	744
<b>Total Allocations</b>	2,063	2,833	2,391	2,438	2,614	12,340
<b>Project Contingency Fund</b>	150	175	175	200	200	900
<b>Other</b>						
Well & Booster Station Metering	19	22	23	24	25	111
Bulk Water Dispensing Station	-	39	-	40	-	79
Well House Manual Switchgear	16	17	17	18	18	86
Water Leak Correlator	-	25	-	-	-	25
New Wells	375	400	482	560	125	1,942
New Marion L 1.0MG Reservoir	-	-	25	1,450	-	1,475
Water Modeling Software	-	20	-	-	-	20
DMC-12th Ave SW from Center St W to 2nd St SW	-	550	-	-	-	550
Building Replacement - Well #26	75	-	-	-	-	75
DMC-1st Ave SE - Railroad Crossing	112	-	-	-	-	112
DMC-6th & 7th Ave & 3rd St NW Phase 1	540	-	-	-	-	540
1.0 MG Baihly High Level Tower	-	600	3,550	-	-	4,150
DMC-Broadway from Civic Center Dr to 13th St N	-	1,456	-	-	-	1,456
DMC-1st St NW from Broadway to 1st Ave	-	90	-	-	-	90
DMC-2nd St SE from Broadway to 1st Ave	-	75	-	-	-	75
DMC-3rd Ave SE North of 4th St	-	40	-	-	-	40
Well Conversion	425	-	-	-	-	425
<b>Total External Expenditures</b>	3,775	6,341	6,663	4,730	2,982	24,491
<b>Total Internal Expenditures</b>	291	305	256	324	248	1,424
<b>Total Contributed Assets</b>	1,100	1,100	1,100	1,100	1,100	5,500
<b>Total Capital Plan</b>	5,166	7,746	8,019	6,154	4,329	31,415
<b>Total Capital &amp; Major Maintenance Plan</b>	5,715	8,320	8,460	6,633	4,789	33,917



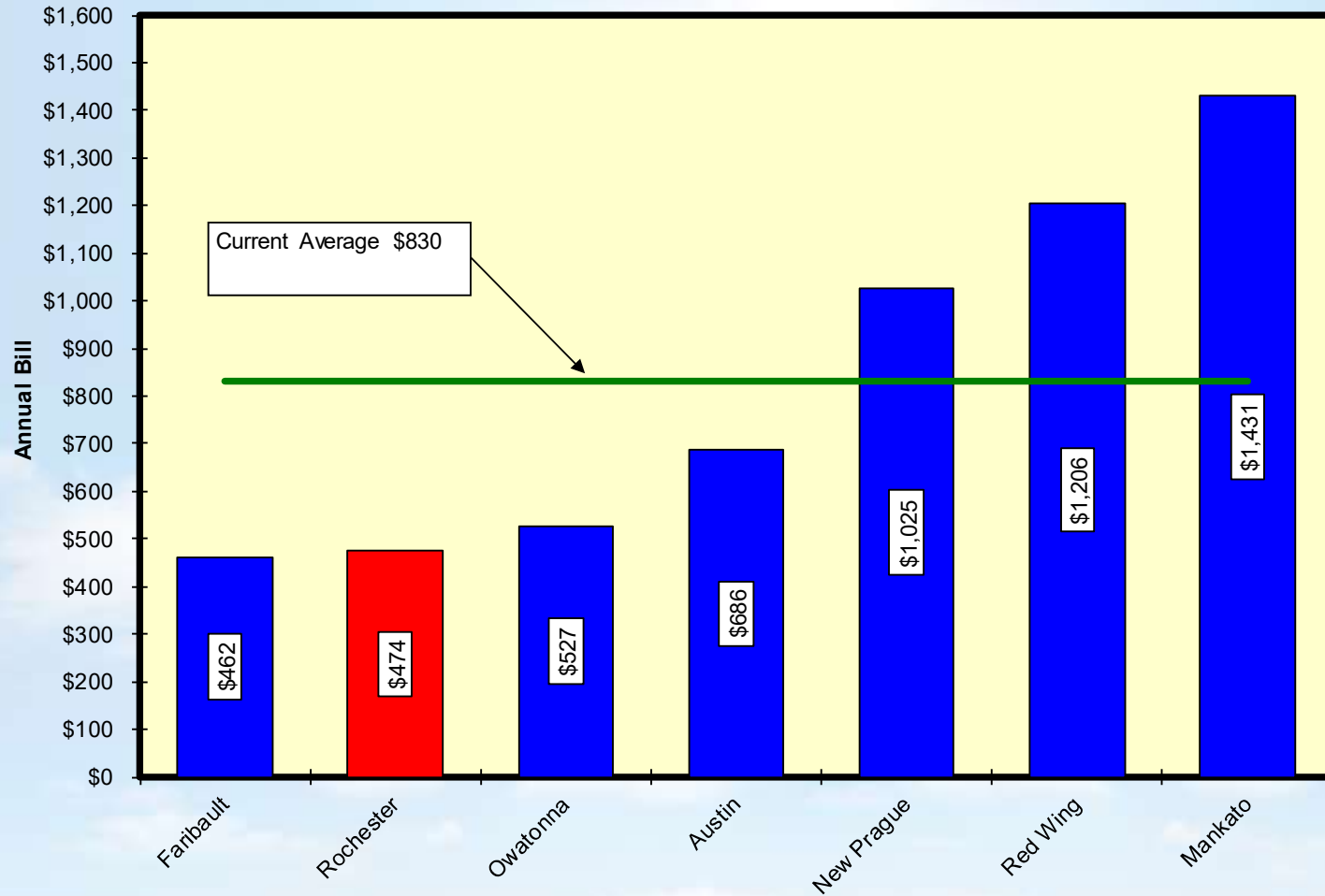
## OPU Residential Class Water Rate Comparison

(Jul '17 through Jun '18)



## OPU Commercial Class Water Rate Comparison

(Jul '17 through Jun '18)



# WATER UTILITY 2019 OPERATING BUDGET

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(\$000's)

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\* 2018 forecast contains 8 months actuals and 4 months forecast for components of Gross Margin, 6 months actuals and 6 months forecast for operating expenses, and 7 months actuals and 5 months forecast for capital and major maintenance projects.

# Questions on Water Utility?

# Electric Utility Budget 2019 - 2023





**ROCHESTER PUBLIC UTILITIES  
ELECTRIC UTILITY  
2019 OPERATING BUDGET**

**ASSUMPTIONS**

- ◆ Cost center budgets and non-bonded projects set at level used in cost-of-service study
- ◆ Other than specifically identified projects, no assumptions have been made in regards to DMC
- ◆ Interest Earnings Rate: 0.75%
- ◆ Average Salary Expense Change: 3.5%  
(consists of COLA, merit and promotion increases)
- ◆ Anticipated bonding: none
- ◆ Change in Full-time Equivalents: 2
- ◆ SMMPA Wholesale Power Cost: 4.0% decrease
- ◆ SMMPA CROD Level: 216 MW
- ◆ Minimum Cash Reserve Requirement: Current policy amount \$55,603,000

**RETAIL REVENUES / SALES**

- ◆ Revenue Adjustment: 1.9% General Rate Increase
- ◆ Electric KWH Sales Forecast: 2.8% Decrease from 2018 F2  
Projected Sales
- ◆ Total Electric Utility Customers: 1.5% Increase over Y/E 2018 F2  
Projected Customers
- ◆ Based on normal weather 50Yr Average heating/cooling degree days per year

**WHOLESALE REVENUES / SALES & EXPENSES**

- ◆ Estimated Cost of Fuel 2019: \$3.866/mmbtu
- ◆ Budgeted Cost of Fuel 2018 F2: \$3.738/mmBtu

**OTHER ITEMS**

- ◆ In Lieu of Tax forecast increasing \$98,900 to a total of \$8,880,804.

## Business Drivers

- Increased customer growth and decrease average use
- Flat and potentially decreasing energy sales
- Decrease in wholesale energy costs – 4%
- Aging Infrastructure Replacement
- Load growth within the City – Downtown & South of Town
- Weather – heating and cooling days

## Business Risks

- Compliance: Cyber Security / FERC requirements / Conservation (CIP)
- Regulatory Impact: Air & Water quality, Transmission
- Impact of local business decisions & economy, DMC

**ELECTRIC UTILITY  
2019 OPERATING BUDGET**

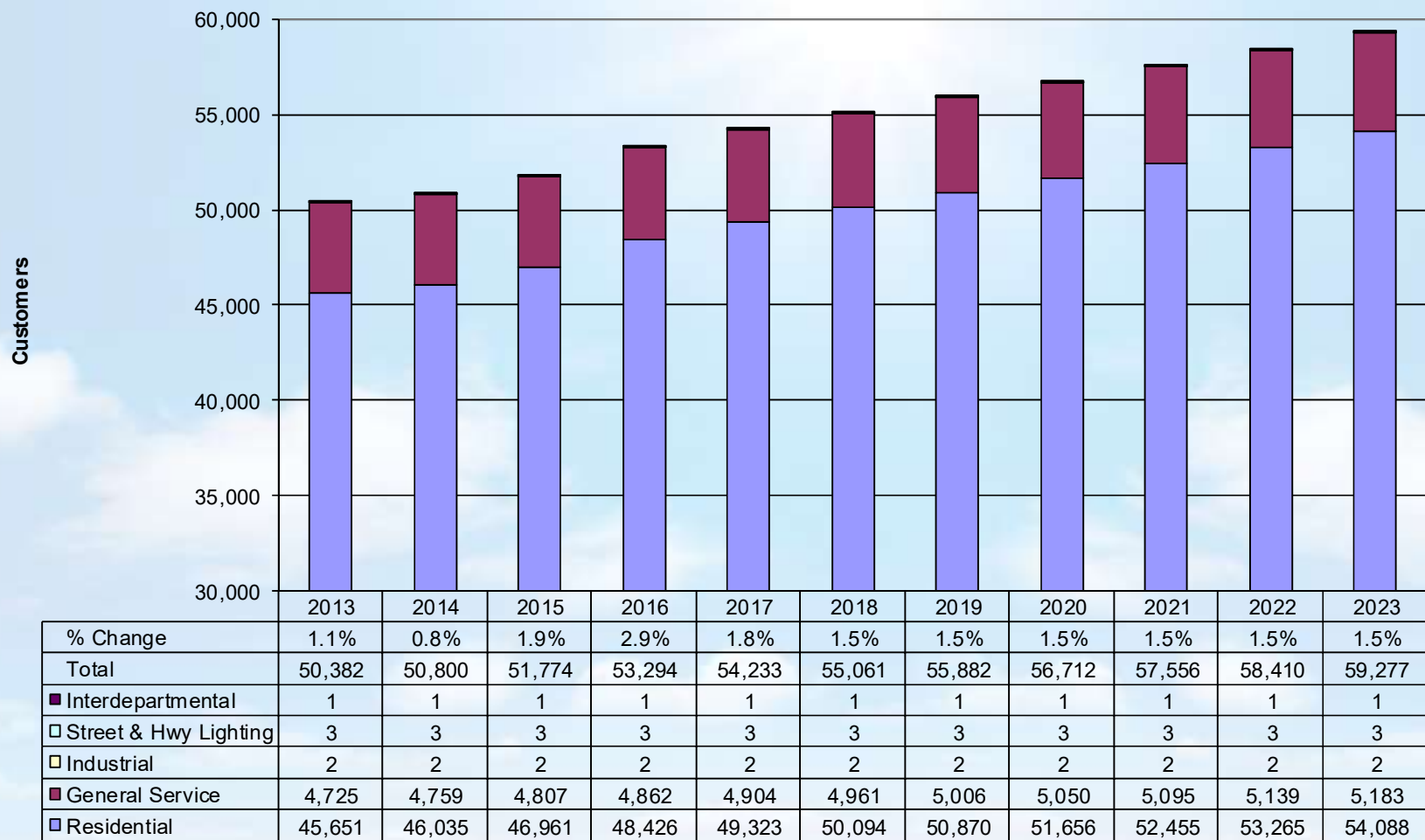
**FORECAST BY YEAR, 2018 THROUGH 2023**

(\$000's)

