

PRESS RELEASE

October 25, 2011

Muscatine Power and Water
3205 Cedar Street
P.O. Box 899
Muscatine, IA 52761
Contact: Erika Cox
Phone: 563-262-3305
FAX: 563-262-3315

FOR IMMEDIATE RELEASE

MP&W Board of Trustees Receives 2012 Operating Budgets

At the October Board of Water, Electric, and Communications Trustees meeting, MP&W staff presented the Board with the 2012 Electric, Water, and Communications Operating Budgets for their review. Approval will be requested at the November 29 Board meeting. Major drivers impacting next year's budgets include: for the Electric Utility – stable retail kilowatt sales volumes, increasing coal and coal transportation expenses, continued lower margin from wholesale energy sales, and a reduction in revenue from steam sales; for the Water Utility – stable retail water sales, and increased maintenance, electricity, and chemical expenses; and for the Communications Utility - increased programming and additional bandwidth costs, moderate subscriber growth, and capital projects to meet ongoing Internet requirements.

Don Kerker, Director, Finance and Administrative Services, told the Board the primary drivers are laid out to look at the cash inflows and outflows for each of the Utilities. "Because of the adverse economic conditions, the Electric Utility continues to face some significant challenges while striving for adequate net income, cash flow and reserves that are necessary to properly operate the business. Improvements in plant maintenance practices, and enhanced predictive and preventative maintenance techniques have allowed us to extend Unit 9's outage intervals from 12 months to 24 months. An extended 8-week maintenance outage was taken on Unit 9 in 2011, which included a generator overhaul and rewind. Not having a Unit 9 maintenance outage in 2012 will conserve cash and eliminate expenses associated with an outage. It also allows for increased wholesale energy sales revenue, as the Unit will be available to sell energy into the MISO energy market."

A significant challenge for the Electric Utility, affecting both wholesale energy and steam sales, is a new Federal Environmental Protection Agency regulation called the Cross State Air Pollution Rule (CSAPR). CSAPR impacts SO₂ and NO_x emissions for Units 8, 8A and 9. It is slated to go into effect January 1, 2012, but the EPA may defer compliance with a part of the Rule to January 1, 2014. "At this time, we are planning as if full compliance with CSAPR will be required January 1, 2012. Unit 9's operation will be minimally impacted while the amount of time Units 8 and 8A will run is reduced significantly," explained Kerker.

Also included in the 2012 capital expenditures budget is \$1.7 million to install an additional rail track spur at the power plant. "This project is dependent on successful negotiations of a new rail contract with the CP Rail," offered Kerker. "The project provides for improved operational efficiencies for the CP Rail in delivering coal to the Utility and for MP&W in less total time to unload the train which will result in better utilization of the rail car assets." Depending on negotiations, Management may be back to the Board requesting a modification to the Budget for capital necessary to update the barge unloading facility, rather than a new rail spur.

The Electric Utility has budgeted for a Net Loss of nearly \$9.0 million; however, that loss includes depreciation of over \$11.2 million, a non cash item. The budget indicates a positive cash flow, before capital expenditures and borrowings, of \$8.4 million.

The budget includes a previously approved 5% electric rate increase effective August 1, 2012, and, consistent with the Ten-Year Projections, includes a net borrowing of \$26.8 million to partially fund capital expenditures and substantially achieve financial reserve targets.

"Although the picture looks very challenging, we are in a better financial position than many other electric utilities. Because of our success selling excess energy into the wholesale market, along with continued cost containment efforts and rapid debt repayment, we have been able to manage our operation successfully with scheduled modest price increases and have not instituted the sharp price increases experienced at many other utilities. Our electric rates are very low in comparison," said Kerker.

"We have a history of making ongoing, proactive operational and environmental upgrades to our Units. Those upgrades have extended the useful lives of the Units and allowed us to continue to successfully operate in an increasingly complex landscape of environmental compliance requirements. We're ahead of many other utilities which forewent those investments and may not be able to meet compliance requirements. Fortunately," Kerker reminded the Board, "our final debt service principal payment on current debt of \$13.6 million, will be made in January 2012. The debt service payment on the \$26.8 million borrowing will be significantly lower than our current debt service payment and will free up cash for ongoing operating and capital expenses."

The Water Utility has budgeted Net Income of \$138 thousand, including depreciation of \$642 thousand. The Budget indicates a positive cash flow, before capital expenditures and borrowings, of \$771 thousand. Contract and other retail sales of \$4.6 million, based upon contract customer input, reflects a slight decrease for 2012 of 1.5% in gallons consumed, largely driven by lower power plant usage. Chemical and electric expenses continue to be the most significant expense drivers. "A continued program of deferring expenses where possible along with a modest 5% rate increase, effective April 1, 2012 is budgeted to preserve operating margins," said Kerker. Consistent with the Ten Year Projections, a net borrowing of \$2.45 million is included in the budget to fund capital expenditures and meet financial reserve targets. Water rates remain among the lowest in the state and nationally.

The Water Utility is finalizing a system-wide reliability study. Staff is evaluating the recommendations from the study and establishing priorities. We expect to finalize the priorities and projects in 2012 for inclusion in future years' budgets. "There appear to be several alternatives with varying levels of costs; staff will evaluate the alternatives, with a goal of identifying the most cost-effective solutions to maintain our high levels of water quality and reliability," Kerker added.

The Communications Utility budget shows a Net Loss of \$926 thousand, including depreciation and amortization of \$2.5 million and \$.8 million, respectively. In contrast, the Communications Utility Budget indicates a positive cash flow, before capital expenditures, of \$1.4 million. Revenue is forecasted to be \$8.2 million from CATV revenues and ad sales and \$4.3 million from Internet/MME revenues. According to Kerker, "Revenues reflect CATV and Internet subscriber growth of 3%. Major drivers of expenses include programming costs and Internet bandwidth purchases, labor and fringe, and debt repayment. These drivers account for 77% of the Communications Utility's total cash outflows."

The 2012 Budget projects 2 – 4% rate increases for communications services, in part, to cover increasing programming expenses and additional Internet bandwidth purchases. Kerker explained, "Our customers' bandwidth use continues to grow as more and more services and forms of entertainment are delivered over the Internet. This year we purchased additional bandwidth and made system modifications to maintain high Internet service delivery and customer satisfaction levels. The 2012 Budget includes a project to purchase additional equipment and make modifications to the Headend in order to continue delivery of an Internet product that is the fastest in Muscatine."

General Manager, Sal LoBianco, concluded, "All three of the budgets incorporate the prioritization of expense projects, deferral of hiring to fill certain open positions as well as constrained capital spending, with the goals of meeting the needs of our customer/owners at the lowest cost possible while supporting the Critical Issues and Core Values identified in the Strategic Plan."