

AGENDA
SHAKOPEE PUBLIC UTILITIES COMMISSION
REGULAR MEETING
MARCH 21, 2016

1. **Call to Order** at 5:00pm in the SPUC Service Center, 255 Sarazin Street.
2. **Approval of Minutes**
3. **Communications**
 - 3a) Resn. #1118 – In Recognition of Public Service – William Mars
4. **Approve the Agenda**
5. **Approval of Consent Business**
6. **Bills: Approve Warrant List**
7. **Liaison Report**
8. **Reports: Water Items**
 - 8a) Water System Operations Report – Verbal
 - 8b) Resn. #1119 – Approving Watermain Replacement with the 2016 City of Shakopee Street Reconstruction Project
 - C=> 8c) Monthly Production Dashboard
9. **Reports: Electric Items**
 - 9a) Electric System Operations Report – Verbal
 - 9b) APPA Lineworker's Rodeo – Verbal
 - 9c) 2015 APPA Certificate of Excellence in Reliability Award
 - 9d) Dean Lake Substation Expansion Project Update
 - NSP Construction Agreement
 - Bid Award for 47 MVA Transformer
10. **Reports: Human Resources**
 - 10a) Electric Superintendent Position - Verbal
11. **Reports: General**
 - 11a) 2015 Audited Financial Statements – BergenKDV Presentation
 - 11b) Customer Survey – Discussion
 - C=> 11c) February 2016 Financial Statements
12. **New Business**
13. **Tentative Dates for Upcoming Meetings**

- Regular Meeting	--	April 4
- Mid Month Meeting	--	April 18
- Regular Meeting	--	May 2
- Mid Month Meeting	--	May 16
14. **Adjourn to 4/4/16** at the SPUC Service Center, 255 Sarazin Street



MINUTES
OF THE
SHAKOPEE PUBLIC UTILITIES COMMISSION
(Regular Meeting)

President Joos called the regular session of the Shakopee Public Utilities Commission to order at the Shakopee Public Utilities meeting room at 5:00 P.M., March 7, 2016.

MEMBERS PRESENT: Commissioners Joos, Amundson, Mars and Olson. Also present, Liaison Whiting, Finance Director Schmid, Planning & Engineering Director Adams, Line Superintendent Athmann, Water Superintendent Schemel and Marketing/Customer Relations Director Walsh. Commissioner Helkamp and Utilities Manager Crooks were absent as previously advised.

Motion by Mars, seconded by Amundson to approve the minutes of the February 16, 2016 Commission meeting. Motion carried.

Motion by Amundson, seconded by Olson to approve the minutes of the February 22, 2016 Commission meeting. Motion carried.

Under Communications, Commissioner Olson presented an article about the number of worldwide Facebook users. He also discussed the number of websites that currently exist on the internet.

President Joos offered the agenda for approval.

Finance Director Schmid stated the monthly financial report Item 11a, is actually January and not December as the Agenda has listed.

Motion by Mars, seconded by Amundson to approve the modified agenda as presented. Motion carried.

Motion by Olson, seconded by Amundson to approve the Consent Business agenda as presented. Motion carried.

President Joos stated that the Consent Item was: item 11a: January Financials.

The warrant listing for bills paid March 7, 2016 was presented.

Motion by Amundson, seconded by Olson to approve the warrant listing dated March 7, 2016 as presented. Motion carried.



Liaison Whiting presented his report. He stated the Council meeting that is scheduled for March 15 does not have an Agenda set as of yet and the City continues to work on the Street Reconstruction Projects.

Water Superintendent Schemel provided a report of current water operations. In-house training on watermain inspection was recently held for the Water and Engineering Departments. Staff attended a water meter sizing class and the Waterous Company, maker of valves and hydrants, was visited by employees.

The 2016 City of Shakopee Street Reconstruction Project was reviewed by Mr. Schemel.

Motion by Olson, seconded by Amundson to offer Resolution #1117. A Resolution Approving Watermain Replacement With The 2016 City Of Shakopee Street Reconstruction Project. Ayes: Commissioners Mars, Olson, Amundson and Joos. Nay: none. Motion carried. Resolution passed.

Line Superintendent Athmann provided a report of current electric operations. Circuit 44 which serves the Amazon load, has been energized and is in service. Four outages to the electric system were reported. Two were caused by squirrels, one from a underground cable failure and one caused by a lightning arrestor. Crews are wrapping up the annual tree trimming program. Rodeo planning is going well. A record number of Apprentices and Journeyman teams are competing this year.

The MMPA February Board Meeting Summary was read into the record by President Joos.