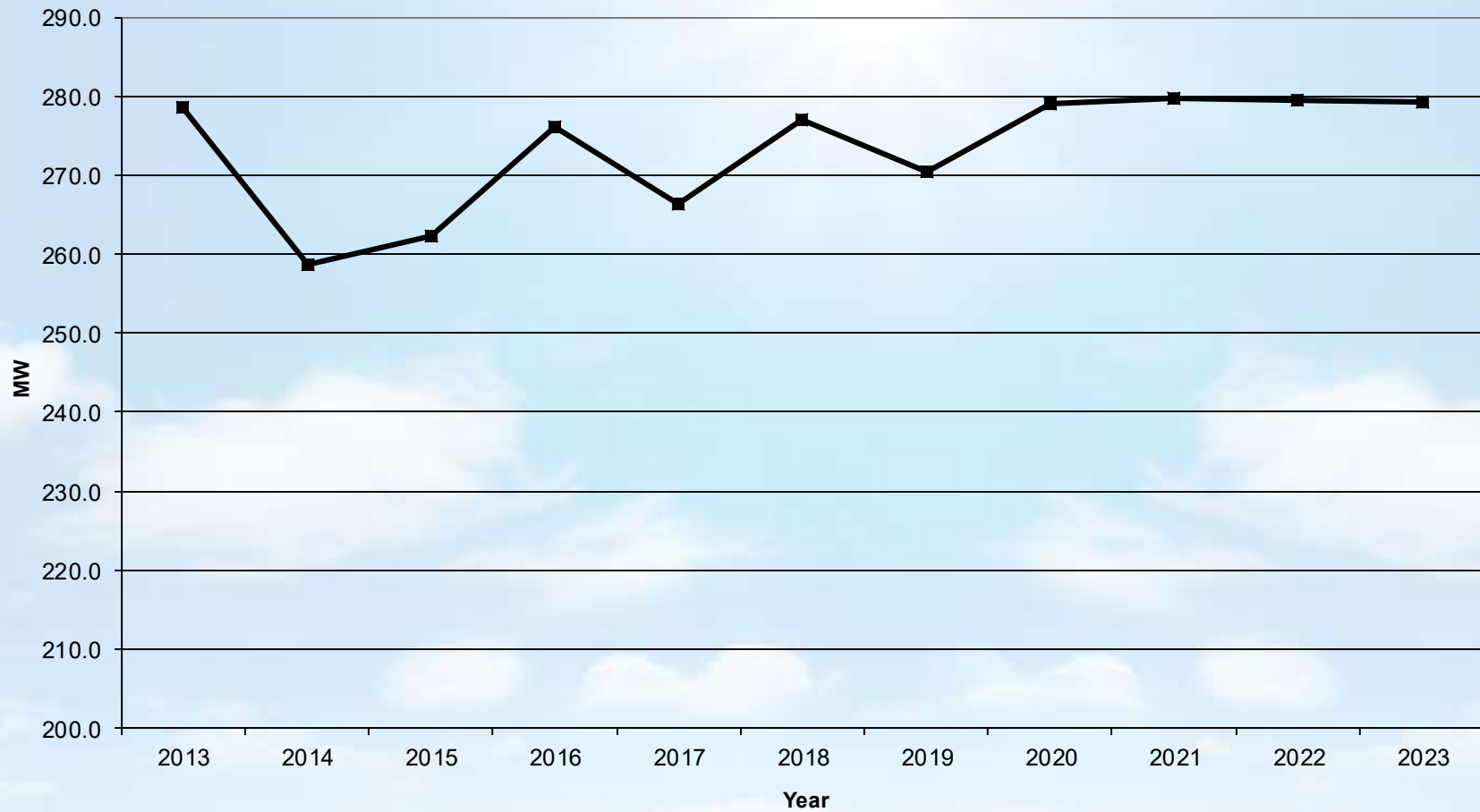
<b>Forecasted Rate Change</b>	<b>1.5%</b>	<b>1.9%</b>	<b>2.5%</b>	<b>2.5%</b>	<b>2.5%</b>	<b>2.5%</b>
	<b>2018*</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>
<b>Total Revenues</b>	<b>167,854</b>	<b>172,109</b>	<b>174,614</b>	<b>180,041</b>	<b>184,963</b>	<b>185,748</b>
<b>Total Cost of Revenue</b>	<b>101,657</b>	<b>103,217</b>	<b>103,481</b>	<b>104,276</b>	<b>105,037</b>	<b>103,076</b>
<b>Total Gross Margin</b>	<b>66,197</b>	<b>68,893</b>	<b>71,133</b>	<b>75,765</b>	<b>79,926</b>	<b>82,673</b>
<b>Total Operating Expenses</b>	<b>35,384</b>	<b>38,331</b>	<b>41,497</b>	<b>42,551</b>	<b>44,377</b>	<b>46,319</b>
<b>Total Capital Expenditures</b>	<b>10,582</b>	<b>15,477</b>	<b>26,951</b>	<b>18,931</b>	<b>15,779</b>	<b>13,807</b>
<b>Net Other Operating Expenses</b>	<b>(3,573)</b>	<b>(5,962)</b>	<b>(18,492)</b>	<b>(9,262)</b>	<b>(6,823)</b>	<b>(4,147)</b>
<b>Total Operating Expenses</b>	<b>42,392</b>	<b>47,845</b>	<b>49,956</b>	<b>52,221</b>	<b>53,333</b>	<b>55,979</b>
<b>Net Operating Income</b>	<b>23,805</b>	<b>21,048</b>	<b>21,177</b>	<b>23,544</b>	<b>26,592</b>	<b>26,694</b>
<b>Total Financing &amp; Non-Operating Items</b>	<b>(4,762)</b>	<b>(5,618)</b>	<b>(5,502)</b>	<b>(5,205)</b>	<b>(5,011)</b>	<b>(5,267)</b>
<b>Income Before Transfers/Capital Contributions</b>	<b>19,043</b>	<b>15,430</b>	<b>15,675</b>	<b>18,339</b>	<b>21,581</b>	<b>21,427</b>
<b>Transfers (In Lieu of Tax Payments)</b>	<b>(8,782)</b>	<b>(8,881)</b>	<b>(9,068)</b>	<b>(9,256)</b>	<b>(9,441)</b>	<b>(9,634)</b>
<b>Capital Contributions</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Other Revenues</b>	<b>1,051</b>	<b>2,129</b>	<b>5,373</b>	<b>4,174</b>	<b>574</b>	<b>575</b>
<b>Change in Net Assets</b>	<b>11,313</b>	<b>8,678</b>	<b>11,980</b>	<b>13,257</b>	<b>12,714</b>	<b>12,367</b>
<b>Target Change in Net Assets</b>		<b>13,060</b>	<b>14,300</b>	<b>15,187</b>	<b>15,968</b>	<b>16,693</b>
<b>Excess (Deficit) from Target</b>		<b>(4,382)</b>	<b>(2,320)</b>	<b>(1,930)</b>	<b>(3,254)</b>	<b>(4,325)</b>
<b>01/01 Cash Balance</b>	<b>56,843</b>	<b>67,805</b>	<b>65,000</b>	<b>54,843</b>	<b>55,070</b>	<b>57,052</b>
<b>Cash from Operations</b>	<b>24,329</b>	<b>22,943</b>	<b>26,840</b>	<b>28,480</b>	<b>28,336</b>	<b>28,441</b>
<b>Capital Additions/Services Territory Comp</b>	<b>(31,346)</b>	<b>(20,066)</b>	<b>(31,836)</b>	<b>(22,939)</b>	<b>(20,868)</b>	<b>(18,612)</b>
<b>Bond Principle Payments</b>	<b>(5,460)</b>	<b>(5,725)</b>	<b>(6,015)</b>	<b>(6,315)</b>	<b>(6,625)</b>	<b>(6,955)</b>
<b>Bond Sale Proceeds</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net Change in Other Assets/Liabilities</b>	<b>23,439</b>	<b>43</b>	<b>854</b>	<b>1,001</b>	<b>1,139</b>	<b>1,285</b>
<b>Net Changes in Cash</b>	<b>10,962</b>	<b>(2,804)</b>	<b>(10,157)</b>	<b>227</b>	<b>1,982</b>	<b>4,160</b>
<b>12/31 Cash Balance</b>	<b>67,805</b>	<b>65,000</b>	<b>54,843</b>	<b>55,070</b>	<b>57,052</b>	<b>61,212</b>
<b>Minimum Cash Reserve</b>	<b>54,061</b>	<b>55,603</b>	<b>56,137</b>	<b>56,667</b>	<b>57,014</b>	<b>57,922</b>
<b>Excess (Deficit) from Minimum Cash Reserve</b>	<b>13,744</b>	<b>9,398</b>	<b>(1,294)</b>	<b>(1,598)</b>	<b>38</b>	<b>3,290</b>
<b>Cash Balance as % of Reserve Policy</b>	<b>125.4%</b>	<b>116.9%</b>	<b>97.7%</b>	<b>97.2%</b>	<b>100.1%</b>	<b>105.7%</b>
<b>Debt Service Coverage Ratio</b>	<b>2.70</b>	<b>2.56</b>	<b>2.61</b>	<b>2.80</b>	<b>3.04</b>	<b>3.08</b>

\* 2018 forecast contains 8 months actuals and 4 months forecast for components of Gross Margin, 6 months actuals and 6 months forecast for operating expenses, and 7 months actuals and 5 months forecast for capital and major maintenance projects.

