

MINUTES OF THE PROCEEDINGS

of the Public Utilities Commission, City of Hibbing, St. Louis County, Minnesota

Page One

January 23, 2018

Minutes of the regular meeting of the Public Utilities Commission, Hibbing, Minnesota held on January 23, 2018, in the Commission Meeting Room at the Hibbing Public Utilities Administration, 1902 E. 6th Ave., Hibbing, MN 55746. Meeting was called to order by Chairperson McGuire at 5:00 p.m. In attendance were Chairperson McGuire; Commissioner Garrity; Commissioner Grahek; Commissioner Dicklich; Commissioner Rian; Legal Counsel, Andy Borland; General Manager, Scott Hautala; Director of Finance, Jean Lane; Administrative Assistant, Penny Lange; Director of Power Production, Bob Nyberg; and Director of Utility Operations, Corey Lubovich. Also in attendance was HPAT Rep., Ron Wirkkala; State Rep., Julie Sandstede; AFSCME Reps., L. Stoll and S. Vergin; Local 94 employees, M. Reger, T. McGuire, J. Stokes, E. Savela, T. Garrity, S. Senich, S. Cox, R. Kampsula, P. Plombon, J. Frederick, and G. Hooper.

Chairperson McGuire pulled item #4 from the Agenda.

CITIZENS FORUM – Rodney Pelky of Clean Again Laundry was present to discuss rate increases. Mr. Pelky asked about how competitive is HPU compared to other local municipalities, off-peak power, and future rate increases. S. Hautala responded to the questions about competitive rates and off-peak power. Chairperson McGuire stated that in review of the budget the Commission is hoping not to have to raise rates mid-year.

Motion made by Commissioner Rian, supported by Commissioner Grahek, to approve the regular meeting minutes of January 9, 2017. Commissioner Garrity requested amending the minutes regarding his motion to get information to the Commissioners in a timely manner for the working sessions.

Motion by Chairperson McGuire, supported by Commissioner Rian, to amend the minutes to reflect the change as stated above.

Motion carried unanimously

ANNOUNCEMENTS – None

The Commission review of bills from January 12, 2017 through January 19, 2018, check numbers 37316 through 37393 and ACH transfers Numbers 11218 through 1191805.

Motion by Commissioner Grahek, supported by Commissioner Rian, to approve the bills from January 12, 2017 through January 19, 2018, check numbers 37316 through 37393 and ACH transfers Numbers 11218 through 1191805 in the amount of \$1,815,289.08.

Motion carried unanimously.

The Commission reviewed the payroll paid and overtime report for the January 18, 2018 pay date.

MINUTES OF THE PROCEEDINGS

of the Public Utilities Commission, City of Hibbing, St. Louis County, Minnesota

Page Two

January 23, 2018

Motion by Chairperson McGuire, supported by Commissioner Rian, to approve the payroll and overtime report for the January 18, 2018 pay date, in the amount of \$236,489.17.

Motion carried unanimously.

The Commission reviewed the Policy Exemption Form dated January 8, 2018 regarding Hardt Properties water/sewer credit.

Motion by Commissioner Rian, supported by Commissioner Garrity, to approve the recommendations by the review team regarding the Hardt Properties waiver. The credit on water is in the amount of \$125.04, and the sewer credit in the amount of \$168.35, for a total of \$293.39, according to HPU Customer Policy CUST113.

Motion carried unanimously.

Motion by Commissioner Rian, supported by Commissioner Garrity, to approve the recommendations by the review team regarding the Gorick waiver. The credit on water is in the amount of \$78.21, and the sewer credit in the amount of \$88.73, for a total of \$166.94, according to HPU Customer Policy CUST113.

Motion carried unanimously.

Motion by Commissioner Rian, supported by Commissioner Garrity, to approve the recommendations by the review team regarding the Olson waiver. The credit on water is in the amount of \$316.66, and the sewer credit in the amount of \$332.15, for a total of \$648.81, according to HPU Customer Policy CUST113.

Motion carried unanimously.

S. Hautala requested that the Gas Purchasing – Gas Nomination - PGA consider separate working session meeting as there is large amount of information and will allow enough time to discuss and answer Commissioners questions as this is a complex subject.

Motion by Commissioner Grahek, supported by Chairperson McGuire, to hold a working session for the natural gas utility at a date to be determined in the near future. Commissioner Garrity requested the information be given to the Commission at a minimum of one to two weeks in advance so they have ample time to process the information for the meeting.