Item 11a: January Financials was received under Consent Business.

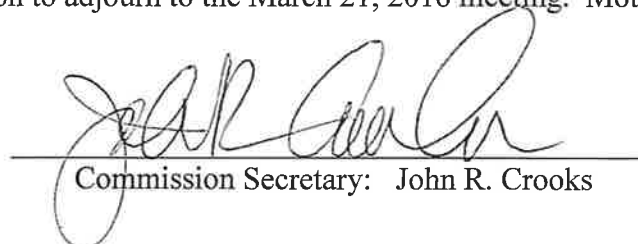
Several changes, as identified during the February 15 Commission meeting, were incorporated in the existing SPU Governance Handbook. The proposed changes were discussed and reviewed.

Motion by Mars, seconded by Amundson to accept the changes made to the SPU Governance Handbook. Motion carried 3-1, with Commissioner Olson voting nay.

The 2016 Goals and Objectives that were identified during the February 22 Work Session were discussed and reviewed.

The tentative commission meeting dates of March 21 and April 4 were noted.

Motion by Mars, seconded by Olson to adjourn to the March 21, 2016 meeting. Motion carried.



Commission Secretary: John R. Crooks

RESOLUTION #1118

A RESOLUTION IN RECOGNITION OF PUBLIC SERVICE

William P. Mars

WHEREAS, William P. Mars, throughout his tenure as commissioner of the Shakopee Public Utilities always applied his best efforts toward the professional operation of the Shakopee Public Utilities Commission, and

WHEREAS, Mr. Mars consistently performed his duties in a diligent, conscientious, and civic minded manner,

THEREFORE BE IT RESOLVED, that Commission expresses its appreciation and that of the people of Shakopee to Mr. Mars for his eleven plus years of dedicated service.

BE IT FURTHER RESOLVED, by the Shakopee Public Utilities Commission that this resolution be adopted as a tribute to those years of faithful service of William P. Mars and that a copy of the resolution be retained as a permanent testimony to the action.

Adopted in regular session of the Shakopee Public Utilities Commission, this 21st day of March, 2016.



Commission President: Terrance Joos

ATTEST:

Commission Secretary: John R. Crooks



**SHAKOPEE PUBLIC UTILITIES
MEMORANDUM**

TO: John R. Crooks, Utilities Manager 
FROM: Lon R. Schemel, Water Superintendent 
SUBJECT: 2016 City of Shakopee Street Reconstruction
DATE: March 17, 2016

BACKGROUND

Resolution #262 defines the sequences involved in coordinating construction projects between the City of Shakopee and SPU. We are now at step 13 of that process which is the adoption of a resolution ordering the project from the City of Shakopee.

ISSUE

On March 7, 2016 the SPU Commission adopted resolution #1117 which approved the feasibility report from the City of Shakopee for the areas involved to receive new watermain and appurtenances.

ACTION REQUESTED

Staff requests that the Commission adopt resolution #1119 to enable the City of Shakopee to proceed with the ordering of the project for the 2016 Street Reconstruction.



RESOLUTION #1119

A RESOLUTION APPROVING WATERMAIN REPLACEMENT
WITH THE 2016 CITY OF SHAKOPEE STREET RECONSTRUCTION PROJECT

WHEREAS, the Shakopee City Council has ordered an improvement to the areas defined in the 2016 Street Reconstruction Project for street, sidewalk, sanitary sewer, storm sewer, curb and gutter, and

WHEREAS, the Shakopee Public Utilities Commission desires to replace the existing watermain, valves, hydrants, and service lines to the curb stop valve at cost to the Shakopee Public Utilities Commission, and

WHEREAS, the Shakopee Public Utilities Commission on March 7, 2016 approved the Feasibility Study for watermain replacement, and

THEREFORE BE IT FURTHER RESOLVED, the funding for this project comes from the Commission approved reconstruction fund, and

WHEREAS, no costs for the street restoration are applied to the Shakopee Public Utilities Commission on this project.

NOW, THEREFORE BE IT RESOLVED BY THE SHAKOPEE PUBLIC UTILITIES COMMISSION THAT, in consideration of the savings and coordination the Shakopee Public Utilities Commission approves the watermain and associated appurtenances replacement as recommended in the Feasibility Study prepared by the city staff and as approved on March 7, 2016 by the Shakopee Public Utilities Commission, and hereby concurs with the City Council's ordering the project and the plans and specifications.

Adopted in regular session of the Shakopee Public Utilities Commission, this 21st day of March, 2016.

