



General Manager's Report January 2025

VISION | We will set the standard for service.

MISSION | We provide the highest quality services and products for our customers. With our experience and resources, we enrich people's lives, help businesses prosper, and promote the community's welfare.



WORKING TOWARD
100%
NET RENEWABLE ELECTRICITY BY 2030

APPROXIMATELY
60k
ELECTRIC CUSTOMERS

GALLONS OF WATER PUMPED
**4.953
BILLION**

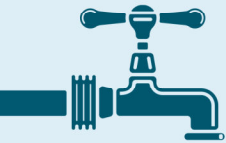
**131
YEARS**

2023 ASA
99.994%
RELIABILITY



**223
EMPLOYEES**

ROCHESTER
PUBLIC UTILITIES
WE PLEDGE, WE DELIVER™



42K
WATER
CUSTOMERS

1  **COUNCIL APPOINTED
COUNCILMEMBER
BOARD MEMBER**



4 **MAYOR
APPOINTED
BOARD MEMBERS**



#1
BEST TASTING WATER



RELIABILITY



RATES



RESPONSIBILITY

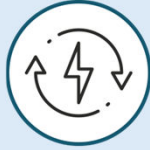


RELATIONSHIPS



REPUTATION

THE FIVE R'S



RELIABILITY

Leaders in Service and System Reliability



RATES

Provide Value and Long-Term Financial Stability



RESPONSIBILITY

Stewards of the Resources We Impact



RELATIONSHIPS

Empowered and Customer-Focused Employees



REPUTATION

Engaged with Our Community





PROTECT EACH OTHER.



CARE FOR THE ENVIRONMENT.



TAKE OWNERSHIP.

RESPECT EVERYONE.



LEAVE A POSITIVE IMPRESSION.



CONTINUE IMPROVING.

Meeting Reports & Current Activity

- **Monthly Highlights**
- **SMMPA Board Meeting Report**
- **APPA Joint Action Conference Report**
- **New Board Member Introduction**
- **Year Ahead Review**
- **External Funding Opportunities Update**
- **Major Projects Status Updates (Separate File)**



Monthly Updates | January 2025

- **Transmission Incentive Rate Filing Approved by FERC** – RPU secured FERC approval for transmission rate incentives on its LRTP 4 project, enabling recovery of \$4.4 million in Construction Work in Progress (CWIP) returns and protections for abandoned plant costs. Additional benefits include improved credit ratings, stronger cash flow, reduced financing needs, and lower business risk. Scott Nickels will provide more information and discuss the progress on the project with the Grid North Partners at this meeting.
- **Trade Ally & Commercial Customer Meeting** – This week, RPU will host its Annual Trade Ally & Commercial Customer Meeting, connecting regional contractors and businesses to share program updates, gather feedback, and strengthen partnerships supporting energy efficiency and community benefits. The event underscores RPU's commitment to fostering collaboration and driving innovative energy solutions.
- **Emergency Operations Center Tabletop Exercise** – Several RPU team members will participate in the Enhanced Tabletop Training at the Emergency Operations Center (EOC) this week. This exercise will simulate a full EOC activation following a tornado strike, offering valuable hands-on experience in emergency response.



Monthly Updates | January 2025 (continued)

- **Bold Forward Unbound Infrastructure Memorandum of Understand (MOU) with Electric** – RPU is developing a MOU with Mayo Clinic to define cost allocations for the Bold Forward Unbound project. The MOU, currently under review by Mayo and City staff, ensures Mayo will reimburse 100% of costs for impacted RPU electric facilities, while RPU will fund any unrelated system upgrades. The final MOU will be presented to the Board for approval in February.
- **2025 Legislative Session Update** – RPU received support from Senator Carla Nelson to sponsor our special sales tax exemption in the Senate. Representative Andy Smith has indicated support to sponsor the same in the House. It is more likely than not the State Legislature will not have a quorum until the results of the special election in January are canvassed.
- **Board Member Orientation** – Orientation was held for Wendy Turri on January 7. Patrick Keane also attended to complete an in-person orientation, as his original session during the pandemic was virtual.



SMPA | December Board Meeting Report



SMMPA Board Report | Capital Expenditures & Grid North Partners

- **Capital Expenditure Authorizations**

- \$0.75M – West Owatonna 161kV Capacitor Bank Upgrade
- \$0.65M – Bryon Circuit Breaker and Relay Equipment
- \$2.54M – Owatonna Energy Station (OES) & Fairmont Energy Station (FES) Cylinder Head Replacement

- **Grid North Partners Joint Development Agreement**

- SMMPA reported on their perspective on the upcoming transmission multi-value project (MVP). The next steps from their perspective is to continue negotiating the Joint Development Agreement (JDA) to perfect the correct investment rights between entities in MN and WI including how to scale the additional costs that have been identified.
- The overarching goal is to match SMMPA load that would otherwise pay for the investments in our Zone with the similar ratio of capital investment in the totality of MVP projects.
- SMMPA is working with the group to transfer their investment from segment 4 to segment 6 to allow increases in RPU's investment in segment 4.



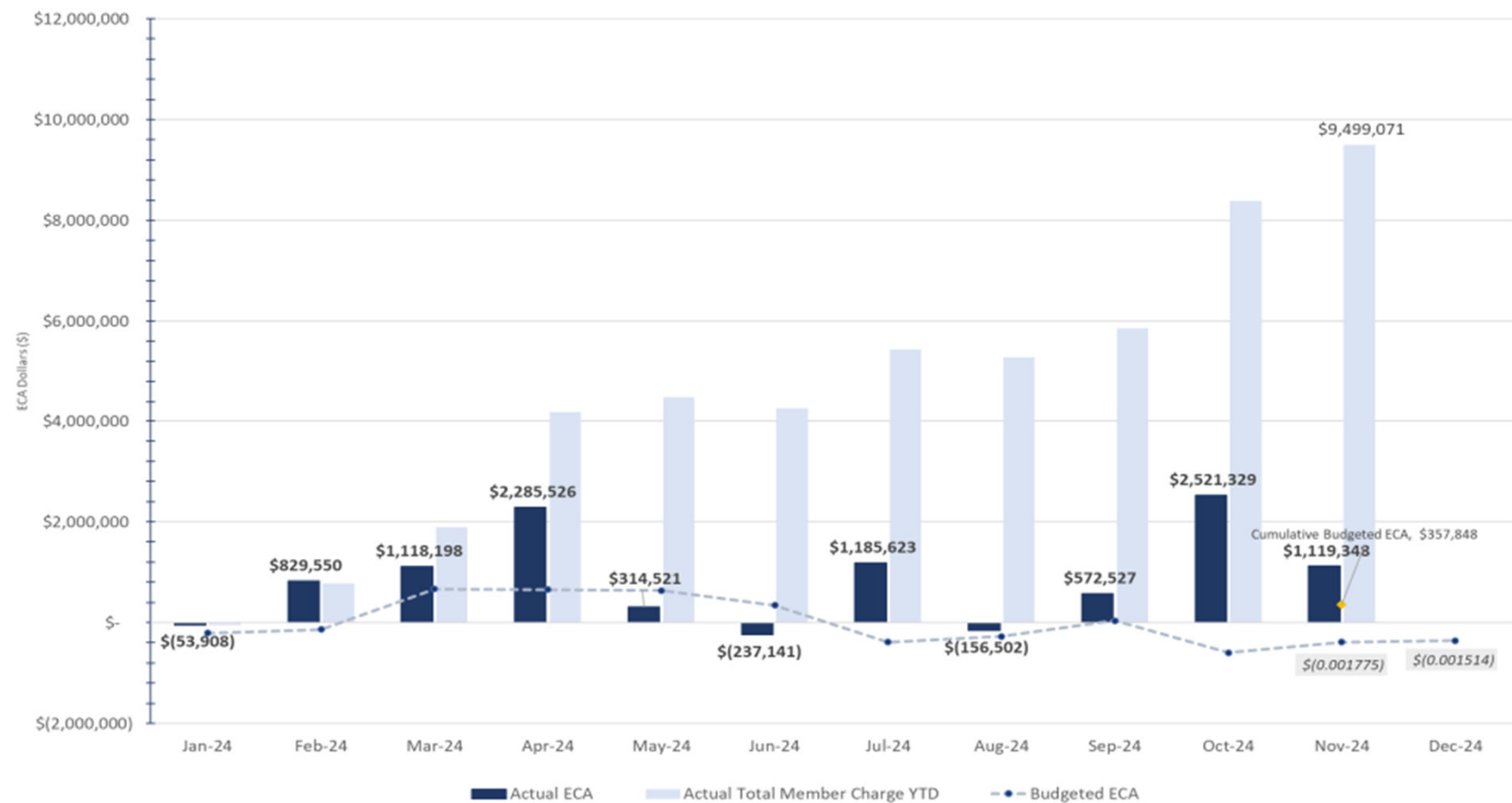
SMMPA Board Report | Generation Outage Self-Insurance

• Self-Insurance on Generation Forced Outages

- The Board decided to move away from brokered outage insurance toward building a self-insurance fund
- To date there have been \$5.95M of premium costs compared to \$1.15M of insurance claim value
- Recent years of Sherco 3 performance have been less reliable. Therefore, insurance costs have increased, and available coverage has been reduced.
- The self insurance fund will:
 - Follow similar methodology to insurance coverage. The Board will establish the strike price for future year in December of the preceding year. Insurance reserves would be earmarked as committed unavailable.
 - Any claims would be applied to the ECA calculation.
 - Proposed to develop process to deal with unspent self-insurance funds when Sherco 3 retires. It is expected that the max amount that could accumulate between now and 2030 with no claims would be less than \$3M total.