Motion carried unanimously.

The Commission reviewed the correspondence dated January 19, 2018 from S. Hautala regarding 2018 Quote Awards. The respective department heads gave brief clarification and background on how and why quote awards are determined. Lengthy discussion ensued.

MINUTES OF THE PROCEEDINGS

of the Public Utilities Commission, City of Hibbing, St. Louis County, Minnesota

Page Three

January 23, 2018

Motion by Commissioner Dicklich, supported by Chairperson McGuire, to award the quotes as presented with the additional qualification to award dual acceptance of the low qualified contractor(s) for boilermakers and millwrights.

Motion carried unanimously.

The Commission reviewed the correspondence from R. Nyberg dated January 19, 2018 regarding Request for Call for Public Bid No. 01-18: Pipefitter Services for CY 2018, and Request to Call for Public Bid No. 02-18: Plant Chemicals for CY 2018. Lengthy discussion held. Commissioner Rian asked about the bidding process. A. Borland stated that estimated project costs over \$100,000 must be a sealed competitive bid process

Motion by Commissioner Dicklich, supported by Chairperson McGuire, to Call for Sealed Public Bid No. 01-18: Pipefitter Services for CY 2018.

Motion carried unanimously.

Motion by Commissioner Dicklich, supported by Chairperson McGuire, to Call for Sealed Public Bid No. 02-18: Plant Chemicals for CY 2018.

Motion carried unanimously.

The Commission reviewed the correspondence from S. Hautala, dated January 19, 2018 regarding Review 2019 Organizational Chart. S. Hautala gave presentation of the 2019 organizational chart, stating that the MNPUC gave their written decision on the Xcel PPA Termination Agreement, which has implications for HPU staffing levels. S. Hautala stated that the HPU is looking to be a flexible, opportunistic and engaged organization focused on the customer. S. Hautala indicated that the HPU has not changed in its organization structure in many years and has held many meetings with employee to get feedback and ideas regarding the future of HPU.

Motion by Chairperson McGuire to accept the organizational chart as presented, understanding that it is a working document and changes may occur.

Discussion:

Commissioner Dicklich stated that the chart is laying off employees which takes out about 1 million dollars of the community. Commissioner Dicklich stated that since rates will not be lowered, a reduction of employees will still not relieve rate payers, and he is not in support of the organizational chart as presented.

Chairperson McGuire stated that if the HPU does not re-organize, rates will climb and the community will suffer regardless of layoffs. Chair McGuire stated that the severance packages may be a viable option for reductions in hopes the layoffs will be minimal, but the Utility must restructure.

MINUTES OF THE PROCEEDINGS

of the Public Utilities Commission, City of Hibbing, St. Louis County, Minnesota

Page Four

January 23, 2018

Commissioner Dicklich stated the HPU has \$50 to \$60 million dollars coming in to reshape the Power Plant and cutting people is not going improve the situation. Commissioner Dicklich stated the intent of the money was to reshape the Utility and no one knows exactly what that will look like in the future.

Commissioner Rian stated that there is an upcoming meeting to start the process to get a better handle on the costs for the improvements. Commissioner Dicklich stated that he agreed but that his problem was that of the organizational chart to fit a utility that no one knows what it is going to look like in the future and that HPU has to operate what it has.

Chair McGuire stated that it is known what the future utility will look like in that at the end of April HPU will not be producing electricity.

Commissioner Rian stated future HPU staffing was based on how other utilities are staffed determined by what HPU will be producing and distributing. Reductions were not just done due to the changes in plant operation.

S. Hautala stated the draft plan for 2019 is the HPU will be making steam for the district and the plan for 2023 includes making steam for the district but the size of the boilers is unknown.

Questions and comments from the audience about: changes in employee work loads, number of employees historically at HPU, sharing information from the employees gathered at the internal employee meetings, no future operations plan, AMI, low employee morale, unanswered questions from management, outstanding questions from last fall working session, union employee bumping, MP contract, safety issues, wasting resources not cutting employee was the problem, outside hiring versus using employees to perform work.

Representative Sanstede asked if there was any action taken on the consulting firm names that were provided to plan for the long-term planning succession. Rep. Sanstede had concern over any kind of cuts or reorganization without a plan in place. She asked if there was an analysis of workforce longevity as far as early retirement incentives. She stated she would like to see this process slowed down until there is a thorough plan in place, and that HPU is currently in the data gathering stage.