Commission President: Terrance Joos

ATTEST:

Commission Secretary: John R. Crooks

Monthly Water Dashboard

As of: February 2016

Shakopee Public Utilities Commission

ALL VALUES IN MILLIONS OF GALLONS

Element/Measure

Water Pumped/Metered

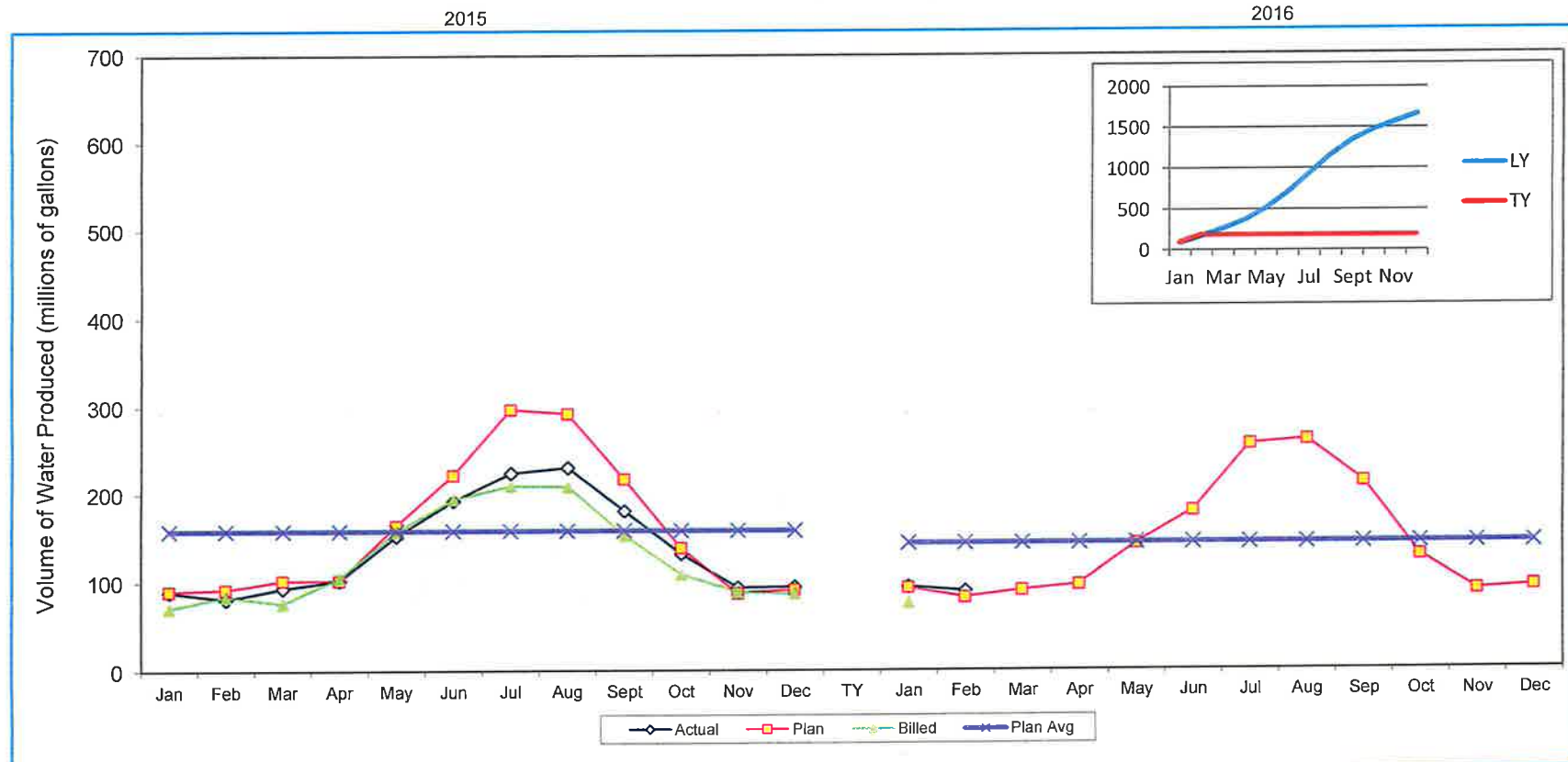
Averages

2013 150

2014 140

2015 138

Last 6 months actuals 180 131 93 94 94 89





	LY	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	TY	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Actual		89	81	93	102	152	192	224	230	180	131	93	94		94	89										
Plan		90	92	102	102	164	222	297	292	217	138	87	91		93	82	90	96	142	179	255	260	212	128	89	93
YTD % *															101%	105%										
Billed		71	84	76	105	157	194	209	208	152	108	88	86		76											

* Actual gallons pumped vs. Plan



Shakopee Public Utilities
Memorandum

To: John Crooks, Manager 
From: Marvin Athmann, Electric Superintendent 
Date: March 18, 2016
Re: Recognition for Exceptional System Reliability in 2015

Shakopee Public Utilities has received national recognition for achieving exceptional electric reliability in 2015. The recognition comes from the American Public Power Association (APPA). APPA represents more than 2,000 not-for-profits, community – owned electric utilities.