**Electric Utility Number of Customers  
2013-2017 Actual, 2018 Forecast, 2019-2023 Budget**

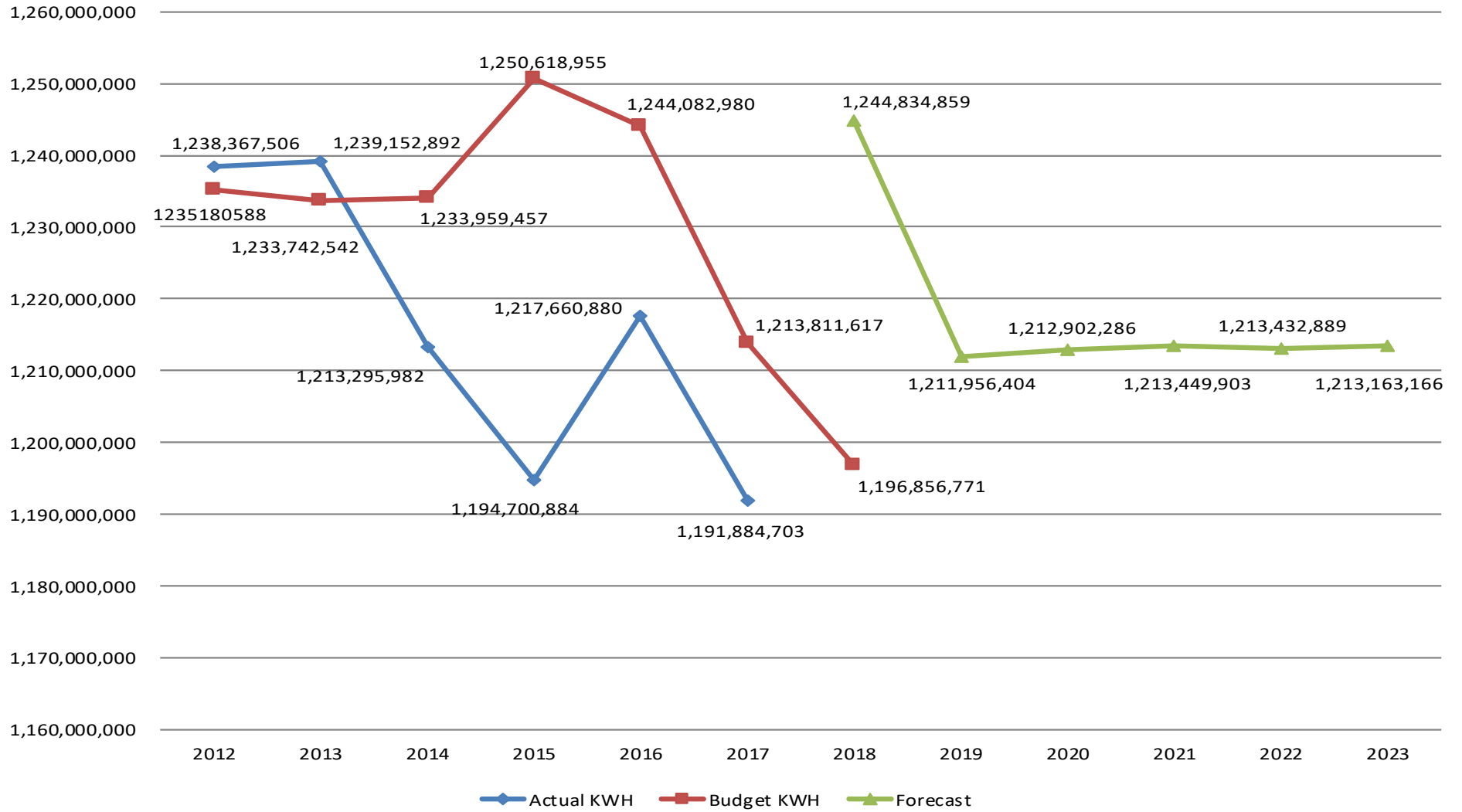


**Annual MW Peak**  
**2013-2018 Actual, 2019-2023 Budget**





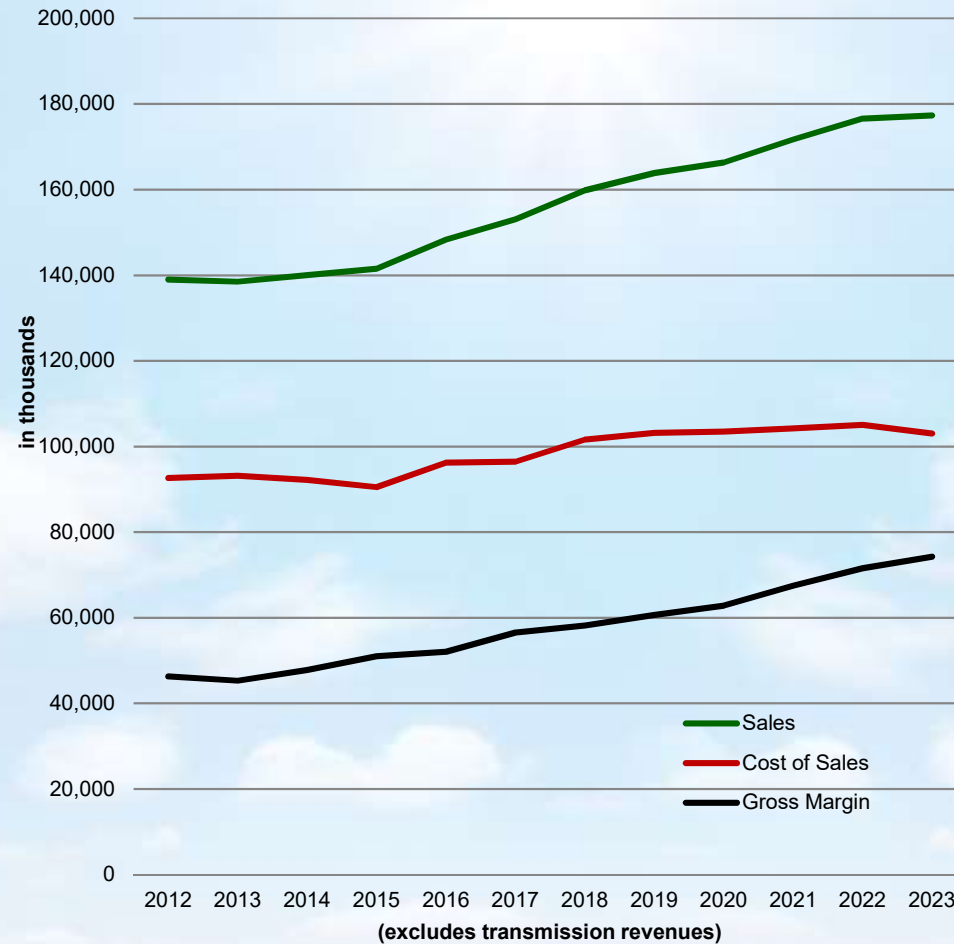
## Total KWH



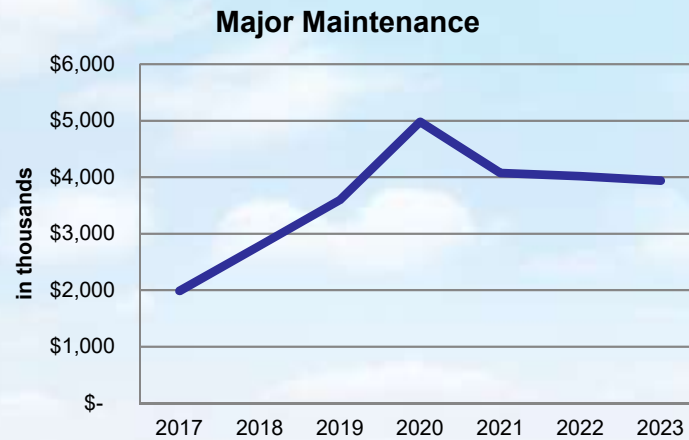
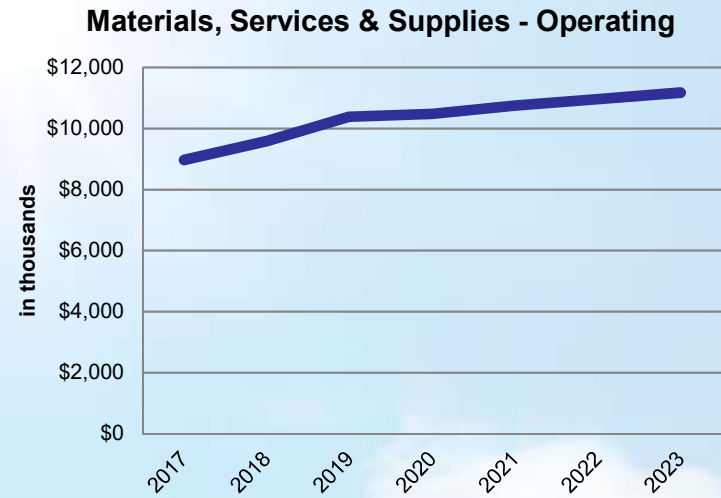
# Electric Utility Revenue Trends

(Rate Change 1.9%, 2.5%, 2.5%, 2.5%, 2.5%)

## Combined Gross Margin



# Expense Trends



**ROCHESTER PUBLIC UTILITIES  
CAPITAL AND MAJOR MAINTENANCE PLAN  
MATERIALS, SUPPLIES & SERVICES  
5 YEAR SUMMARY (2019 - 2023)**