Chair McGuire responded they have not had an opportunity since the last meeting, as the meetings are the only place they can discuss items is at Commission meetings. Chair McGuire stated that he was in favor of choosing a firm, but he has not heard any feedback from any other Commissioners on the subject.

S. Hautala stated Springsted, HDR, and Barr Engineering have been contacted to discuss developing a work scope so that pricing of infrastructure projects and organization structure can be obtained.

MINUTES OF THE PROCEEDINGS

of the Public Utilities Commission, City of Hibbing, St. Louis County, Minnesota

Page Five

January 23, 2018

Rep. Sanstede asked if the Utility had a timeline of potential retirees, and how it may or may not work. Chair McGuire stated that management has addressed organization staff reductions with a three prongs approach including retirements, buyout agreements, and layoffs, and there is no certainty of how it will play out.

S. Hautala stated that no one at the table wants a layoff and HPU wants employees have options but the process still needs to be in place. He stated that the Commission can hopefully get to a point to approve an early retirement plan, with the employees taking the opportunity or not, which is the next step to do recognizing the longer the HPU goes without a plan, the more it will impact HPU without LEA electric production.

Chairperson McGuire stated that this situation is a work in progress and will evolve over time and it is a starting point. Commissioner Grahek stated that the Commission has been looking at the organization charts the last few meetings and it was brought up about working with a consulting firm. He asked how much will it cost and how long will the study take? S. Hautala replied that he will be meeting with Barr Engineering, Springsted and HDR soon. Commissioner Grahek stated if a consulting firm was utilized to develop a HPU future operations plan a reorganizational chart(s) would be part of their plan and the Commission could go from there. Commissioner Grahek stated that he is not in favor of layoffs, and that attrition seems to be a better way.

Chairperson McGuire stated after April 2018, there will be a negative financial impact as the Xcel Energy contract with LEA will be terminated and a million dollar a month will not be incoming into HPU.

Commissioner Rian stated that Springsted and HDR have a history with municipal utilities and can help develop a scope of direction for the HPU. He stated that it is a step in the right direction and that he is not in favor of layoffs.

Commissioner Dicklich requested a list of projects. S. Hautala requested Commission direction in that should management work with itself, external, or come up with a plan like VPU. It was discussed that HPU has a much better system than Virginia's, but Hibbing's has also not been maintained. Chairperson McGuire stated that the study must be started to see the results to determine the best route for the HPU.

Motion failed for lack of second.

Motion by Chairperson McGuire to allow management to begin comprehensive review of the steam system, all aspects of it, from keeping it, from shutting it down piecemeal, from shutting it down all the way, from doing condensate studies, so HPU can come up with an idea of what we have got. Commissioner Grahek asked if was including the consulting firms or just the internal managers? Chairperson McGuire stated that he wants the best study to plan for the future and where the data comes from, internal or

MINUTES OF THE PROCEEDINGS

of the Public Utilities Commission, City of Hibbing, St. Louis County, Minnesota

Page Six

January 23, 2018

external, or both. Commissioner Garrity discussed cost saving ideas to help make recommendations to help improve the production legs of the HPU, and that the legislation provisions were to be used to improve the systems and given in good faith for these reasons. Commissioner Garrity stated that a long-term analysis needs to be done and it is owed to the customers to be the most cost-effective Utility. Commissioner Garrity stated that the intent of the legislative money was not to lay off people, but rather restructure.

Motion failed for lack of second.

Chairperson McGuire clarified the motion per Commissioner Dicklich's request as follows:

Motion by Chairperson McGuire, supported by Commissioner Grahek, to start the steam study.

Motion carried unanimously.

Commissioner Rian asked who is going to lead the study. Chair McGuire stated that management along with the consulting firms will manage it. Further discussion on the process to be used by the outside consultant to ensure an unbiased report.

Commissioner Rian stated a scope must be developed before going out to a long term consulting firms. Chair McGuire agreed that a scope of work needs to be developed using outside consults HDR, Springsted, and Barr to develop the scope, and then find a long-term planning consultant.

Motion by Commissioner Dicklich, supported by Commissioner Garrity to not approve the organizational chart as presented.