APPA took Shakopee Public Utilities' reliability data compiled through its eReliability Tracker Service and compared it to the top quartile of system outage duration from national reliability data collected by the Energy Information Administration – an independent agency that collects, analyzes and disseminates national energy data.

This honor recognizes utilities that are statistically thriving when it comes to reliability.

Congratulations!





CERTIFICATE OF EXCELLENCE IN RELIABILITY

This is to acknowledge that

Shakopee Public Utilities Com- mission

*has achieved excellence in reliability by
significantly outperforming the electric
industry national average as reported by the
Energy Information Administration.*



March 3, 2016

Date



Michael J. Hyland
Senior Vice President,
Engineering Services

Crooks, John

From: Athmann, Marv
Sent: Wednesday, March 09, 2016 10:37 AM
To: Crooks, John
Cc: Adams, Joe; Schmid, Renee; Walsh, Sharon; Sanders, Kent; Enright, Mike; Thielhorn, Penny; Skoug, Michael
Subject: FW: Certificate of Excellence in Reliability
Attachments: FINAL eRT_recognition_program Press release.doc; Shakopee Public Utilities Commission Certificate.pdf

GREAT JOB EVERYONE!!! Thank you for your **Team Work** that makes this happen.

Marv

From: Ospina, Christina [<mailto:cospina@publicpower.org>]
Sent: Wednesday, March 09, 2016 9:17 AM
To: Athmann, Marv
Cc: Hyland, Mike; Islam, Tanzina; Hofmann, Alex
Subject: Certificate of Excellence in Reliability

Dear Shakopee Public Utilities Commission,

Congratulations! APPA would like to commend your utility for achieving exceptional electric reliability in 2015.

APPA has taken your utility's reliability data compiled through eReliability Tracker Service and compared it to the top quartile of system outage duration from national reliability data collected by the Energy Information Administration. To formally celebrate your utility's accomplishment, we present to you the attached Certificate of Excellence. We have also provided a press release, which you are welcome to use to publicize this award.

We hope that the eReliability Tracker and the recently distributed Annual Reports will benefit your utility as it continues to serve as a leader in reliability.

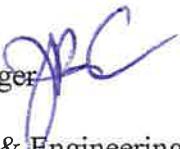

Congratulations, again for your achievement. As always, feel free to contact our team with any questions at Reliability@PublicPower.org.

Best,

APPA's Reliability Team

American Public Power Association
2451 Crystal Drive, Suite 1000
Arlington, VA 22202
<http://reliability.publicpower.org/>

**SHAKOPEE PUBLIC UTILITIES
MEMORANDUM**

TO: John Crooks, Utilities Manager 
FROM: Joseph D. Adams, Planning & Engineering Director 
SUBJECT: Dean Lake Substation Expansion Project Update
DATE: March 18, 2016

ISSUE

SPU is planning to construct an expansion of our Dean Lake Substation with the addition of a third 47 MVA power transformer and switchgear and control building for additional feeder circuits.

BACKGROUND

The Dean Lake Substation expansion project is included in the capital improvement plan with a budgeted amount of \$4,700,000. There are additional line items noted in the CIP in the amount of \$3,000,000 for the planned interconnection with the proposed MMPA Distributed Generation plant and SPU distribution facilities upgrades to facilitate the interconnection both within the substation and outside of it on the distribution system. These costs are expected to be borne by MMPA and a reimbursement agreement is in process to reflect that arrangement. The current estimated costs to MMPA are \$3,940,000.

The expanded substation capacity will serve the growing load anticipated by the Canterbury Park phased developments and other proposed developments within the city including Amazon, Duke Realty, and SFRMC among others.

The expanded substation will also allow the Commission, should it choose to do so, to vacate its present capacity within NSP's Blue Lake Substation where we have two feeder circuits with a combined nominal capacity of 8.3 MVA. NSP MN has requested that the Commission agree to permanently vacate that capacity, so NSP can serve its own growing load within Shakopee i.e. Rosemount Emerson and the Opus business park next to it. Staff believes the Commission can agree to NSP's request if and only if NSP MN agrees to grant the Commission a perpetual easement on their surplus property next to their Blue Lake Substation as a site for a future Shakopee owned substation and further agrees to coordinate and cooperate in extending transmission service to said future substation.