SMMPA Board Report | ECA through November 2024



ECA – Energy Cost Adjustment

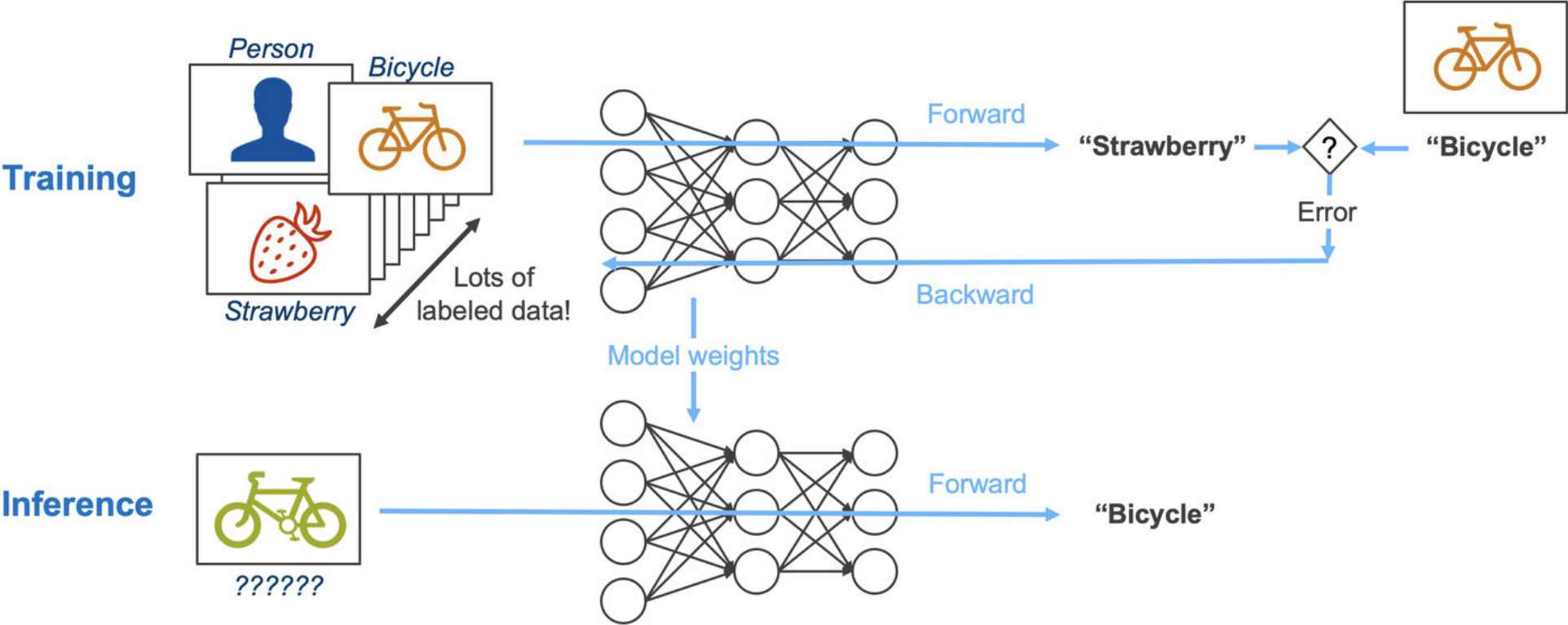
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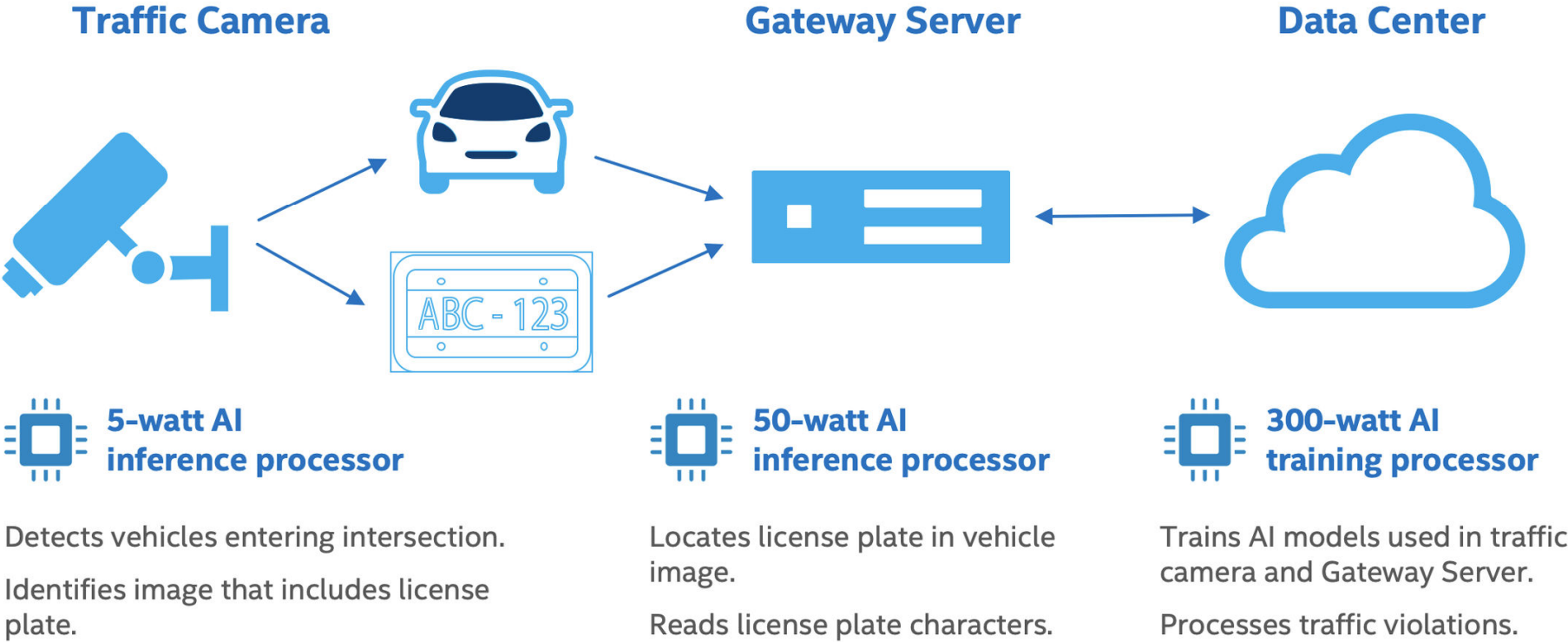
APPA Joint Action Conference | Report



APPA JA | Watt's the big deal with AI



APPA JA | AI – Training & Inferencing Requirements Driving Load



APPA JA | MISO – 2024 Reliability Imperative Update

CALL TO ACTION: WE MUST WORK TOGETHER AND MOVE FASTER

In light of the urgent and complex risks to electric reliability in the MISO region, utilities, states and MISO must all act with more urgency and more coordination to avoid a looming mismatch between the pace of adding new resources and the retirement of older resources in the MISO region. This means we must:

- Refine generation resource plans across MISO by accelerating the addition of reliability attributes and moderating retirements to avoid undue reliability risk
- Maintain transition resources as reliability "insurance" until promising new technologies become viable at grid scale
- Identify areas of risk in which electricity providers, states and MISO must coordinate



MISO – Midcontinent Independent System Operator

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APPA JA | MISO – Market Redefinition with Reliability Imperative

We have made significant progress of foundational initiatives that provide improved data and market signals to support efficient investment and retirement decisions

MARKET REDEFINITION

Completed

- ✓ Attributes Roadmap published
- ✓ Seasonal Resource Auctions (2024-25 Planning Resource Auction)
- ✓ Accreditation – Direct Loss of Load (2028-29 Planning Resource Auction)
- ✓ Reliability Based Demand Curve (2025-26 Planning Resource Auction)
- ✓ Value of Loss Load FERC Filing
- ✓ Shortage Pricing FERC Filing