**ELECTRIC UTILITY  
(\$000's)**

	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>5-Yr Total</u>
<b>Major Maintenance:</b>						
<b><u>Allocations</u></b>						
Power Resources	410	1,085	810	575	550	3,430
RPU Facilities	180	184	188	191	195	938
<b>Total Allocations</b>	590	1,269	998	766	745	4,368
<b>Operating Contingency Fund</b>	300	300	300	300	300	1,500
<b><u>Other</u></b>						
Tree Trimming	1,125	2,000	2,250	2,500	2,500	10,375
AMI Timing Study	109	-	-	-	-	109
ZRT1 & T2 Regasket	85	-	-	-	-	85
Distribution System Planning Study	-	75	-	-	75	150
Substation Switchgear Analysis Report	36	-	-	-	-	36
ArcFlash Study for Downtown	70	-	-	-	-	70
Asbestos Mitigation in Manholes	50	-	-	-	-	50
Customer Experience Mapping	-	200	-	-	-	200
Elec Cost-of-Srvc/Rate Design Study	-	65	-	-	70	135
CIAC/AFUDC Asset Accounting Conversion	80	-	-	-	-	80
Rates Modeling	50	-	-	-	-	50
KPIT Support Contract	300	300	300	-	-	900
ERP Option Assessment	-	200	-	-	-	200
Zumbro River Dredging	700	100	-	-	-	800
SLP Decommissioning	25	350	225	450	250	1,300
U3 ESP Bypass	-	-	-	-	-	-
Pond, Clarifier, Yard	80	-	-	-	-	80
RPU Comprehensive Master Plan	-	120	-	-	-	120
<b>Total External Expenditures</b>	3,599	4,979	4,073	4,016	3,940	20,607
<b>Total Internal Expenditures</b>	237	359	107	107	120	931
<b>Total Major Maintenance Plan</b>	3,837	5,338	4,180	4,123	4,060	21,538

**ROCHESTER PUBLIC UTILITIES  
2019 PERSONNEL BUDGET  
Regular Staff Per Customer Served  
And Dollars of Retail Sales**

<u>Year</u>	<u>Total Service Points</u>	<u>Retail Sales \$'s</u>	<u>Authorized Number of Utility Employees</u>	<u># Customers Served Per Employee</u>	<u>\$'s of Retail Sales Per Employee</u>
2019	96,585 <sup>(1)</sup>	163,178,237 <sup>(1)</sup>	201 <sup>(2)</sup>	481	811,832
2018	95,295 <sup>(1)</sup>	160,434,389 <sup>(1)</sup>	198 <sup>(2)</sup>	481	810,275
2017	93,981	155,900,173	195	482	799,488
2016	92,608	150,530,034	186	498	809,301
2015	90,607	141,348,745	184	492	768,200

NOTES: Numbers include combined water and electric utilities.

For Electric Utilities, APPA 2016 Retail Customers per Non-Power-Generation Employee for customer size class of 20K-50K customers, is 314. RPU comparison using this criteria and 2017 data is 317.

(1) Forecasted

(2) Staff changes:

Three potential reclassifications in 2019

Adding three new positions in 2019:

Design Project Coordinator (City Growth)

Customer Service Rep (Wait Time and Abandonment Rate)

Water Project Engineer (City Growth)

**ROCHESTER PUBLIC UTILITIES  
2019 PERSONNEL BUDGET  
Regular and Temporary Staffing  
Total Costs**

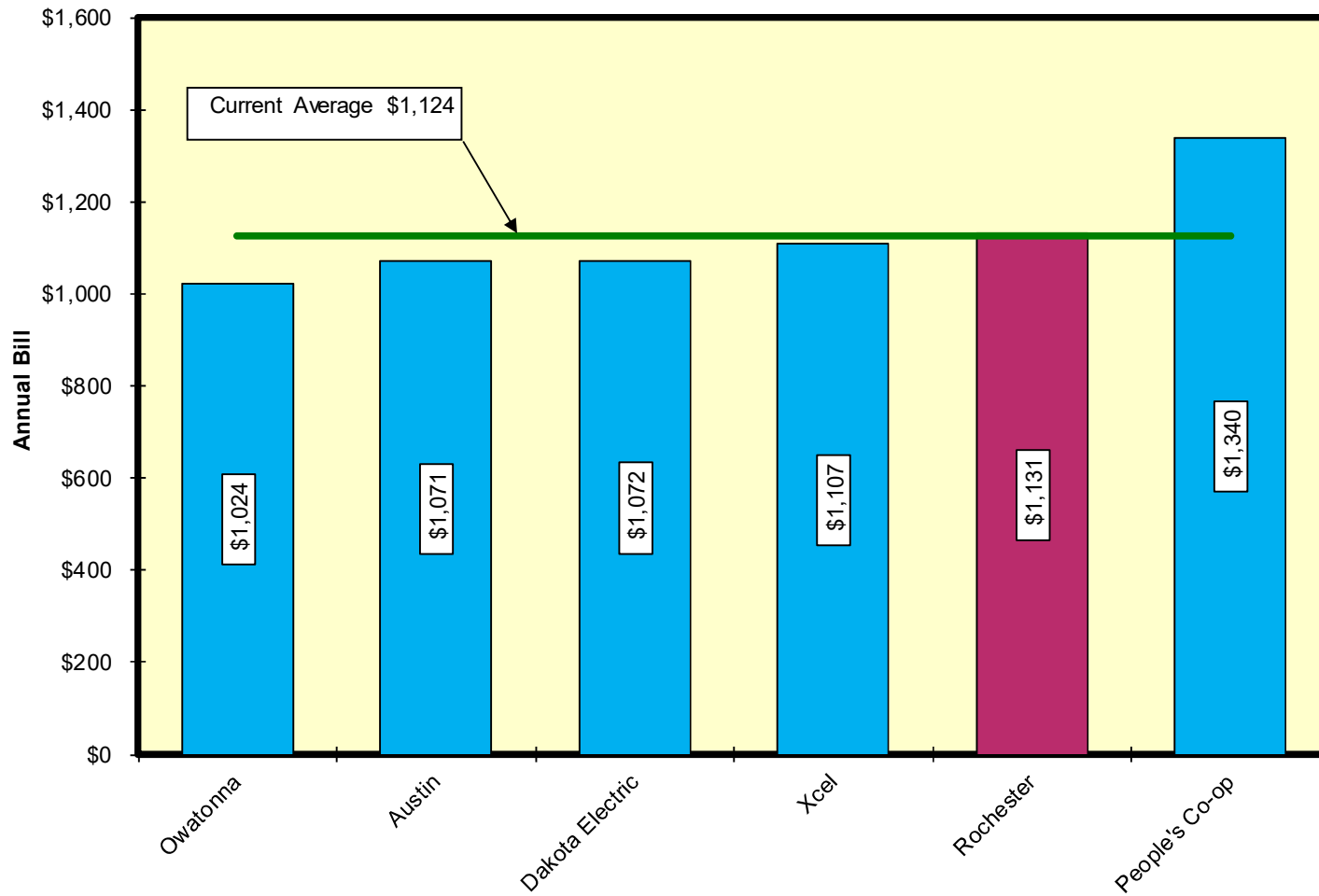
<b><u>Year</u></b>	<b><u>2018 Original budget</u></b>	<b><u>2018 Projected</u></b>	<b><u>2019 Estimated</u></b>	<b><u>Difference 2018 original to 2019</u></b>	<b><u>% Increase</u></b>
Regular Employees	\$ 26,166,203	\$ 24,741,875	\$ 26,587,734	\$ 421,530	1.6%
Limited-Term Employees	\$ 161,914	\$ 366,093	\$ 177,520	\$ 15,605	9.6%
Temporary/Contract Labor	<u>\$ 677,891</u>	<u>\$ 608,313</u>	<u>\$ 678,060</u>	<u>\$ 169</u>	<u>0.0%</u>
<b>Total</b>	\$ 27,006,008	\$ 25,716,281	\$ 27,443,313	\$ 437,305	1.6%

**NOTE:** Estimated cost include base salaries, salary increases, overtime, RPU's share of employee pensions, payroll taxes, and benefits.



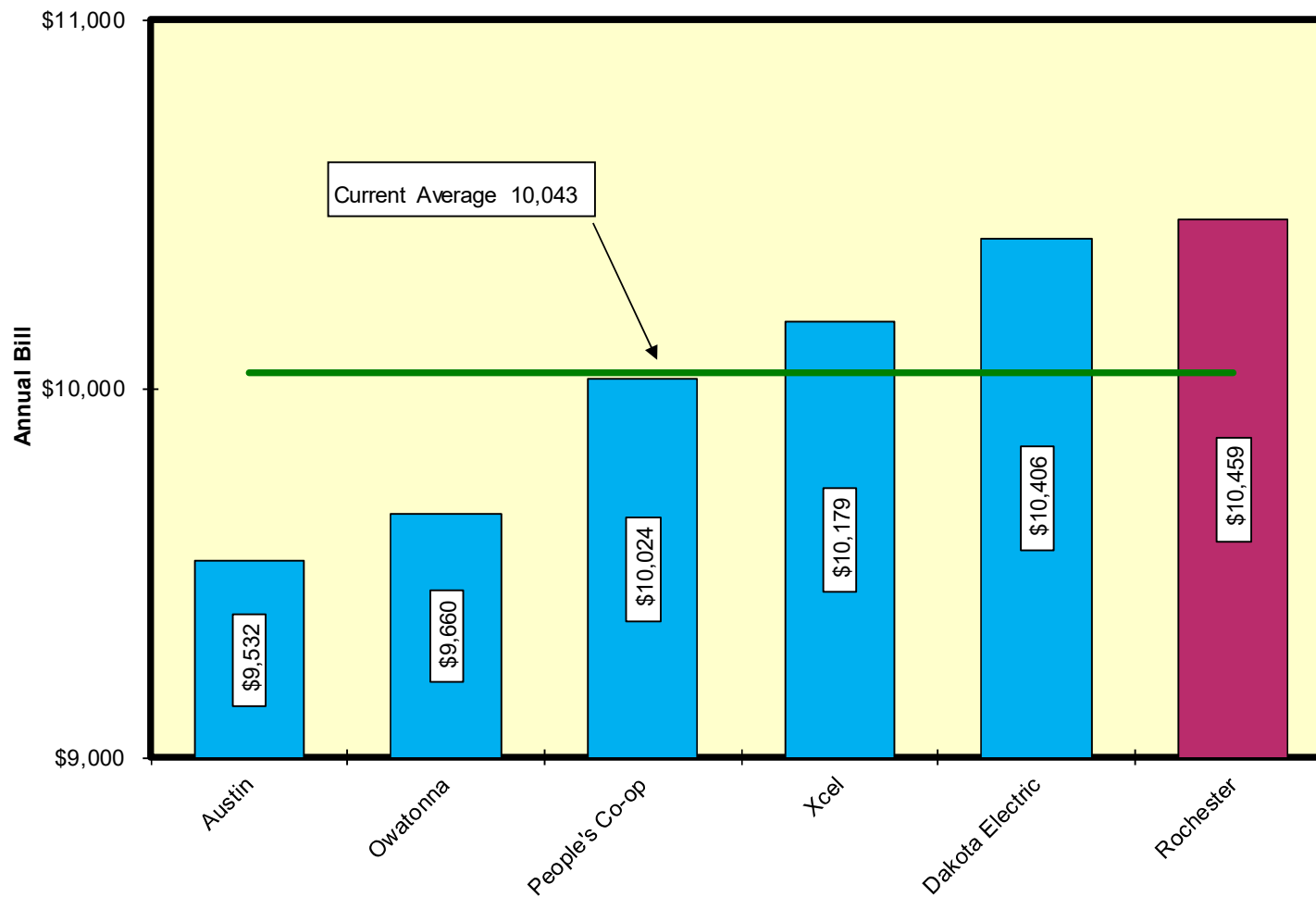
## OPU Residential Class Electric Rate Comparison