Motion by Chairperson McGuire, supported by Commissioner Grahek to expand the previous motions to authorize management to work with Springsted, HDR, Barr Engineering to draw up a set of parameters for the HPU to present to an outside long-term consulting firm to develop a plan encompassing all aspects of the utility, all six pieces of it, not just team, including organization chart and job descriptions, with unanimous acceptance of the Commission.

Motion failed.

Motion by Chairperson McGuire to rescind the previous motion, seconded by Commissioner Grahek.

Motion carried unanimously.

Motion by Commissioner Garrity, supported by Chairperson McGuire, to go forward with requesting Barr Engineering, HDR, and Springsted to provide a scope of parameters/work for the HPU to present to an outside long-term consulting firm to develop a plan encompassing all aspects of the entire utility.

Motion carried unanimously.

MINUTES OF THE PROCEEDINGS

of the Public Utilities Commission, City of Hibbing, St. Louis County, Minnesota

Page Seven

January 23, 2018

The Commission reviewed the correspondence from S. Hautala dated January 20, 2018 regarding Review 2018 Voluntary Retirement/Severance Plan.

Motion by Chairperson McGuire, supported by Commissioner Dicklich, to strike the Review of the 2018 Voluntary Retirement/Severance Plan.

Motion carried unanimously.

The Commission reviewed the correspondence from J. Lane dated January 19, 2018 regarding Vendor List and placed in the Commission file.

No action taken.

The Commission reviewed the correspondence from J. Lane dated January 19, 2018 regarding Preliminary Financial Statements as of December 31, 2017, placed in the Commission file after lengthy discussion.

No action taken.

The Commission reviewed the correspondence from S. Hautala dated January 20, 2018 regarding Financials: Personnel Job Cost Allocations – Plant Operations (postponed) and Support Services and placed in the Commission file after lengthy discussion.

No action taken.

OLD BUSINESS

- Common themes: Employee meeting. Commissioner Rian would like to review.

NEW BUSINESS

- S. Hautala stated that the MN Public Utilities Commission provided their written decision today (January 23, 2018) on the Xcel Termination Agreement. He stated that the power plant fuel evaluation process is continuing. HPU may be generating electricity through the end of April. After that date, there will be no Xcel Energy sales and we will only be generating electricity with the steam distribution steam.
- L. Stoll formally invited any Commissioners to attend the next union meeting at the Memorial Building Labor Quarters. Meetings are the 4th Thursday of the month at 5:00 p.m.
- C. Lubovich discussed lead/copper results from drinking water sampling. HPU's 2016 water sampling resulted in an exceedance of a MN health standard for lead. We performed one test during the spring of 2017, with results that were within the MN health standard. HPU was requested to perform a second 2017 water sample late in the year. HPU was made aware that we had missed the deadline for the second sample. We are in the process of receiving lab results for the second sample group. HPU will not receive a monetary citation for missing the sample period deadline, but we are required to notify the public, which we will do through the HPU website. If the second 2017 sampling event results in a value within the health standard, testing will then likely be annual. Then if that result shows a

MINUTES OF THE PROCEEDINGS

of the Public Utilities Commission, City of Hibbing, St. Louis County, Minnesota

Page Eight

January 23, 2018

compliant health standard test, the frequency will likely result in a return to the three-year testing period.

The Commission reviewed the correspondence from S. Hautala dated January 18, 2018 regarding Closed Session: Contract Negotiations Update.

Motion by Chairperson McGuire, supported by Commissioner Rian, to enter into Closed Session at 9:11 p.m.

Motion carried unanimously.

Present in the Closed Session was Chairperson McGuire; Commissioner Garrity; Commissioner Grahek; Commissioner Dicklich; Commissioner Rian; Legal Counsel, Andy Borland; General Manager, Scott Hautala; and Director of Finance, Jean Lane.

Motion by Commissioner Dicklich, supported by Commissioner Rian, to enter into Open Session at 9:55 p.m.

Motion carried unanimously.

Motion by Commissioner Dicklich, supported by Commissioner Rian, to adjourn the meeting at 9:57 p.m.

Motion carried unanimously.

Attest:

Larry McGuire, Chairperson

Jean Lane, Commission Secretary

***The next regular Commission meeting is scheduled for
Tuesday, February 13, 2018 at 5:00 p.m.
at the Hibbing Public Utilities Administration Building, at 1902 East 6th Ave, Hibbing, MN 55746***

p/mins January 23, 2018.doc