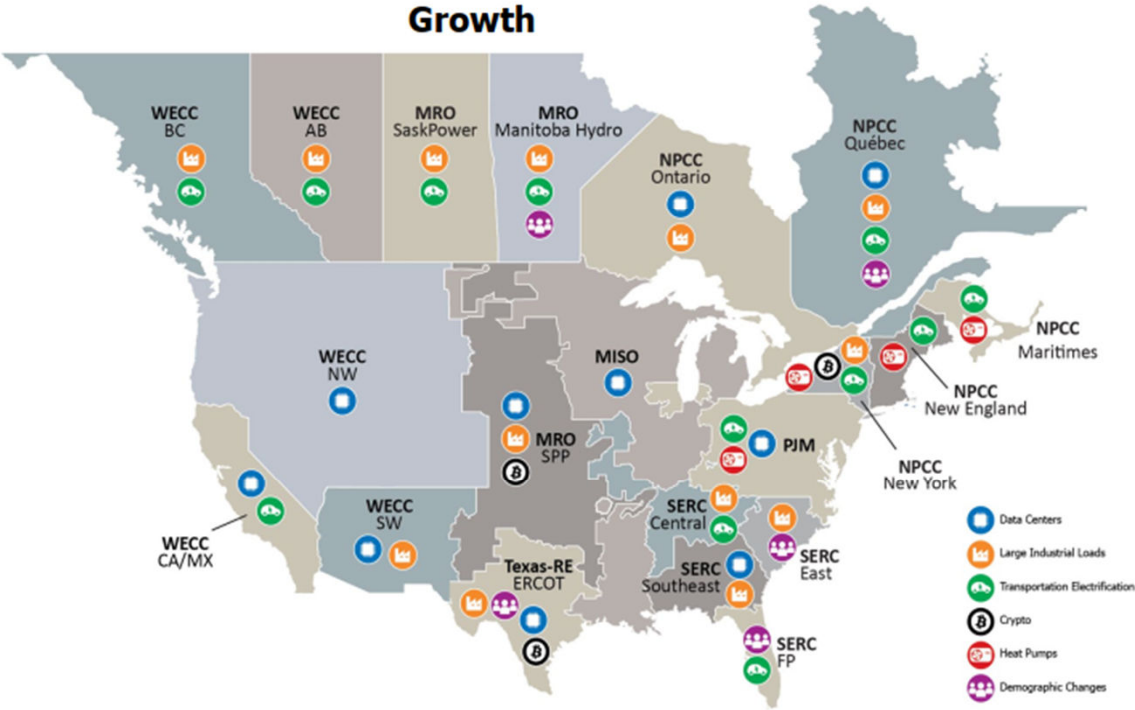
In-flight or Planned

- Provide Accreditation Data
- Implement Shortage Pricing Across Time Horizons
- Execute Planning Resource Auction with Reliability-Based Demand Curve
- Illustrate Energy Adequacy Risks Across Time Horizons and Locations
- Develop and Communicate Risk Metrics
- Implement Dynamic Locational Reserve Products Including Flexibility & Ramping



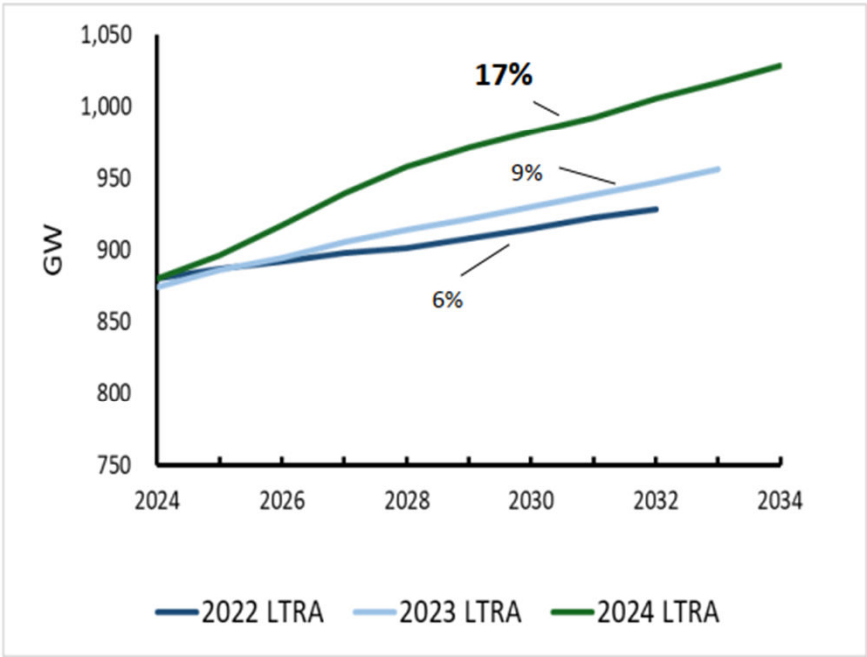
APPA JA | NERC – Demand Growth Is Accelerating Across US

Drivers of Peak Demand Growth



10-year BPS Summer Peak

With 10-Year Growth From Previous LTRA



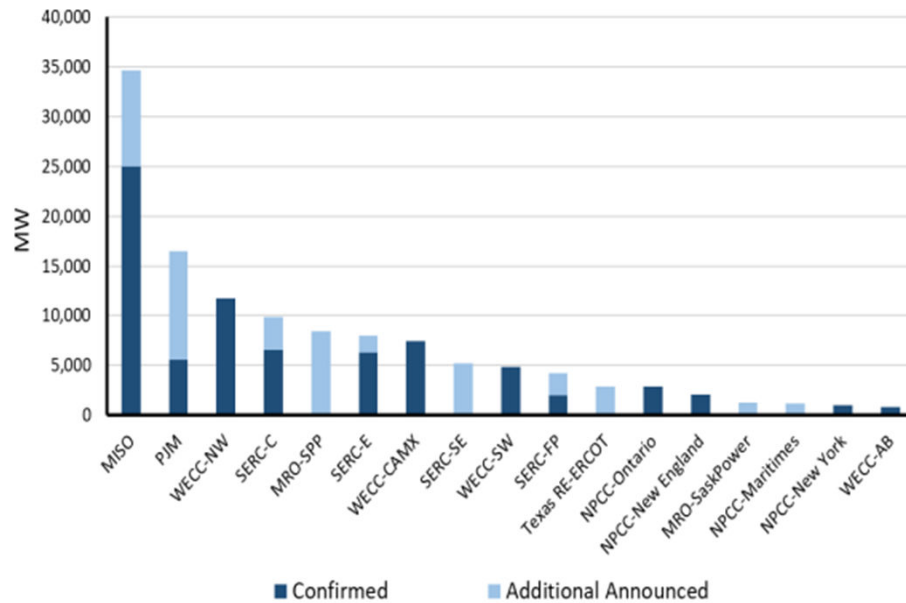
LRTA – Long-Term Reliability Assessment
BPS – Bulk Power System
NERC – North American Electric Reliability Corporation



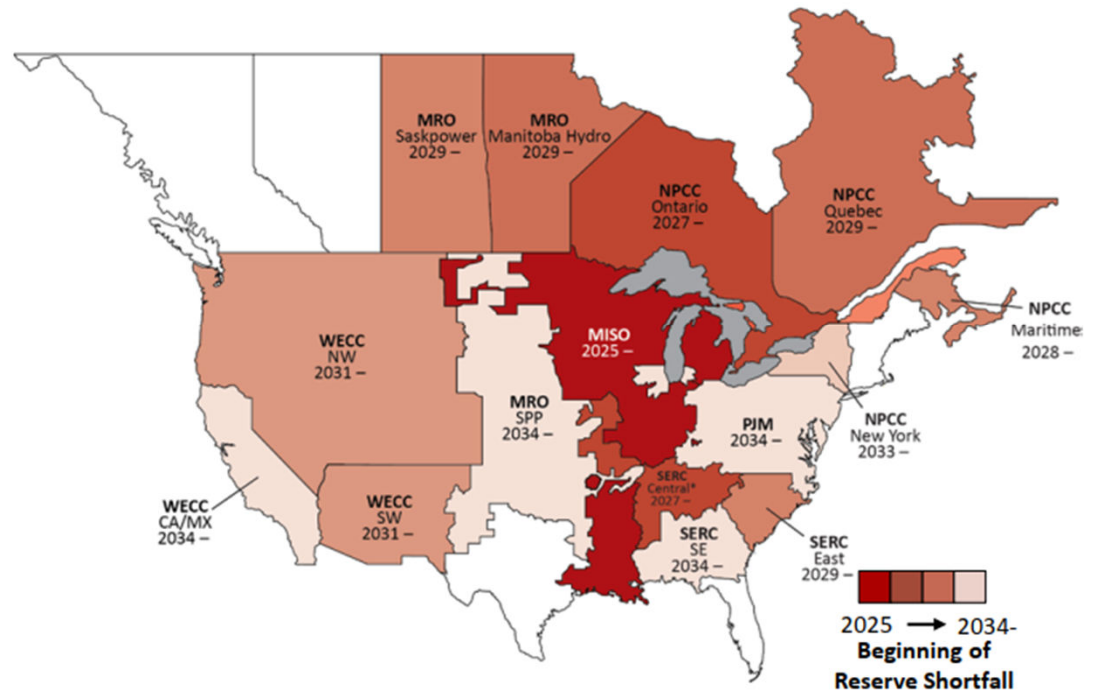
APPA JA | NERC – Retirements and Expected Capacity Deficits