(Jul '17 through Jun '18)



## OPU Commercial (SGS) Class Electric Rate Comparison

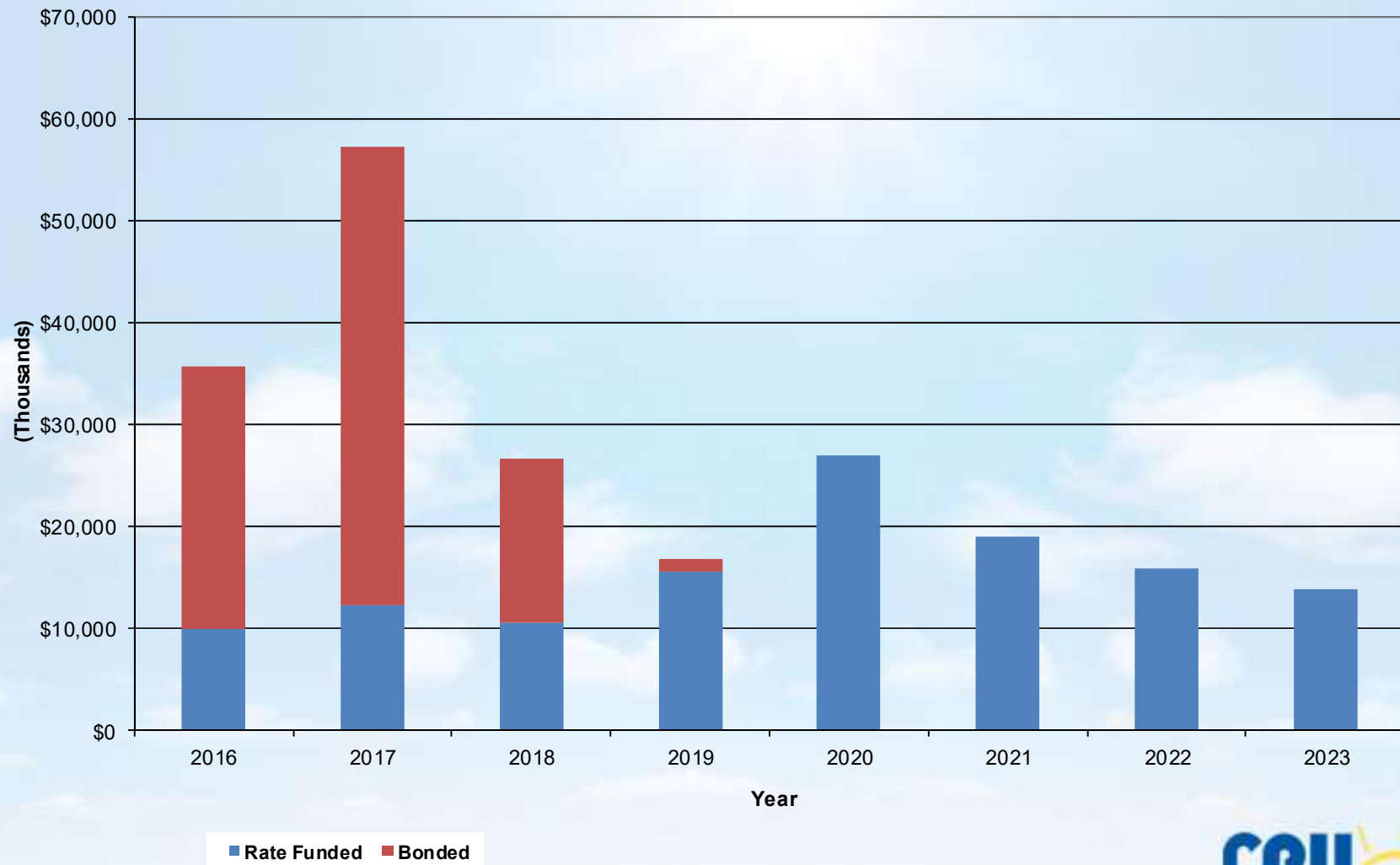
(Jul '17 through Jun '18)



# Electric Utility Capital & Major Maintenance

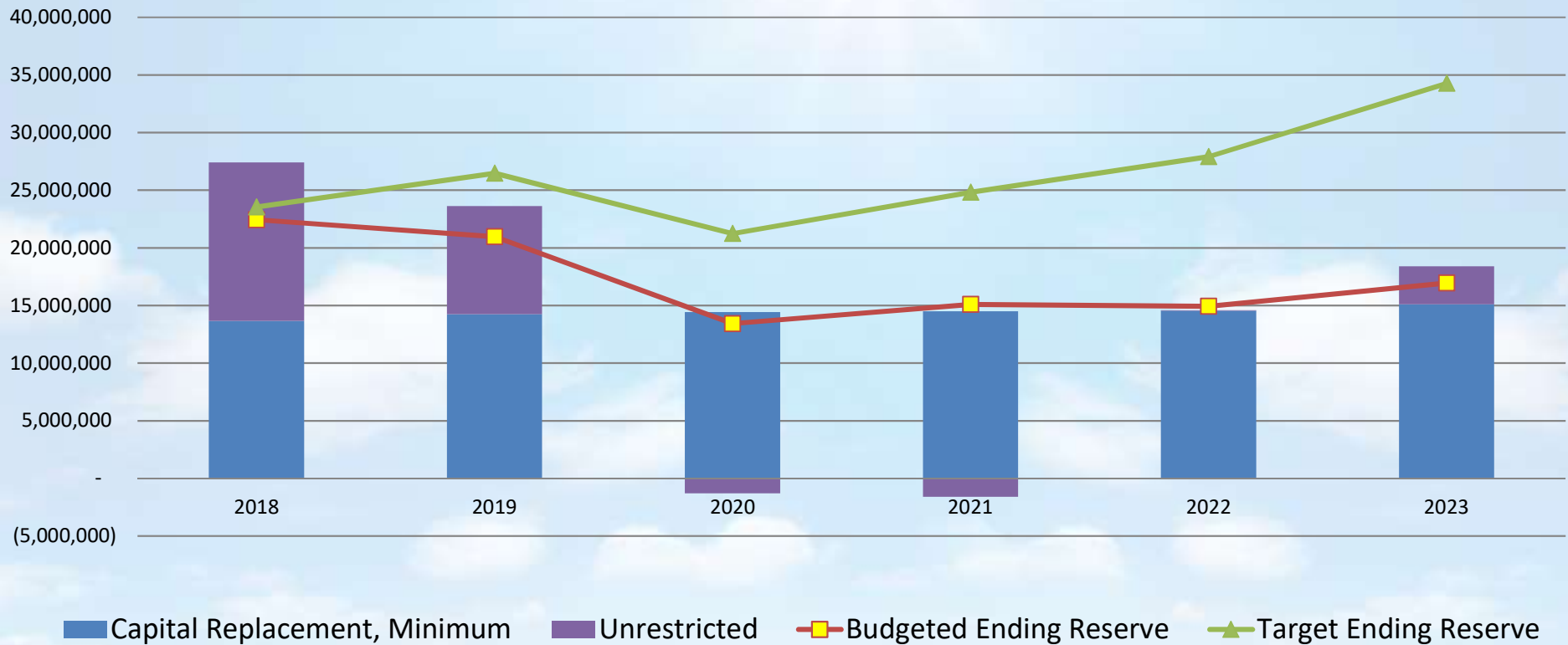
- Reduced 2019 submissions 13% - \$2,325,800
- Reduced 2019 Major Maintenance submissions  
11% - \$ 451,600
- Maintained Capital Contingency \$ 700,000
  - Cost Center
  - Your Departments
  - Other Departments
  - Contingency
  - Board Reserve Request

**Electric Utility Capital External Spending**  
2016-2017 Actual, 2018 Forecast, 2019-2023 Budget



# Electric Utility - Financial Goals

## Capital Replacement Reserve



# Budget Drivers – 2019

- Continued investment in system to maintain reliability, improve service and safety, and serve City expansion
- Capital Expenditures in 2019
  - Substation (Total \$12,186K) \$ 2,695K
  - Service Center Expansion (Total \$14,818K) \$ 1,324K
  - Distribution System \$ 2,030K
  - New Services \$ 1,364K
  - CIS/B Software (Total \$4,639K) \$ 912K
  - Air Handling Units – Service Center (Total \$2,334) \$ 776K
  - Project Contingency Reserve \$ 700K
- Major Maintenance
  - Tree trimming – \$ 1,125K
  - Lake Zumbro Dredging (moved \$700K to 2019) \$ 700K
  - Power Resources \$ 410K
  - IT SAP Support \$ 300K