Staff has received a draft New Blue Lake Substation Development Agreement from NSP MN and returned that draft with comments from staff, the Commission's engineering consultant and legal counsel in December, 2015. We are awaiting NSP's revision.

DISCUSSION

Staff received a draft Dean Lake Substation Construction Agreement from NSP MN for consideration on February 9, 2016. The draft agreement was reviewed by staff and the Commission's engineering consultant and legal counsel and proposed revisions were sent back to NSP MN on February. We have come to an agreement on the final terms and language pending final attorney review by both parties and the proposed final agreement is hereby submitted to the Commission for their consideration.

Staff received a draft MMPA DG Plant Interconnection Reimbursement Agreement from Avant Energy on January 21, 2016. The draft agreement was reviewed by staff and the Commission's engineering consultant and legal counsel and proposed revisions were sent back to Avant on March 11, 2016. We have not yet come to an agreement on the final terms and language, but expect to shortly. Once that is done staff will submit the proposed final agreement to the Commission for their consideration, perhaps as soon as the Commission's April 4th meeting date.

The engineer's estimated cost of the 47 MVA power transformer was \$1,300,000. Bids were opened on February 9, 2016 for the 47 MVA power transformer and were reviewed by the Commission's engineering consultant, Leidos Engineering LLC's Kevin Favero. Kevin's summary of the bid results and bid award recommendation letter is attached. Staff concurs with his analysis and conclusions to award the bid to Virginia Transformer Corporation.

The engineer's estimated cost of the switchgear and control building was \$1,700,000. Bids for the substation's switchgear and control equipment/building were opened on March 15, 2016 and the results are summarized in the attached report by Kevin Favero of Leidos Engineering LLC. The bids are valid for 60 days or until May 14th. Staff concurs with his analysis and conclusions to award the bid to States Manufacturing with Siemens switchgear, but not until we have an acceptable reimbursement agreement with MMPA.

REQUESTED ACTION

Staff requests the Commission accept and conditionally approve the Dean Lake Substation Construction Agreement with NSP MN and authorize its execution subject to attorney review.

Staff requests the Commission award the Dean Lake Transformer #3 contract to Virginia Transformer Corporation in the amount of \$775,646.

Staff requests the Commission defer awarding the Dean Lake Substation Switchgear and Control Building contract until after the MMPA DG Interconnection Reimbursement Agreement is deemed acceptable.

3/17/2016

DEAN LAKE SUBSTATION CONSTRUCTION AGREEMENT

Between

**Northern States Power Company,
a Minnesota Corporation**

And

**The Shakopee Public Utilities Commission, City of
Shakopee, Minnesota
a Minnesota Municipal Utility**

Dated: _____, 2016

THIS CONSTRUCTION AGREEMENT (“**Agreement**”) is made this ____ day of _____, 2016, between the Shakopee Public Utilities Commission of the City of Shakopee, Minnesota, organized pursuant to Chapter 412 Minnesota Statutes, a Minnesota municipal utility, hereinafter called “**Shakopee**”, and Northern States Power Company, a Minnesota corporation, hereinafter called “**NSPM**”. For purposes of this Agreement, “**Party**” shall mean Shakopee or NSPM, and “**Parties**” shall mean Shakopee and NSPM.

WITNESSETH:

WHEREAS, NSPM is an electric utility engaged, inter alia, in the business of generating, transmitting, distributing and selling electric power and energy and related services in the States of Minnesota, North Dakota, and South Dakota; and

WHEREAS, Shakopee is a municipal utility member of Minnesota Municipal Power Agency (“**MMPA**”), and Shakopee owns and operates the Shakopee municipal electric distribution system, which is interconnected to the NSPM transmission system; and

WHEREAS, NSPM and MMPA are parties to an Interconnection and Interchange Agreement, dated April 27, 1994 governing, inter alia, the interconnection between the NSPM and Shakopee facilities (the “**I&I Agreement**”); and

WHEREAS, MMPA is a municipal power agency formed under Section 453.52 of the Minnesota Statutes; and

WHEREAS, the Shakopee municipal system includes the Shakopee distribution facilities, which were designed and built to interconnect to NSPM’s transmission facilities to deliver power and energy purchased by Shakopee from MMPA and/or other wholesale suppliers; and

WHEREAS, Shakopee desires to expand its existing Dean Lake Substation by adding a third transformer, hereinafter called “**the Project**,” with a requested in-service date of December 31, 2016.