Fossil-fired and Nuclear Generator Retirements by 2034

Source: Energy Ventures Analysis, Inc and LTRA Data



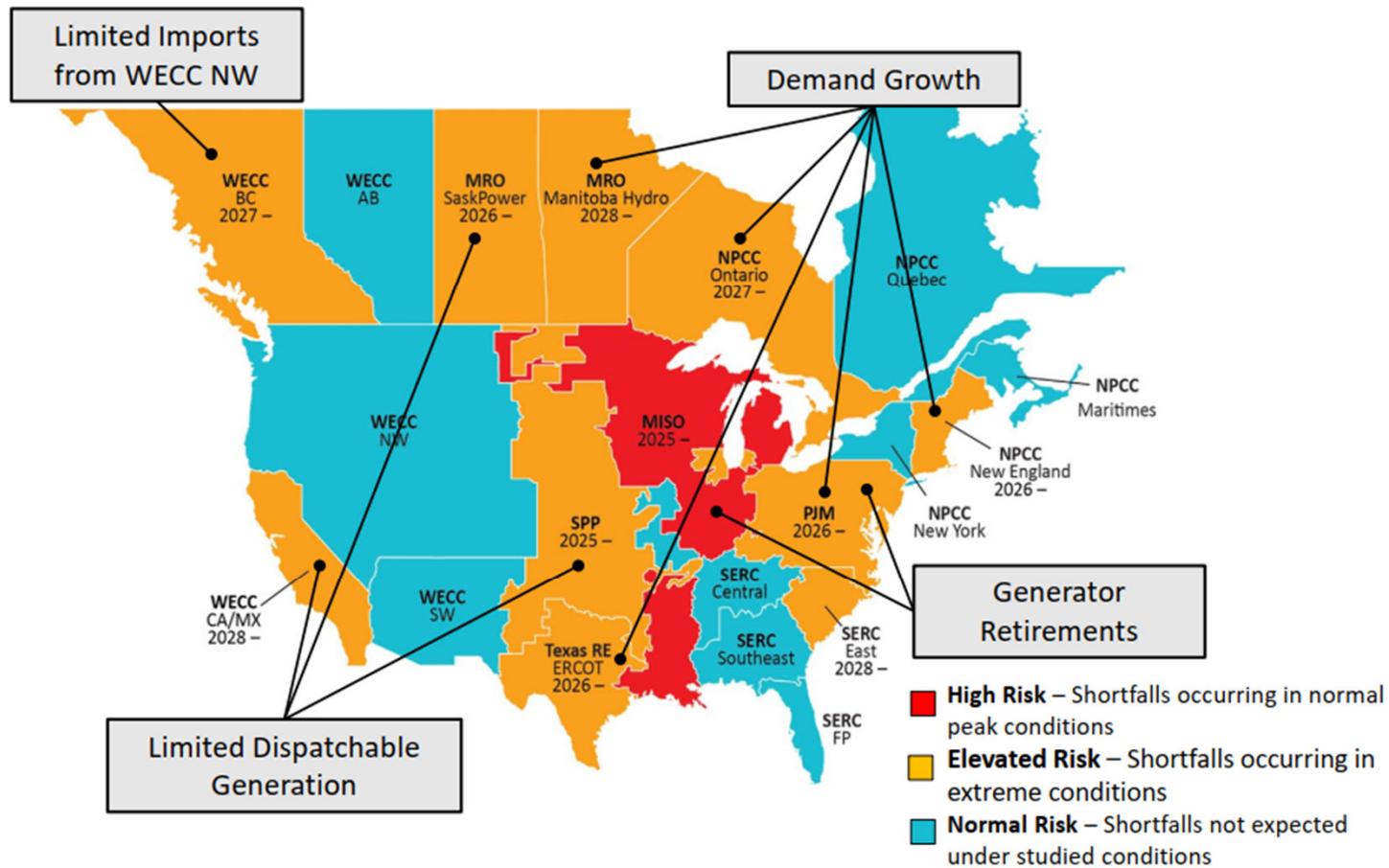
Reserve Margin Shortfall Projections Over the 10-Year Period



Generator retirements through 2034 (thermal): 78GW confirmed + 37 GW announced



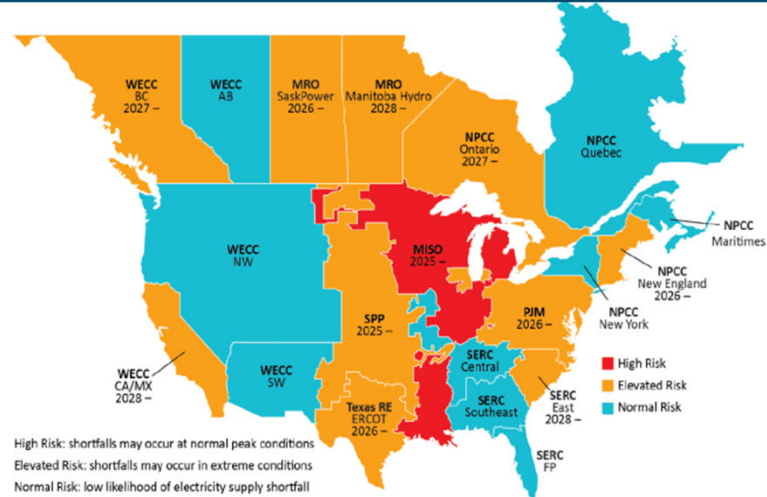
APPA JA | NERC – Increasing Energy Risk over next 5 Years



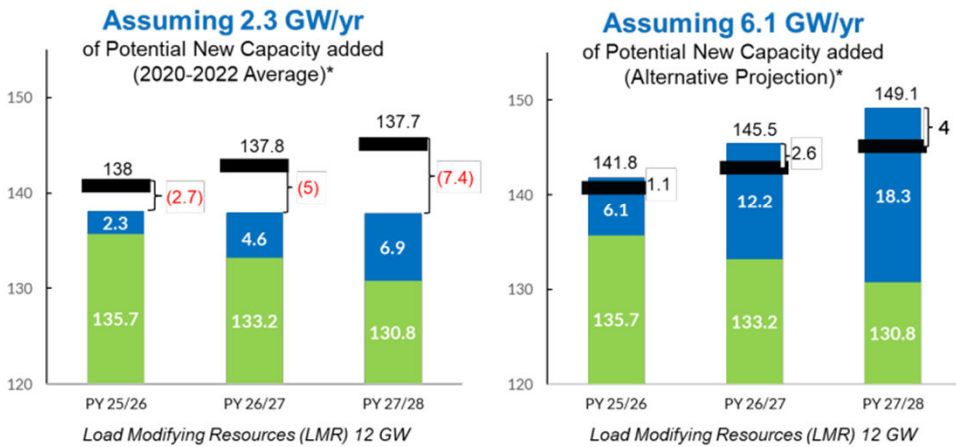
APPA JA | NERC – 2024 Long-Term Reliability Assessment

Portions of the MISO region reached minimum Planning Reserve Margins in 2022. Near-term projections indicate continuing challenges to resource adequacy.