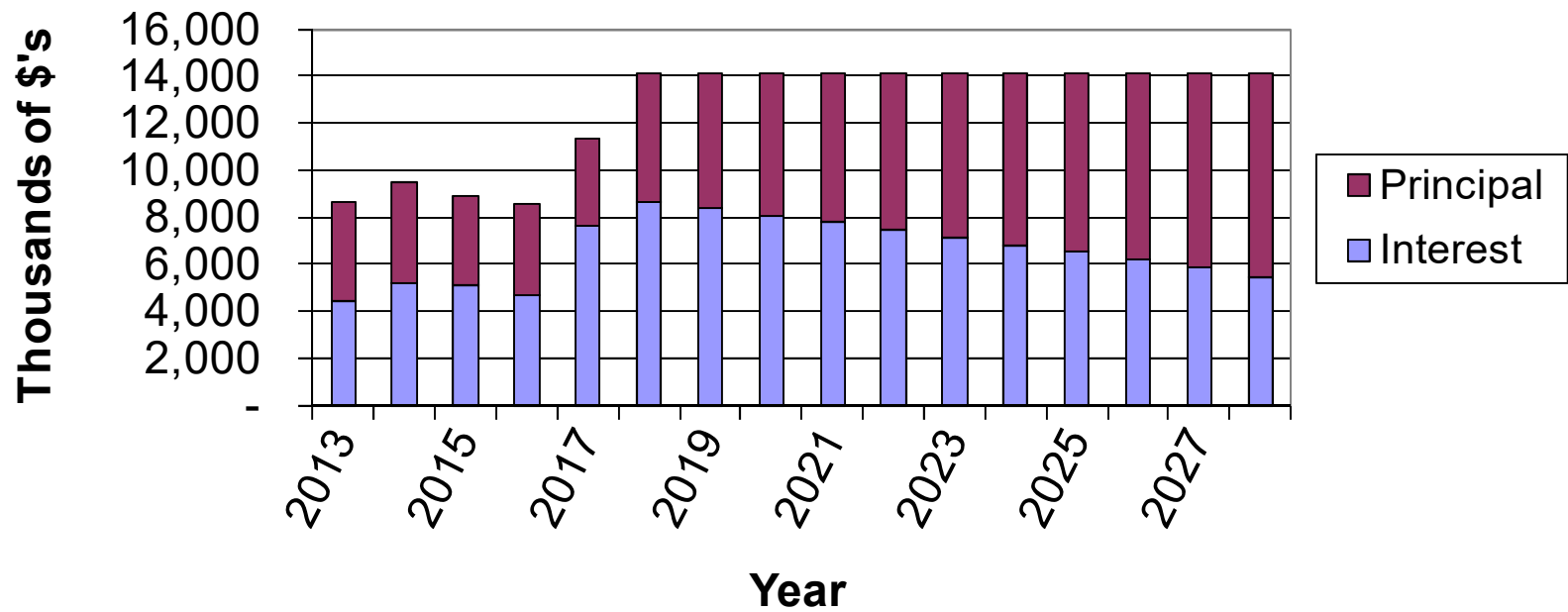


	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>5-Yr Total</u>
<b>Capital:</b>						
<b><u>Allocations</u></b>						
<b>New Services</b>	1,364	1,392	1,419	1,448	1,477	7,100
<b>Metering/AMR</b>	970	1,000	1,000	1,000	1,000	4,970
<b>Distribution Expansion</b>	2,750	3,978	2,871	3,786	4,592	17,977
<b>Technology</b>	500	525	550	575	600	2,750
<b>Power Resources</b>	761	555	900	545	350	3,111
<b>RPU Facilities</b>	30	31	32	33	34	160
<b>Fleet</b>	599	605	649	652	606	3,111
<b>Total Allocations</b>	6,974	8,086	7,421	8,039	8,659	39,179
<b>Project Contingency Fund</b>	700	700	700	700	700	3,500
<b><u>Other</u></b>						
<b>SCADA Upgrade</b>	-	500	1,500	-	-	2,000
<b>Load Management Installations</b>	12	12	-	-	-	24
<b>Mobile Meter Reader</b>	-	-	30	-	15	45
<b>Metering/Shop Test Equipment Upgrade/Replace</b>	10	15	15	15	15	70
<b>Substation/Shop Test Equipment Upgrade/Replace</b>	60	35	35	35	35	200
<b>Substation Spares and Replacements</b>	20	-	40	-	40	100
<b>FCS Radio Read Devices &amp; Wi-Fi</b>	15	-	-	-	-	15
<b>Transformer Oil Pump &amp; Filtration Unit</b>	235	-	-	-	-	235
<b>Web-Based Service Application</b>	13	-	-	-	-	13
<b>Hydro Line Rebuild</b>	-	-	-	-	250	250
<b>Northern Hills 65th St Feeder</b>	555	-	-	-	-	555
<b>Feeder 306 Install</b>	-	-	-	-	300	300
<b>Feeder 615 Install</b>	-	-	-	350	-	350
<b>Feeder 715 Install</b>	-	325	-	-	-	325
<b>Feeder 913 Install</b>	-	-	-	300	-	300
<b>Feeder 914 Install</b>	-	-	-	300	-	300
<b>Feeder 1315 Install</b>	-	-	-	250	-	250
<b>Feeder 1602 Install</b>	-	-	-	-	300	300
<b>Feeder 1732 Install</b>	70	-	-	-	-	70
<b>Feeder 1733 Install</b>	-	-	200	-	-	200
<b>Downtown New Duct Systems</b>	-	110	550	550	800	2,010
<b>65th St - 50th to 60th Ave</b>	-	-	-	-	500	500

	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>5-Yr Total</u>
48th St NE	-	-	-	200	200	400
FDR 301 Load Relief	-	-	-	-	200	200
Q2 Rebuild From Bear Creek - RCTC	-	-	-	-	350	350
Q4 Rebuild from BV Sub to Salem Road	-	375	385	-	-	760
Q7 Rebuild to Grade B	-	-	-	-	400	400
Q11 W.C. to New St. Bridget Sub - ROW	400	-	-	-	-	400
IBM Substation Upgrade	-	-	-	1,025	-	1,025
Fiber Cascade Creek to Westside	-	195	-	-	-	195
Fiber Cascade Creek to Crosstown	70	-	-	-	-	70
Fiber OWEF Splice to Chester	-	-	-	275	-	275
Small Cell Antennas	200	100	100	100	100	600
Feeder 1401 & 1411 Bifurcation	550	-	-	-	-	550
Marion Rd Substation & Feeder Buildout	2,695	11,491	1,051	734	-	15,971
Hydro Line Reconfig for New Hydro Sub	-	-	-	250	-	250
New Padmount Hydro Sub	-	-	50	400	-	450
New Mayo Feeders	-	2,500	3,000	-	-	5,500
Substation Communication	-	100	1,350	-	-	1,450
IKE4 - Pole Analysis	15	-	-	-	-	15
Survey GPS Replacement	-	-	-	-	40	40
Responder/SCADA Integration	-	60	-	-	-	60
Service Territory Payments	345	346	348	348	349	1,736
CRM	912	-	-	-	-	912
Phone Recording & Call Scripts	-	100	-	-	-	100
ERP/Work Mgmt Implementation	-	-	1,741	1,483	124	3,348
Operation Technology	150	160	165	175	180	830
Enterprise Systems and Applications	-	-	250	250	250	750
Microsoft 365 Implementation - Phase 1	50	-	-	-	-	50
Change Management Tool	-	50	-	-	-	50
Internal Firewall	49	-	-	-	-	49
Monitoring Tools	-	70	-	-	-	70
NSX Implementation	-	50	-	-	-	50

	<u><b>2019</b></u>	<u><b>2020</b></u>	<u><b>2021</b></u>	<u><b>2022</b></u>	<u><b>2023</b></u>	<u><b>5-Yr Total</b></u>
<b>Electric Safety Exhibit</b>	-	45	-	-	-	45
<b>U3 BFPs</b>	500	-	-	-	-	500
<b>U3 Feedwater Flow Bypass</b>	100	-	-	-	-	100
<b>Building Expansion</b>	1,324	-	-	-	-	1,324
<b>Design Study to Replace AHU 1-4</b>	776	1,527	-	-	-	2,303
<b>Total External Expenditures</b>	16,801	26,951	18,931	15,779	13,807	92,268
<b>Capitalized Interest</b>	237	266	448	464	-	1,415
<b>Total Internal Expenditures</b>	3,028	4,619	3,560	4,626	4,805	20,638
<b>Less Bonding</b>	(1,324)	-	-	-	-	(1,324)
<b>Net Capital Plan</b>	18,742	31,836	22,939	20,868	18,612	112,997
<b>Net Capital &amp; Major Maintenance Plan</b>	22,578	37,174	27,119	24,991	22,672	134,534

## Debt Service 2013-2017 Actual, 2018-2028 Budget/Forecast



	(in millions)					
	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>
Debt Issues	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

**ELECTRIC UTILITY  
2019 OPERATING BUDGET**

**FORECAST BY YEAR, 2018 THROUGH 2023**

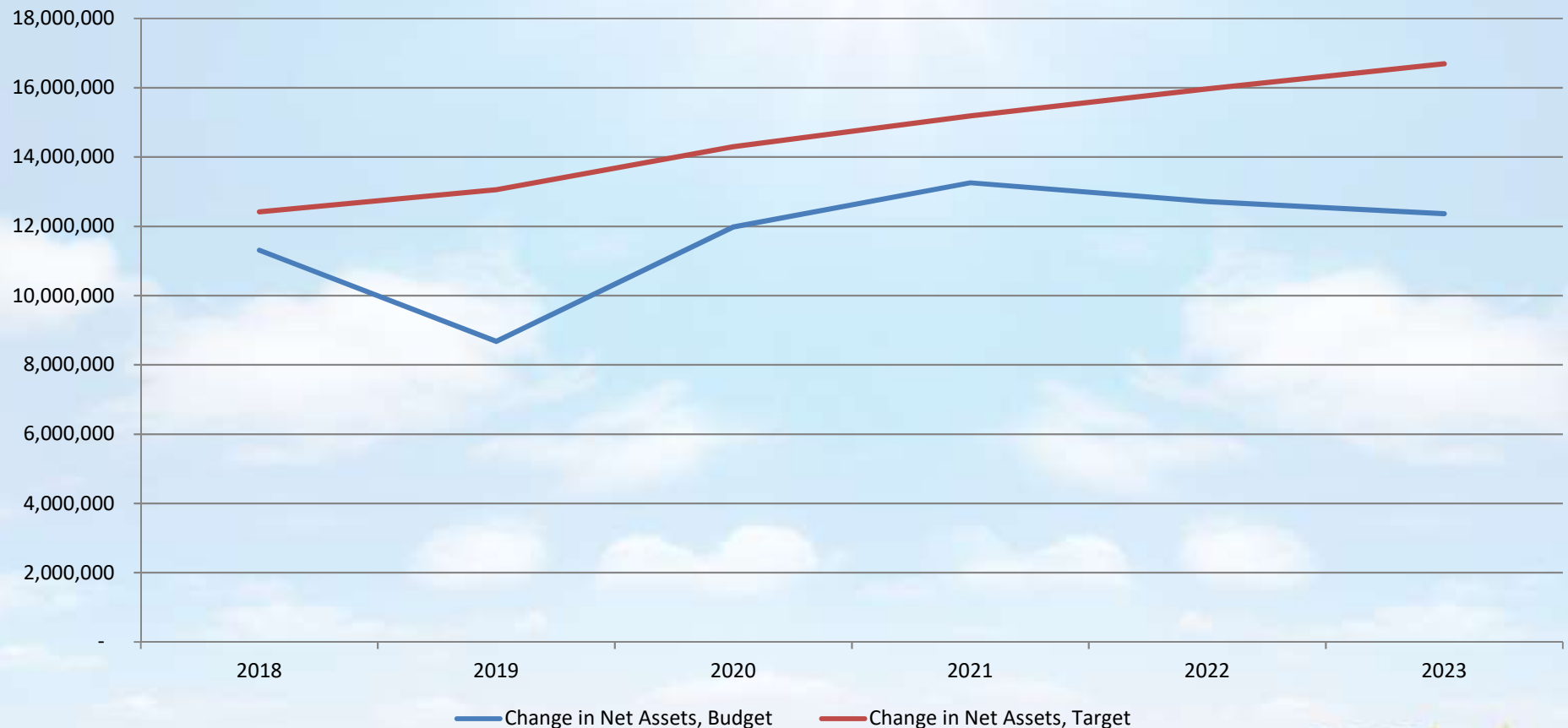
(\$000's)