NOW THEREFORE, in consideration of the mutual covenants and agreements contained in this Agreement and for value received, the Parties hereto agree as follows:

ARTICLE I

DEFINITIONS

SECTION 1.0 Definitions.

The following terms, when used herein, shall have the meanings specified below:

“Agreement” shall mean this Construction Agreement between NSPM, and Shakopee.

“Dean Lake Substation” means the existing Dean Lake Substation, owned by Shakopee and located at 3755 Eagle Creek Blvd., Shakopee, Minnesota.

“Dean Lake Substation Site” means the real property upon which the Dean Lake Substation is located.

“Effective Date” shall mean the date on which this Construction Agreement becomes effective upon execution by the Parties subject to acceptance by FERC.

“FERC” means the Federal Energy Regulatory Commission or successor agency.

“Good Utility Practice” means any of the practices, methods and acts engaged in or approved by a significant portion of the electric utility industry during the relevant time period, or any of the practices, methods and acts which, in the exercise of reasonable judgment in light of the facts known at the time the decision was made, could have been expected to accomplish the desired result at a reasonable cost consistent with good business practices, reliability, safety and expedition. Good Utility Practice is not intended to be limited to the optimum practice, method, or act to the exclusion of all others, but rather to be acceptable practices, methods, or acts generally accepted in the region.

“Line” means NSPM’s Blue Lake Substation to Scott County Substation 115 kV line No. 0898 that interconnects to the Dean Lake Substation, including but not limited to transmission structures, dead-end structures, and associated facilities as required.

“Reasonable Effort” means the best effort of a Party to complete an action it is obligated to undertake pursuant to this Agreement consistent with Good Utility Practice, the applicable regulatory environment, and prudent financial integrity.

“Project” means the expansion of the existing Dean Lake Substation, interconnected to NSPM’s existing 115 kV transmission line No.0898. Expansion includes, but not limited to the addition of the third 115/13.8 kV transformer, the additional 115 kV circuit breakers and associated equipment, to be completed by December 31, 2016.

“Uncontrollable Forces” shall mean such forces which, by exercise of Good Utility Practice, due diligence and foresight, could not reasonably have been avoided. Uncontrollable Force shall be deemed to mean any cause beyond the control of the Party affected, including but not limited to, failure of facilities, flood, earthquake, storm, fire, lightning, epidemic, war, riot, civil disturbance, labor disturbance, sabotage, terrorism, and restraint by court or public authority.

SECTION 1.1 Completion Date.

The parties acknowledge that time is of the essence in the completion of the construction of the Project by December 31, 2016, and that Shakopee relies upon completion as a critical component to provide service to its customers; *provided, however, that* this construction completion date shall be modified to the extent that Uncontrollable Forces cause a delay by a Party (the “**Affected Party**”) and the Affected Party is prompt and diligent in curing the delay, consistent with Good Utility Practice.

ARTICLE II

OBLIGATIONS AND RESPONSIBILITIES REGARDING TRANSMISSION FACILITIES

SECTION 2.0 Dean Lake Substation (Shakopee).

Shakopee owns the Dean Lake Substation Site and will, at its cost, prepare, design, procure, and construct the pad, fence, access road and the Shakopee-owned facilities in the Dean Lake Substation using Reasonable Efforts to complete such facilities prior to December 31, 2016, as shown on Exhibits A and B and more fully described as follows:

- (a) Shakopee will install one (1) 115/13.8 kV 47 MVA transformer (TR3).
- (b) Shakopee will install one (1) new switchgear building (CB3).
- (c) Shakopee will provide space necessary for NSPM to install a new electric equipment enclosure (:EEE”) as shown on drawing “Dean Lake Substation Phase III Conduit Plan” which has been supplied by Shakopee to NSPM.
- (d) Shakopee will provide NSPM capacity for one 36 kVA 120/240 volt AC circuit (150 amps) for NSPM’s new EEE as shown on drawing “Dean Lake Substation Phase III 120/240V AC Service to SPU CB3 and Xcel EEE” which has been supplied by Shakopee to NSPM, including a padmount transformer for preferred service and a 150-amp breaker in the CB3 AC panel for backup service. This 120/240V AC service will be metered and NSPM will pay for the 120/240V service under Shakopee’s standard retail rates. Shakopee will provide NSPM temporary

construction service from the padmount transformer under Shakopee's standard tariff.