2024 NERC Long-Term Reliability Assessment

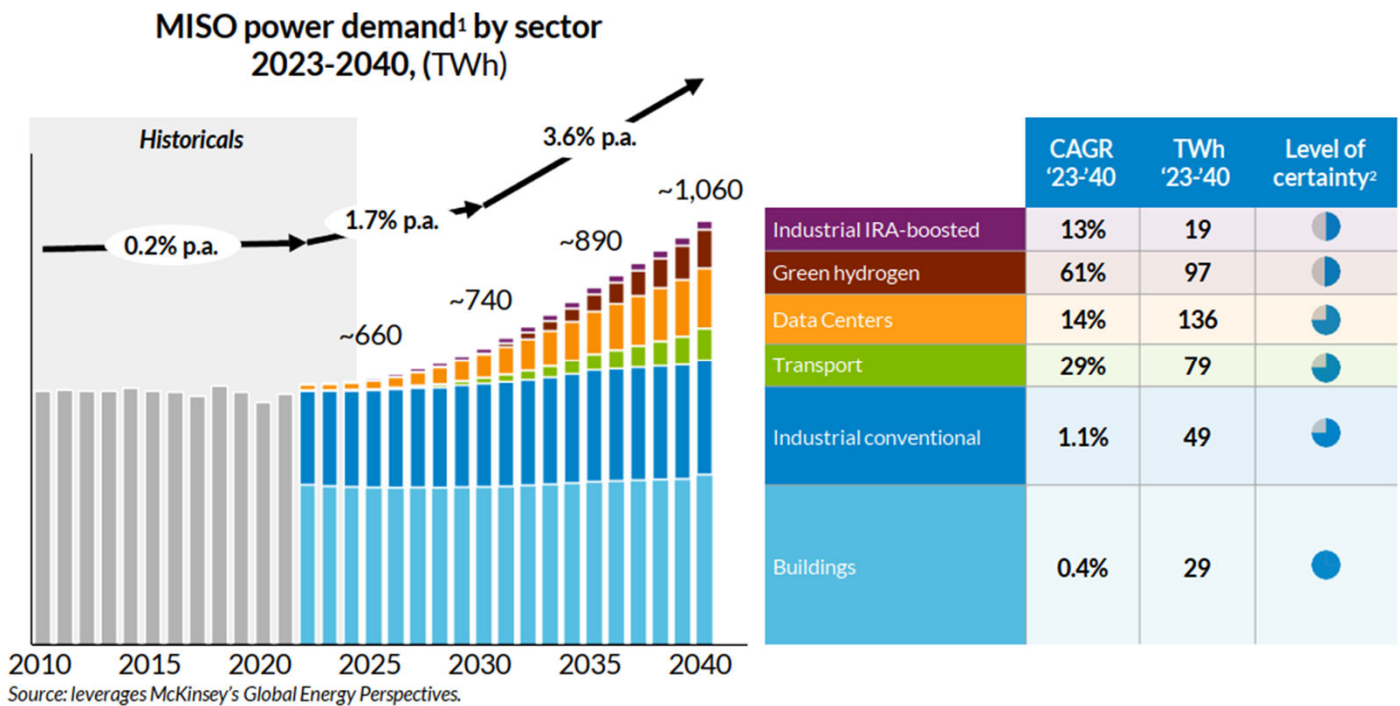


2024 OMS-MISO Survey Results



APPA JA | MISO – Data Center & Green Hydrogen Driven Load Growth

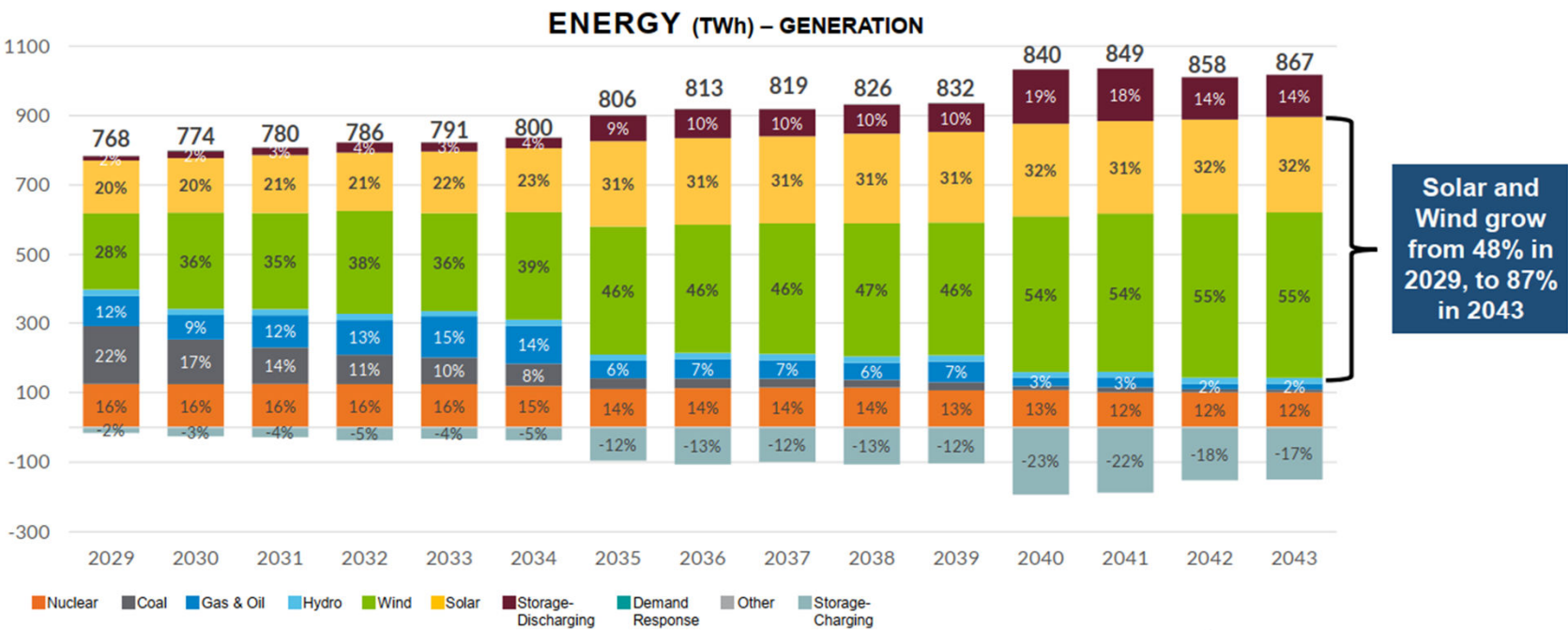
Load growth will exacerbate resource adequacy and operational risks



CAGR – Compound Annual Growth Rate

APPA JA | MISO – Regional Resource Assessment

MISO’s 2024 Regional Resources Assessment reveals variable, renewable resources exceeds 50% of generation by 2030

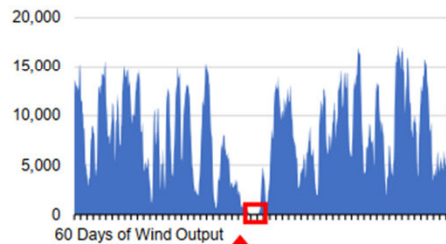


APPA JA | MISO – Attributes of Variable Resources

The magnitude and frequency of operational risks already being experienced related to the attributes of variable resources

LONG-DURATION OUTAGES

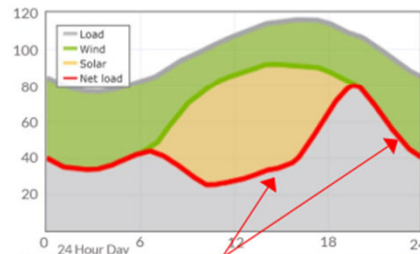
MISO Hourly Wind Output
January & February - 2020 (MW)



~40 hours of essentially zero wind

SHIFTING NET-LOAD SHAPES

Future System Net Load
Average Summer Day - 2032 (GW)



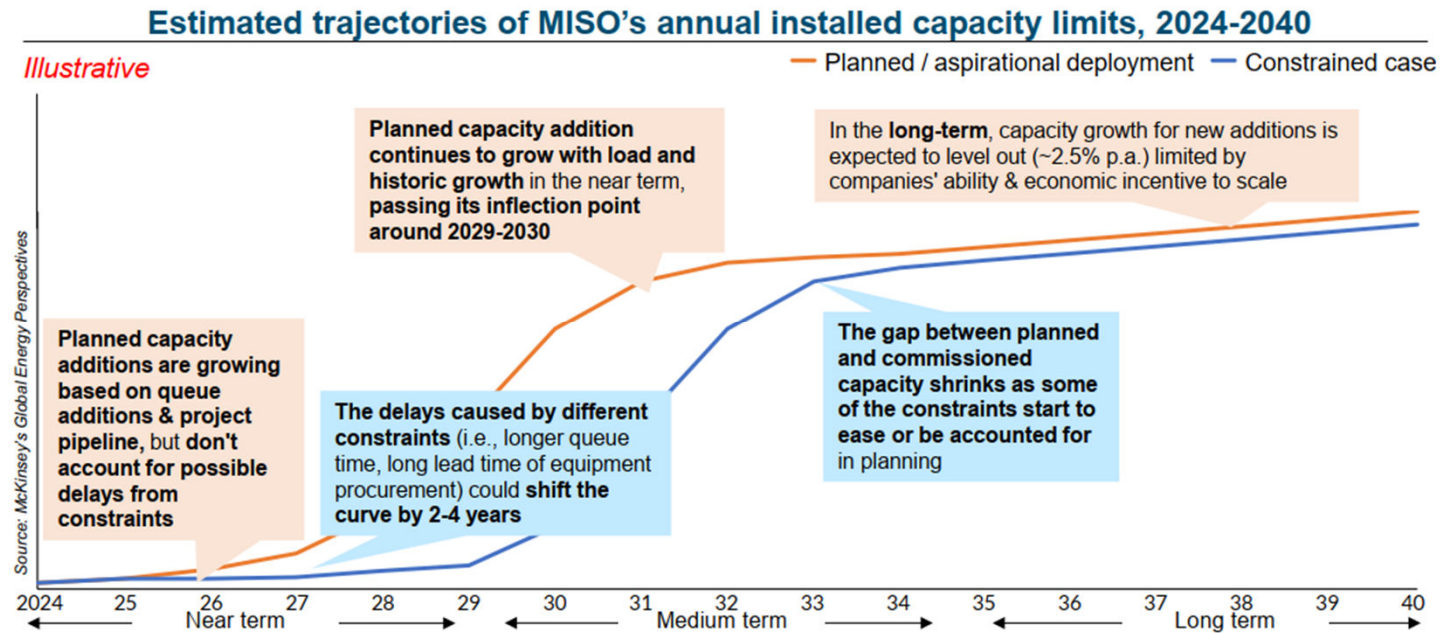
High ramp up need in early evening
and high ramp down need middle
of the night