<b>Forecasted Rate Change</b>	<b>1.5%</b>	<b>1.9%</b>	<b>2.5%</b>	<b>2.5%</b>	<b>2.5%</b>	<b>2.5%</b>
	<b>2018*</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>
<b>Total Revenues</b>	<b>167,854</b>	<b>172,109</b>	<b>174,614</b>	<b>180,041</b>	<b>184,963</b>	<b>185,748</b>
<b>Total Cost of Revenue</b>	<b>101,657</b>	<b>103,217</b>	<b>103,481</b>	<b>104,276</b>	<b>105,037</b>	<b>103,076</b>
<b>Total Gross Margin</b>	<b>66,197</b>	<b>68,893</b>	<b>71,133</b>	<b>75,765</b>	<b>79,926</b>	<b>82,673</b>
<b>Total Operating Expenses</b>	<b>35,384</b>	<b>38,331</b>	<b>41,497</b>	<b>42,551</b>	<b>44,377</b>	<b>46,319</b>
<b>Total Capital Expenditures</b>	<b>10,582</b>	<b>15,477</b>	<b>26,951</b>	<b>18,931</b>	<b>15,779</b>	<b>13,807</b>
<b>Net Other Operating Expenses</b>	<b>(3,573)</b>	<b>(5,962)</b>	<b>(18,492)</b>	<b>(9,262)</b>	<b>(6,823)</b>	<b>(4,147)</b>
<b>Total Operating Expenses</b>	<b>42,392</b>	<b>47,845</b>	<b>49,956</b>	<b>52,221</b>	<b>53,333</b>	<b>55,979</b>
<b>Net Operating Income</b>	<b>23,805</b>	<b>21,048</b>	<b>21,177</b>	<b>23,544</b>	<b>26,592</b>	<b>26,694</b>
<b>Total Financing &amp; Non-Operating Items</b>	<b>(4,762)</b>	<b>(5,618)</b>	<b>(5,502)</b>	<b>(5,205)</b>	<b>(5,011)</b>	<b>(5,267)</b>
<b>Income Before Transfers/Capital Contributions</b>	<b>19,043</b>	<b>15,430</b>	<b>15,675</b>	<b>18,339</b>	<b>21,581</b>	<b>21,427</b>
<b>Transfers (In Lieu of Tax Payments)</b>	<b>(8,782)</b>	<b>(8,881)</b>	<b>(9,068)</b>	<b>(9,256)</b>	<b>(9,441)</b>	<b>(9,634)</b>
<b>Capital Contributions</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Other Revenues</b>	<b>1,051</b>	<b>2,129</b>	<b>5,373</b>	<b>4,174</b>	<b>574</b>	<b>575</b>
<b>Change in Net Assets</b>	<b>11,313</b>	<b>8,678</b>	<b>11,980</b>	<b>13,257</b>	<b>12,714</b>	<b>12,367</b>
<b>Target Change in Net Assets</b>		<b>13,060</b>	<b>14,300</b>	<b>15,187</b>	<b>15,968</b>	<b>16,693</b>
<b>Excess (Deficit) from Target</b>		<b>(4,382)</b>	<b>(2,320)</b>	<b>(1,930)</b>	<b>(3,254)</b>	<b>(4,325)</b>
<b>01/01 Cash Balance</b>	<b>56,843</b>	<b>67,805</b>	<b>65,000</b>	<b>54,843</b>	<b>55,070</b>	<b>57,052</b>
<b>Cash from Operations</b>	<b>24,329</b>	<b>22,943</b>	<b>26,840</b>	<b>28,480</b>	<b>28,336</b>	<b>28,441</b>
<b>Capital Additions/Services Territory Comp</b>	<b>(31,346)</b>	<b>(20,066)</b>	<b>(31,836)</b>	<b>(22,939)</b>	<b>(20,868)</b>	<b>(18,612)</b>
<b>Bond Principle Payments</b>	<b>(5,460)</b>	<b>(5,725)</b>	<b>(6,015)</b>	<b>(6,315)</b>	<b>(6,625)</b>	<b>(6,955)</b>
<b>Bond Sale Proceeds</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net Change in Other Assets/Liabilities</b>	<b>23,439</b>	<b>43</b>	<b>854</b>	<b>1,001</b>	<b>1,139</b>	<b>1,285</b>
<b>Net Changes in Cash</b>	<b>10,962</b>	<b>(2,804)</b>	<b>(10,157)</b>	<b>227</b>	<b>1,982</b>	<b>4,160</b>
<b>12/31 Cash Balance</b>	<b>67,805</b>	<b>65,000</b>	<b>54,843</b>	<b>55,070</b>	<b>57,052</b>	<b>61,212</b>
<b>Minimum Cash Reserve</b>	<b>54,061</b>	<b>55,603</b>	<b>56,137</b>	<b>56,667</b>	<b>57,014</b>	<b>57,922</b>
<b>Excess (Deficit) from Minimum Cash Reserve</b>	<b>13,744</b>	<b>9,398</b>	<b>(1,294)</b>	<b>(1,598)</b>	<b>38</b>	<b>3,290</b>
<b>Cash Balance as % of Reserve Policy</b>	<b>125.4%</b>	<b>116.9%</b>	<b>97.7%</b>	<b>97.2%</b>	<b>100.1%</b>	<b>105.7%</b>
<b>Debt Service Coverage Ratio</b>	<b>2.70</b>	<b>2.56</b>	<b>2.61</b>	<b>2.80</b>	<b>3.04</b>	<b>3.08</b>

\* 2018 forecast contains 8 months actuals and 4 months forecast for components of Gross Margin, 6 months actuals and 6 months forecast for operating expenses, and 7 months actuals and 5 months forecast for capital and major maintenance projects.

# Electric Utility - Financial Goals

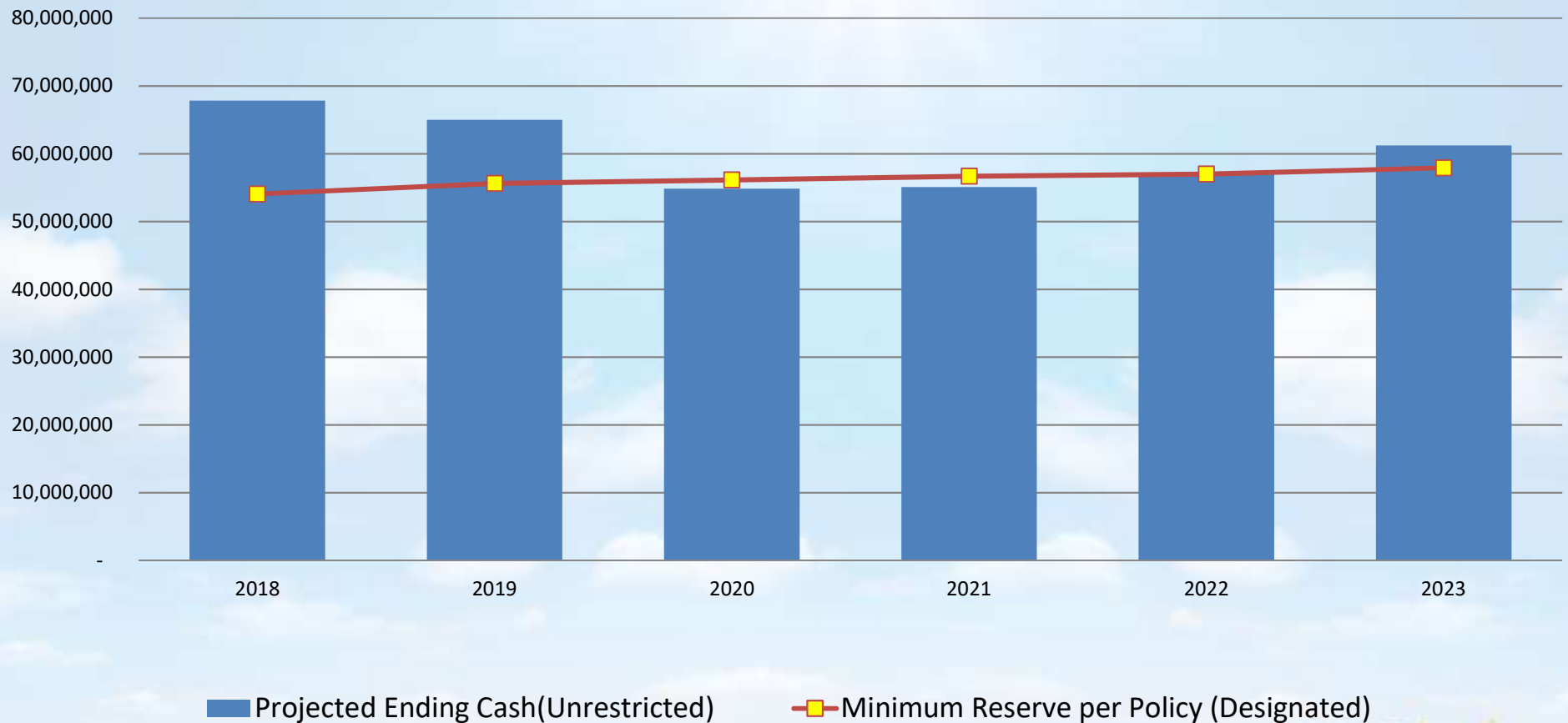
## Rochester Public Utilities Change in Net Assets (Net Income)