- (e) Shakopee will provide space in the Dean Lake CB3 for NSPM equipment to meter the power and energy delivered over TR3. Shakopee will provide voltage transformers (VTs) connected to the 13.8 kV CB3 bus and current transformers (CTs) measuring current through the 13.8 kV CB3 main breaker for use by the NSPM metering equipment. Shakopee will provide a PVC conduit from CB3 to CB1 and from CB1 to CB2 for a communication circuit to be furnished and installed by NSPM to connect the NSPM metering equipment with the existing phone line in CB2.
- (f) Shakopee will install two (2) new 161 kV class circuit switchers for TR1 and TR3.
- (g) Shakopee will make available to NSPM two 600/5 multi-ratio (MR) CTs in TR1, two 600/5 MR CTs in TR2, and two 2000/5 multi-ratio CTs in TR3 for use in the associated 115 kV bus protection relay schemes. Shakopee will jointly use with NSPM one of the 600/5 MR CTs in TR1 and one of the 600/5 MR CTs in TR2 for the TR1 and TR2 protection schemes, respectively.
- (h) Shakopee will be responsible for installing a new access road to the north side of Dean Lake Substation including but not limited to any required easement acquisition, permits, grading and any required changes to existing fencing. NSPM will be able to use the new access road in furtherance of its Project obligations under Section 2.2 provided NSPM provides advanced notice and coordinates with the Shakopee contractor relative to protection of other equipment and material.
- (i) The Dean Lake Substation and Dean Lake Substation Site are and remain the property of Shakopee.

SECTION 2.1 Blue Lake – Scott County 115 kV Line (NSPM).

NSPM shall, at its cost, design, procure, construct, and own the Line using Reasonable Efforts to complete such facility prior to December 31, 2016, as shown on Exhibits A and B.

- (a) The point of interconnection of the Line to the Dean Lake Substation (the "Point of Interconnection") will be at the point where the Point of Interconnection is shown on Exhibit A.
- (b) NSPM will not be required to modify or make changes to the Line as part of this Project.
- (c) Make relay changes at both the Scott County and Blue Lake substations required by the addition of the Dean Lake 115 kV ring bus breakers.

SECTION 2.2 Dean Lake Substation (NSPM).

NSPM shall, at its cost, design, procure, construct, and own the necessary equipment to complete the 115 kV 5-position ring bus including any relaying, metering and communication equipment required to accommodate the addition of the third 115/13.8 kV transformer at Dean Lake Substation using Reasonable Efforts to complete such facilities prior to December 31, 2016, as shown on Exhibits A and B and as more fully described as follows:

- (a) Furnish and install two (2) new 115 kV box structures and associated 115 kV bus and switches, one at each end of the existing 115 kV structures, with 161 kV-rated, resistive-graded insulators similar to the existing insulators.
- (b) Furnish and install four (4) new 115 kV circuit breakers. The existing 115 kV circuit breaker and associated disconnect switches and insulators, which are owned by Shakopee and currently protect TR1, will not be replaced as part of this Project. The existing Shakopee 115 kV circuit breaker and associated 115 kV disconnect switches and insulators may be purchased by NSPM to be used as part of the 115 kV ring bus. As soon as practicable after the Effective Date of this Agreement, NSPM will pay Shakopee the cost of \$65,580 for these materials. After NSPM has made such payment to Shakopee, the 115 kV circuit breaker, disconnect switches, and insulators will become the property of NSPM.
- (d) Remove and dispose of one 115 kV bus support structure immediately west of the existing Shakopee 115 kV breaker. Remove the associated 115 kV insulators and bus and provide them to Shakopee for re-use by Shakopee.
- (e) Furnish and install one (1) new electric equipment enclosure (EEE) with an associated AC and DC auxiliary system, including the AC service meter socket base, the preferred service to the Shakopee padmount transformer, and the backup service to the SPU CB3 AC panel as shown on drawing "Dean Lake Substation Phase III 120/240V AC Service to SPU CB3 and Xcel EEE" which has been supplied by Shakopee to NSPM.
- (f) Furnish and install all AC, DC, and control circuits from the NSPM EEE required by the five 115 kV breakers and associated conduits, if any.
- (g) Furnish and install two (2) line relaying panels, three (3) T-bus relaying panels, one (1) PAC terminal cabinet, and one (1) RTU/HMI panel in the NSPM EEE.
- (h) Make relay changes at both the Scott County and Blue Lake substations required by the addition of the Dean Lake 115 kV ring bus breakers.
- (i) NSPM will require and install a new phone line to its EEE.

SECTION 2.3 Other.