Accreditation signals the fleet's ability to meet basic energy adequacy, generation flexibility and system stability attribute needs, which are vital as operational challenges grow in complexity, frequency and impact.



APPA JA | MISO – Challenges of Adding Capacity Causing Delays

Current member plans for adding capacity will likely be challenged over the new and medium terms by deployment frictions such as regulatory approvals, supply chain and financial uncertainty



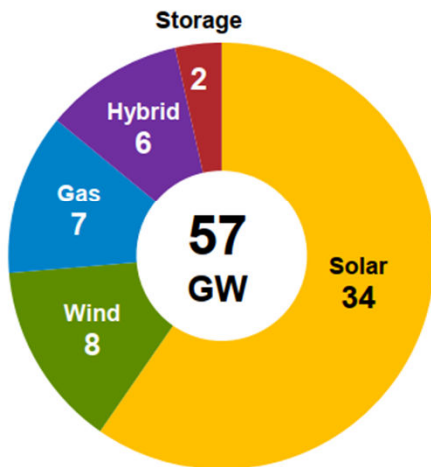
There are uncertainties regarding the impact from constraints – the gap may shrink faster or slower than expected



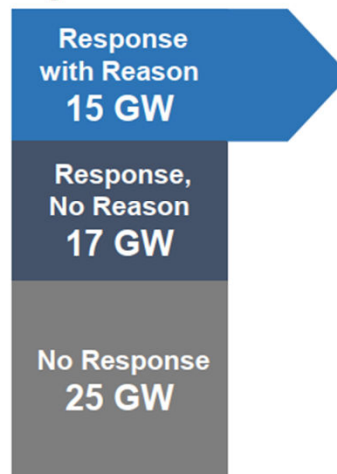
APPA JA | MISO – Delays in Already Approved Interconnections

Some evidence of slow downs with bringing new capacity online can be seen in projects with approved interconnection agreements where more than half are signaling deployment delays

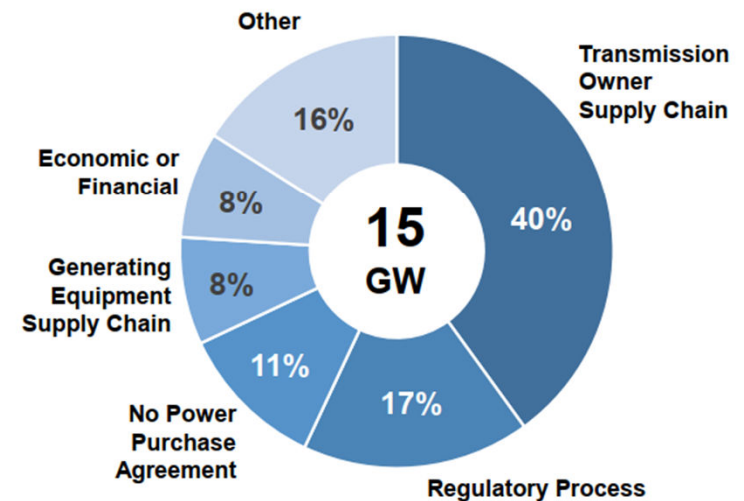
Generator Interconnection
Requests Approved
& Not Online



Survey of 57 GW
Projects Not Online



Delay Reasons



APPA JA | Direct Pay Tax Credit Learnings

The tax credits come with two sets of fine print.

- One is wage and apprentice requirements that require paying mechanics and laborers the same wages that are paid on federal construction jobs not only during construction but also on any alterations and repairs during the first five to 10 years of operation. “Qualified” apprentices must be used for 15% of total labor hours during construction.
- The other fine print is anyone expecting a direct cash payment must comply with domestic content requirements. Steel and iron items that are structural in function — for example, rebar — must be 100% US-made. The remaining equipment must be at least 40% to 55% US-made, depending on when construction started for tax purposes. Failure to comply with the domestic content requirements will lead to a 10% haircut in the direct cash payment for projects that started construction in 2024, 15% for projects that start construction this year and no direct cash payment at all for projects starting construction after this year.

Independent generators still qualify for larger tax subsidies than public power utilities.

- The gap has narrowed. Depreciation on privately-owned projects is equivalent to an additional 14% investment tax credit. Most independent generators cannot use the tax credits directly and must barter them in the tax equity or tax credit sale market for less than the full-face amount. However, they can usually “step up” the tax basis on which ITCs are claimed.
- Generators are waiting until the late in the development cycle to sign PPAs so as not to lock in uneconomic terms. Tariffs, UFLPA detentions and higher shipping, insurance and construction costs are making it harder to predict prices at which they can commit to supply electricity.



APPA JA | What to Watch in the Next Federal Administration

Executive Branch

- **Energy Czar**. "US needs more electricity to win AI race."
- **Creation of DOGE**. What's the role of DOGE?
- Executive orders
 - **Net Zero, Paris Agreement, LNG, Regulatory Freeze**
- Emergency declarations
 - Tariffs and transformers
 - Permitting v Defense Production Act
 - Federal Power Act

The 119th Congress

- Large budget reconciliation package
 - "One big beautiful bill"
 - Tax, Energy, and Immigration
 - Fate of the Inflation Reduction Act
- Permitting reform?
 - NEPA, ESA, CWA, CAA
- Carbon tariffs
 - GHG policy blending with trade protectionism

Executive Branch: Cabinet Agencies

- Interior (Burgum)
 - Unwind Biden-era restrictions on federal lands? Promote development
 - Purchase Greenland?
- EPA (Zeldin)
 - Reverse power plant GHG rules?
 - Revisit endangerment finding?
- Energy (Wright)
 - Reorient to reduce energy poverty, promote "energy dominance"?
 - Assert more control over FERC?

Independent Agencies

- Federal Energy Regulatory Commission
 - New transmission lines
 - New gas pipelines
 - New goal: cut energy bills by half? How?



2025 Rochester Public Utilities Board



**Melissa
Graner Johnson**

Board President (Trust
Relationship Manager - U.S.
Bank)
2nd Term Ends: January 2026



Malachi McNeilus

Board Vice President (VP of
Operations - Sterling State
Bank)
1st Term Ends: January 2028



Wendy Turri

Board Member (Public Works
Director, City of Rochester –
Retired)
1st Term Ends: January 2029



Brett Gorden

Board Member (Section Head –
Facilities Operations, Mayo
Clinic)
2nd Term Ends: January 2027



Patrick Keane

Board Member & City Council
Liaison (City Council Member -
City of Rochester)
2nd Term Ends: January 2027



2025 Rochester Public Utilities Board – Member Profile



Wendy Turri

Board Member (Public Works
Director, City of Rochester –
Retired)
1st Term Ends: January 2029