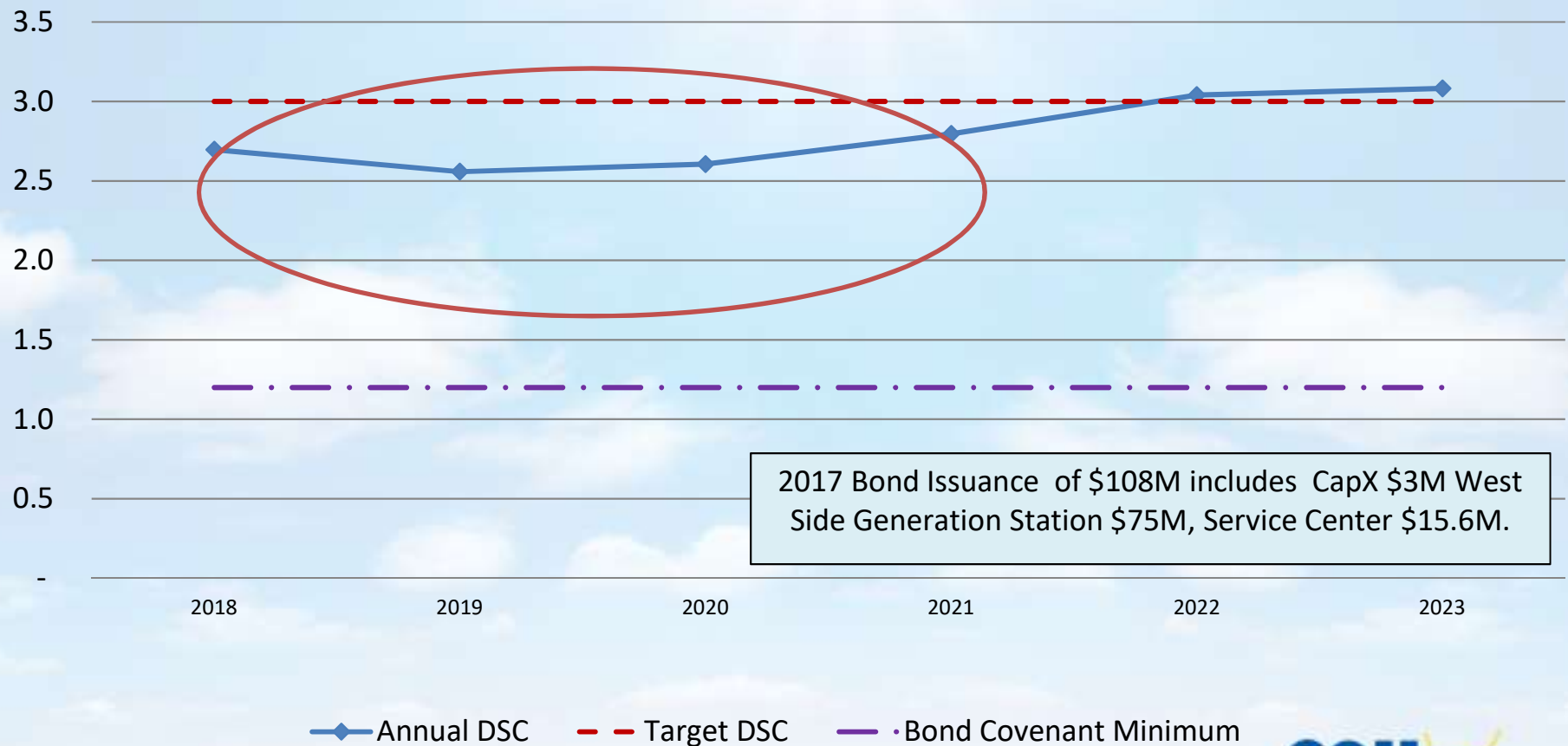
# Electric Utility - Financial Goals

## Cash Balance vs Reserve Policy



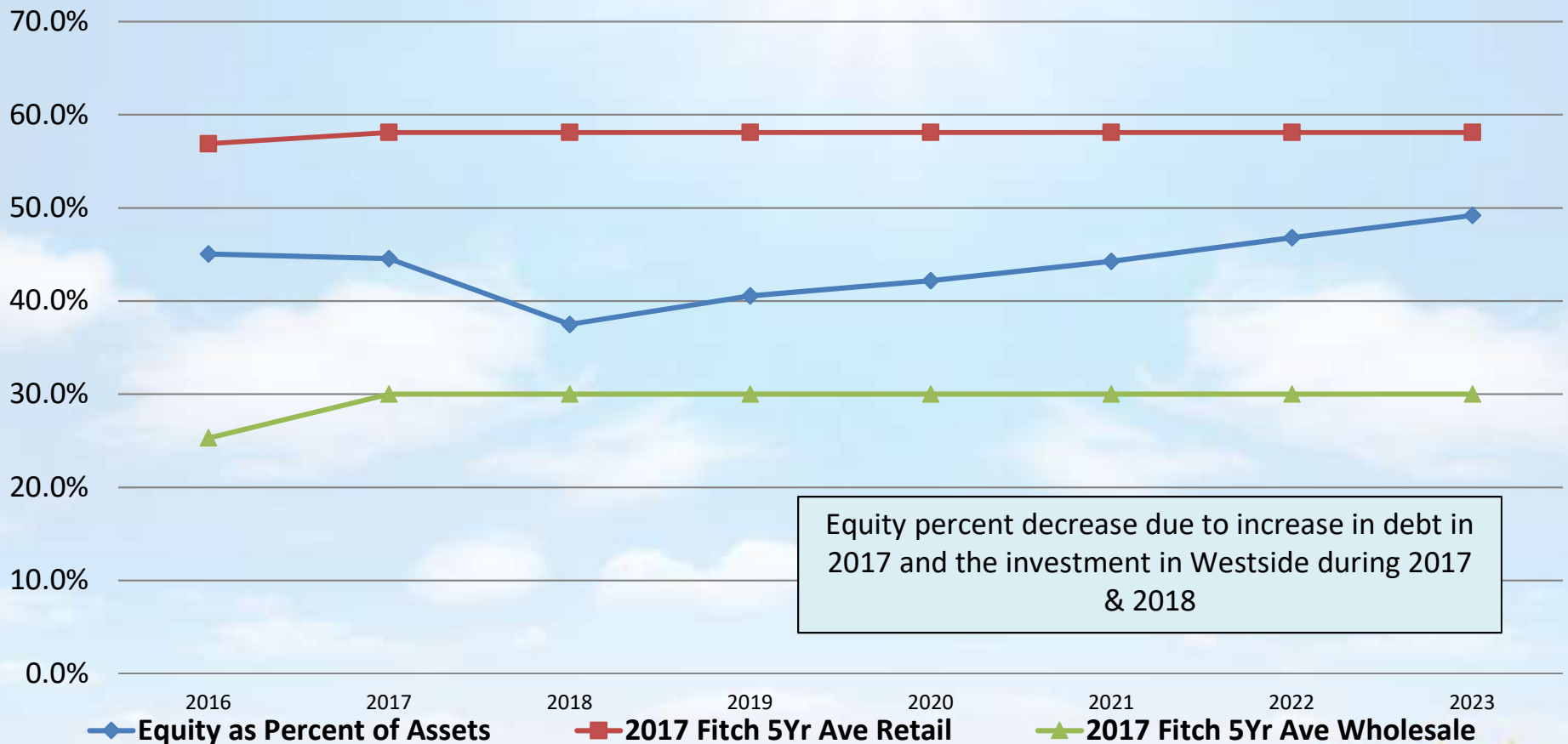
# Electric Utility - Financial Goals

## Rochester Public Utilities Debt Coverage Ratio (before Pilot)



# Electric Utility - Financial Goals

## Rochester Public Utilities - Scenario 4 Equity as Percent of Assets



# Financial Strategy

- **Rates**, based on cost of providing service per Board policy
  - Reasonable, Compensatory and Uniform within same Class (Home Charter)
  - Match fixed charge with fixed costs and commodity charge with variable costs
  - No cross subsidies between rate classes
  - Regionally and nationally competitive without compromising safety or reliability
- **AA bond rating**,
  - Target Change in Net Assets (Net Income)
  - Debt Coverage Ratio
  - Minimum Cash Reserves & Capital Replacement Funds
  - Equity Percentage

# Cost of Service Results Major Customer Classes (Presented July 2017)

56

Customer Class	Cost of Service	Projected Revenues	% Change
Residential	54,690,476	52,702,924	3.77%
General Service	19,859,339	19,087,605	4.04%
Street Lights and Security Lights	1,981,093	1,633,751	21.26%
Medium General Service	41,830,459	42,264,554	-1.03%
Large General Service	15,560,121	15,603,740	-0.28%
Large Industrial Service	19,980,397	19,524,939	2.33%
<b>Total</b>	<b>153,901,885</b>	<b>150,817,513</b>	<b>2.05%</b>

# Proposed Rate Design Summary

Excludes potential changes in power supply costs passed on through PCA  
(Presented August 2017)

Rate Class	Projected Revenues Under Current Rates	Projected Revenues Under Proposed Rates Year 1	Projected Revenues Under Proposed Rates Year 2	Projected Percentage Change Year 1	Projected Percentage Change Year 2	2018 Cost of Service Variance
Residential	\$ 52,498,509	\$ 53,403,902	\$ 54,686,377	1.72%	2.40%	3.7%
Residential - Dual Fuel	14,075	14,567	15,212	3.50%	4.42%	23.8%
Residential - HVAC	210,467	215,533	217,869	2.41%	1.08%	2.8%
General Service	18,977,912	19,490,650	19,989,875	2.70%	2.56%	5.4%
General Service - HVAC	24,100	23,979	23,955	-0.50%	-0.10%	10.3%
General Service - Time of Use	236,180	239,486	243,797	1.40%	1.80%	1.3%
Govt. Traffic Signals	148,994	150,484	152,386	1.00%	1.26%	8.3%
Security Lights	411,312	409,255	408,846	-0.50%	-0.10%	-45.1%
Street Lights	1,268,021	1,312,402	1,363,585	3.50%	3.90%	28.8%
Medium General Service	38,547,898	38,859,509	39,268,660	0.81%	1.05%	-1.8%
Medium General Service - HVAC	171,562	173,192	175,272	0.95%	1.20%	-0.2%
Medium General Service - Time of Use	3,550,001	3,614,143	3,691,917	1.81%	2.15%	-0.9%
Large General Service	15,605,532	15,666,548	15,770,295	0.39%	0.66%	-0.4%
Large Industrial Service	19,527,368	19,898,388	20,376,187	1.90%	2.40%	2.2%
Total	\$ 151,191,930	\$ 153,472,038	\$ 156,384,233	1.51%	1.90%	1.9%



# Electric Utility Recommendation

- 2019 Recommendation
  - Either One Year or Two Year General Rate Increase
    - 1.9% for 2019,
    - 2.5% for 2020
- Rate Structure Options for 2019
  - Implement proposed rate design per COS 2017
  - Implement proposed rate design except for Residential
    - Residential energy increase change from 1.5% to 3.1%

## Average Residential Customer Impact :

Rate Increase	\$25.19/yr	\$2.10/mo
Power Cost Adj(Apr-Dec)	(6.84)/yr	( 0.57/mo)
Net Impact	\$18.36/yr	\$1.53/mo

Note: 4 – 60W light bulbs to 9W LED @ 2.5Hrs/day  
= \$1.87/Mo Savings

# Questions on Electric Utility?