Education: B.S. Chemistry from Mankato State University

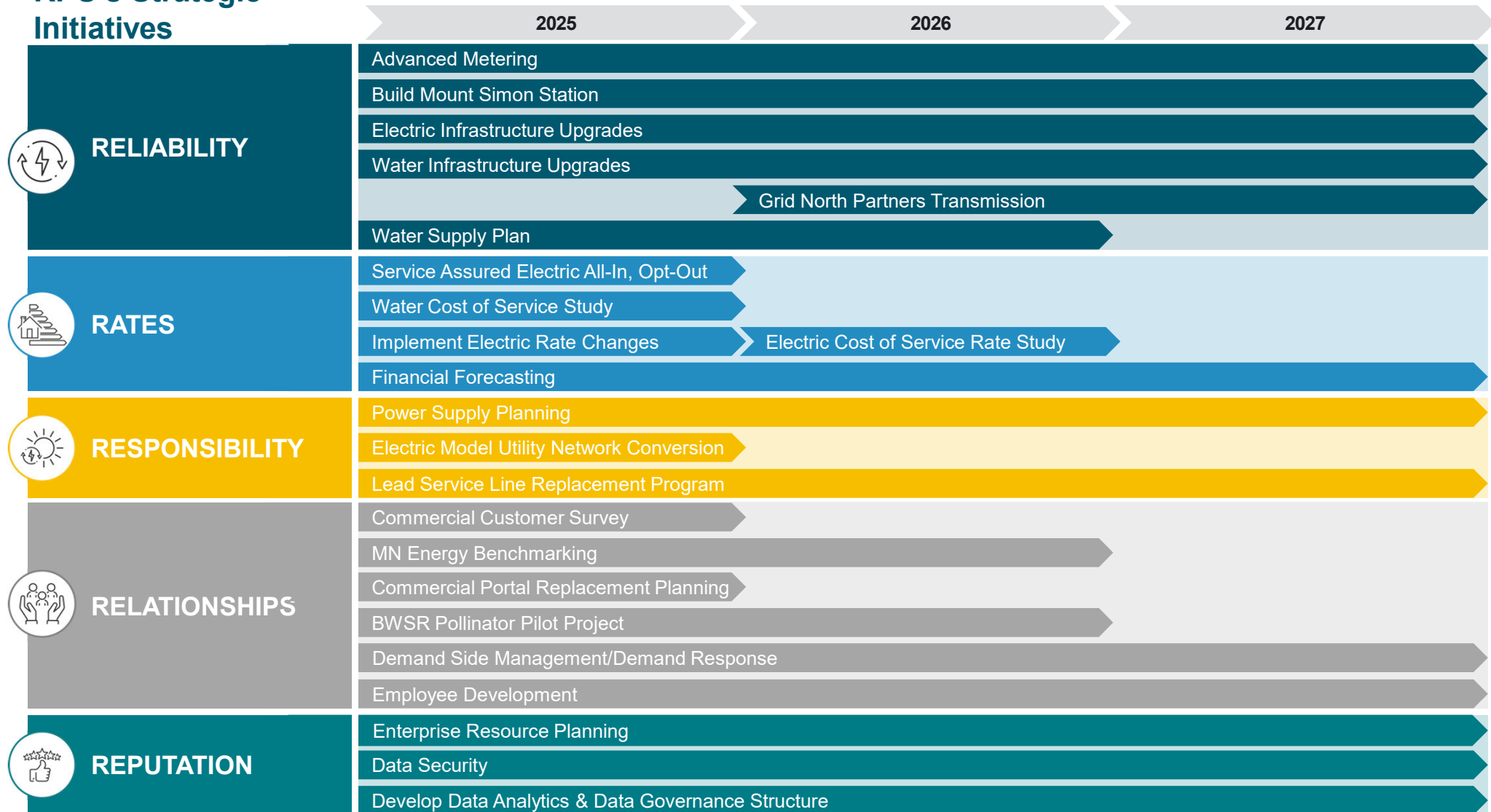
Experience:

- **1982 – 1987:** Worked for the City of Rochester in the WRP lab during the start-up of the oxygen generation plant and became certified as a wastewater operator.
- **1987 – 2017:** Held various roles at the Minnesota Pollution Control Agency, mainly focused on wastewater.
- **2017 – 2024:** Served as Wastewater Manager, Deputy Director of Environmental Sciences, and Public Works Director for the City of Rochester.

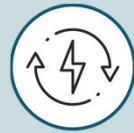
Volunteer Work: Certified volunteer mediator assisting with family mediation through Mediation Conflict Solutions, providing meals at Dorothy Day Hospitality House, member of a Bells group for 30+ years



RPU's Strategic Initiatives



RPU's Strategic Measures within the City's Operation Plan



RELIABILITY

SAIDI (System Average Interruption Duration Index)

Measure of Average Outage Duration

Water Main Breaks per 100 Miles of Distribution Line

Measure of Water Distribution System Asset Condition



RATES

Retail Electric and Water Rates Comparison

Assessment of Regional Rate Competitiveness

Bond Rating (Electric Only)

Measure of Financial Health and Credit Worthiness



RESPONSIBILITY

Energy (kWh) and Water (gal) Saved

Measure of Conservation Program Success

Training Completion Percentage

Measure of Training Completion



RELATIONSHIPS

Net Promoter Score

Measure of Customer Overall Satisfaction

Customer Call Abandonment Rate

Measure of our Responsiveness to Answer the Phone



REPUTATION

Overall Customer Satisfaction

Measure of Customer Overall Satisfaction

Community Involvement and Regional Organizations

Measure of Our Commitment to Community Involvement



2025 Initiatives | General Manager



Continue Improving



Sustain High Performing
Governance



Strategic Plan
Implementation



Recruitment, Succession
Planning & Retention



Organizational & Leadership
Development



Form & Foster Strategic
Partnerships

TM122 [@Melissa], can you add a circle for me at the top to make a triangle? It will be one that reads:

McCollough, Tim, 1/20/2025

TM123 Continue Improving

McCollough, Tim, 1/20/2025

2025 Initiatives | General Manager - Continue Improving

- **2025 Continue Improving Campaign**

- We are in a budgeting year and before we ask more of our ratepayers, I am asking that we live out our values and do more with what we have.
- I am introducing a continuous improvement effort at RPU and am asking each division to propose and then make one or more improvements.
- The definition of improvement requires a clear positive cost/benefit outcome. We aren't spending dollars to save pennies. We are spending days to save weeks of effort or improve quality. Examples from 2024:
 - **Fixing a Business Process.** – adjusting high/low read thresholds
 - **Improving Customer Service.** – adding languages to kiosk
 - **Cutting Waste.** – digitizing processes to eliminate paper handling
 - **Automation.** – fixing manual data entry that has opportunity for error
 - **Curating Data.** – single source of truth for weather history
 - **Streamlining.** – overhauling the division report process and design
 - **Quality.** – expanding Service Assured Electric to All-In, Opt Out



Improving should be evaluated through the lens of our mission, vision, values, and our strategy. It's not change for the sake of change. It's getting better and enhancing the value and quality of our service to our customers.

im•prov•ing *[present participle]*

: to enhance in value or quality : make better : to use to good purpose

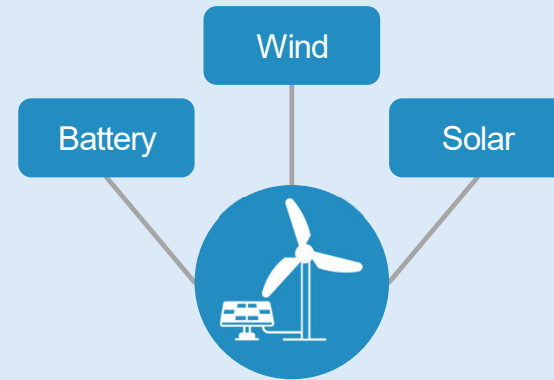




2025 Initiatives | Power Resources



Build Mount Simon Station



Renewable Owner Asset
Structures



Silver Lake Plant
End of Steam Planning



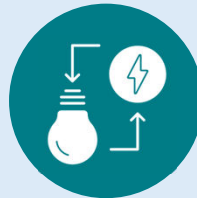
2025 Initiatives | Power Delivery



Advanced Metering



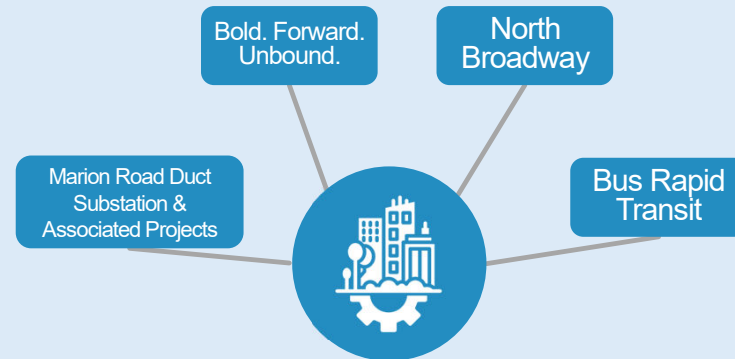
Grid North Partners



Electric Model Utility Network
Conversion



Implement Service Assured
Electric All-In, Opt-Out



Infrastructure Upgrades



2025 Initiatives | Water



Water Supply
Master Plan



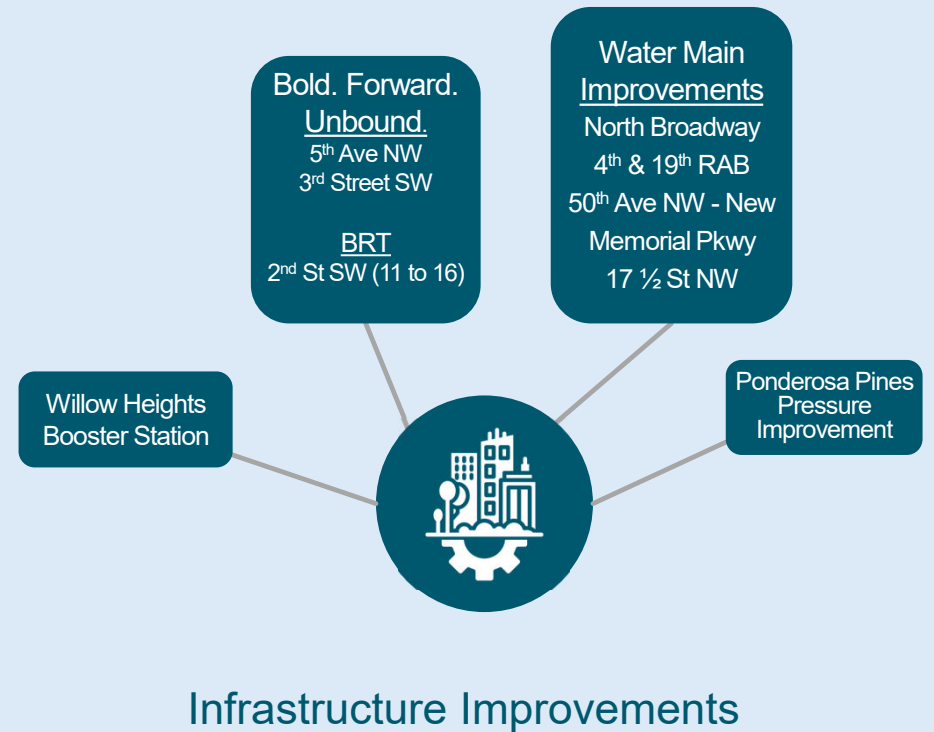
Capital Improvement
Planning



Lead Service Line
Replacement Program

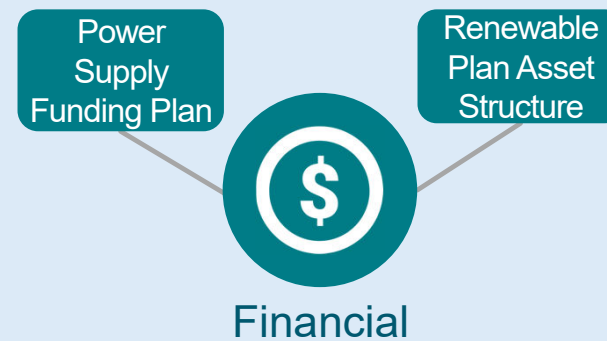
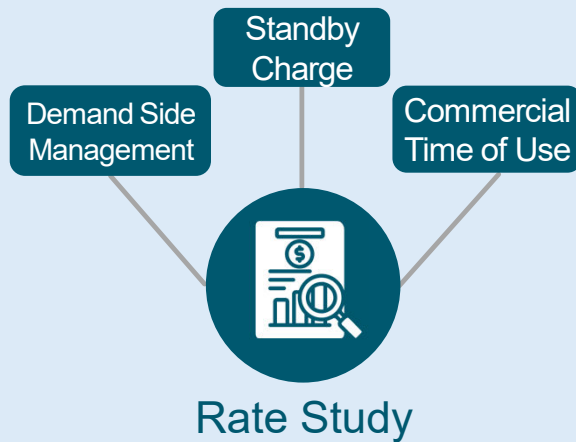


Advanced Metering





2025 Initiatives | Corporate Services



Enterprise Resource Planning



Water Cost of Service Study



2025 Initiatives | Information Technology



Data Security



Data Analytics & Data
Governance Structure



Advanced Metering
Implementation



2025 Initiatives | Customer Relations



Commercial Customer Survey



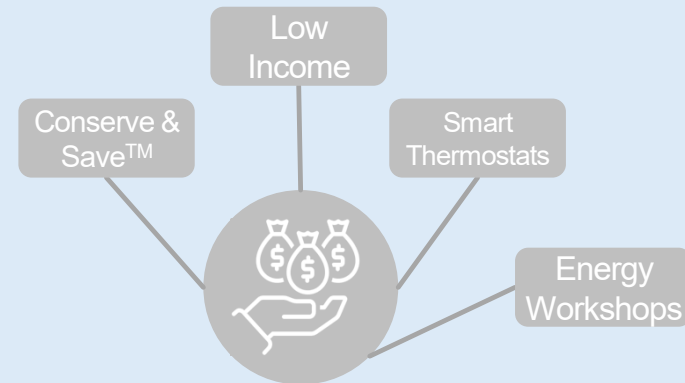
Customer Portal Replacement Project



MN Energy Benchmarking



BWSR Pollinator Pilot Project



Demand Side Management

Financial | External Funding Opportunities Update

TITLE	DESCRIPTION	AMOUNT	STATUS
<u>Rural and Municipal Utility Advanced Cybersecurity Grant (RMUC)</u>	Grant to extend IT security monitoring at substations.	\$236,000	Awarded
<u>Board of Water and Soil Resources (BWSR) Pollinator Pilot</u>	Board of Water and Soil Resources (BWSR) pollinator funding opportunities for utilities.	\$110,000	Awarded
<u>MN Department of Commerce Energy Benchmarking Grant</u>	Grant for municipal utilities to implement the building energy benchmarking legislation from the 2023 session.	\$321,631	Awarded
<u>FEMA & MN Emergency Funds</u>	Received notice that the estimates again fell below the Federal \$750k threshold	\$108,750	Pending Reimbursement
<u>MN Electric Grid Resilience Grants Program</u>	<p>The MN EGRG Program created by the State Legislature (Minn. Law Chapter 60—H.F.No. 2310. Article 12. Sec. 72.), is designed for eligible electric utilities to increase their electric grid resiliency by preparing for, adapting to, or minimizing the consequences of extreme weather or malicious physical or cyber-attacks.</p> <p>A total of \$5.3M is available; the maximum award to eligible entities is \$250k. There is no match required for the funds. Three project concepts were submitted in November 2024:</p> <ul style="list-style-type: none"> • Lake Zumbro Hydroelectric Dam Backup Communications (\$26k) • Substation Video camera Infrastructure (\$99k) • Substation Thermal Camera Infrastructure (\$250k) 	\$375,000	Submitted Announcement in Early 2025
<u>Lead Service Line Replacement Program via Public Facilities Authority</u>	Rochester Public Utilities has submitted a 2025 Lead Service Line Replacement Program projects on the Intended Use Plan (IUP) Drinking Water State Revolving Fund for construction in 2025.	\$1,021,000	Awarded
<u>Inflation Reduction Act (IRA) Direct Pay Tax Credits</u>	Direct pay tax incentives now available to tax-exempt entities through up front investment tax credits or through production tax credits on renewable and other projects (batteries)	\$90,000,000	Exploring opportunities with the Power Supply Plan



What's Ahead

Wed, Feb 12	SMMPA Board Meeting	McCollough	Lake City, MN
Tue, Feb 18	**RPU Board Meeting**	Board – All, McCollough	RPU
Mon, Feb 24 – Thu, Feb 27	APPA Legislative Rally	McNeilus, McCollough	Washington, DC
Tue, Mar 4 – Fri, Mar 7	The Energy Authority (TEA) Symposium	McCollough, Bullock	Atlantic Beach, FL
Wed, Mar 12	SMMPA Board Meeting	Bullock (McCollough PTO)	Litchfield, MN
Thu, Mar 20	RPU Employee Recognition Breakfast	Graner Johnson, McCollough	RPU
Tue, Mar 25	Flourish Session & RPU Board Mtg	Board – All, McCollough	RPU
Sun, Mar 30 – Tue, Apr 1	TAPS Group Spring Conference	McCollough	Washington, DC
Tue, Apr 8	SMMPA Board Meeting	McCollough	Mora, MN
Fri, Apr 25	RPU Arbor Day Celebration	Board – TBD	Rochester, MN
Tue, Apr 29	RPU Board Meeting	Board – All, McCollough	RPU
Wed, May 14	SMMPA Board Meeting	McCollough	New Prague, MN
Tue, May 20	**RPU Board Meeting**	Board – All, McCollough	RPU
Sun, Jun 8 – Wed, Jun 11	APPA National Conference	Board – TBD, Hogan	New Orleans, LA
Sun, Jun 8 – Wed, Jun 11	AWWA Annual Conference & Expo	Board – TBD, McCollough	Denver, CO



QUESTIONS