- (a) NSPM agrees to use Reasonable Efforts to revise and restate the existing Interconnection and Interchange Agreement between NSPM and MMPA (the "I&I Agreement") to accurately reflect the expansion of the Dean Lake Substation.
- (b) The Parties shall also use Reasonable Efforts to complete and execute an agreement pertaining to and addressing such issues related to the ownership and operation of the New Substation (the "Ownership & Operation Agreement"). The Parties agree to promptly commence negotiations on the Ownership & Operation Agreement after the execution of this Agreement, and within a reasonable time thereafter to complete negotiations and execute such agreement by the target date of December 15, 2016. The Parties shall use Reasonable Efforts to ensure that the Ownership & Operation Agreement does not conflict with the I&I Agreement. NSPM will provide Shakopee a copy of the existing I&I Agreement at the commencement of negotiations for the Ownership and Operation Agreement, and a copy of any amended I&I Agreement within a reasonable period of time prior to its execution.
- (c) The Parties agree to meet, confer, and cooperate so that the work of the Parties on the Dean Lake Substation shall be scheduled and performed with a minimum of inconvenience and disruption to both Parties. A construction plan and schedule shall be agreed to and exchanged by the Parties within ten (10) business days of the execution of this Agreement or as soon as practicable thereafter. Such construction plan and schedule will include milestone dates for various portions of the construction for this Project. Upon adoption of this plan, employees and subcontractors of each Party may access the Dean Lake Substation and the Dean Lake Substation Site to the extent reasonably required or permitted by the construction plan and schedule with reasonable advance notice of each intrusion. The Parties shall provide regular, and at least monthly, status reports as to the progress of construction in relation to the construction plan and schedule and confer on an as needed basis to address any issues or disputes that arise. The Parties shall cause their employees and subcontractors to coordinate their construction and other activities at the Dean Lake Substation and Dean Lake Substation Site.
- (d) The Parties acknowledge and agree that Shakopee is not a retail customer of NSPM, and that the Dean Lake Substation is intended for Shakopee to provide electric service to its customers at retail. Nothing in this Agreement is intended to disrupt, breach, or in any manner interfere with the I&I Agreement or MMPA's providing transmission, power, energy, or related services to Shakopee.
- (e) The Parties acknowledge that Minnesota Municipal Power Agency is proposing to build and operate a 46 MW distributed generation facility in Shakopee and interconnect said facility at the distribution level at the Dean Lake Substation. The Parties agree that Shakopee will install at its sole cost any and all protection devices necessary to ensure that the energy generated does not enter onto NSPM's transmission system.

- (f) The Parties agree that NSPM has the right to inspect and/or test the existing 115 kV circuit breaker and associated switches to determine whether or not NSPM will proceed with the purchase of said equipment. NSPM will perform said inspection and/or testing in a timely manner as to not delay the in-service date of the Project. Should NSPM determine any or all of said equipment is not suitable for NSPM to purchase the Parties agree Shakopee will at its sole cost be responsible for the removal of said equipment as required for NSPM to proceed with its Project obligations under Section 2.2.

SECTION 2.4 Attachments.

Exhibits A, B, and C attached to this Agreement are hereby incorporated into this Agreement and shall be considered a part of this Agreement. In the event of a conflict between a provision in an exhibit and a provision in the Agreement, the Agreement shall govern.

ARTICLE III

GENERAL

SECTION 3.1 Damages.

In no event shall the Parties be liable to each other under this Agreement for any indirect, special, or consequential damages, including but not limited to, loss of use, loss of revenue, loss of profit, and/or cost of replacement power, interest charges, cost of capital, claims of customers to which service is made, from any cause however arising unless the claim is based upon gross negligence, willful or intentional acts or omissions, or material breach of the Agreement.

SECTION 3.2 Indemnity.

Subject to Section 4.1, each Party shall indemnify, save harmless, and defend the other, its parent, contractors and subcontractors and successors, and their respective trustees, agents, officers, directors, managers, employees, and representatives, and their heirs, successors and assigns, against all claims, demands, losses, judgments, damages and associated costs and expenses (including, without limitation, reasonable fees, disbursements and expenses for attorneys and experts incurred by the indemnified Party in any actions or proceedings between the indemnified Party and a third party) related to property damage, personal injuries or death suffered by third persons resulting from any act or failure to act by such indemnifying Party related to this Agreement, or from the execution by such Party of any activity contemplated by this Agreement, regardless of whether attributable (in whole or in

part) to any act, omission, negligence (active, passive, sole, joint or concurrent with that of the indemnified Party or any other person), strict liability, any condition or defect on or in any property, or other fault or responsibility of the indemnifying Party or any other person or party (whether such liability is based on contract, warranty, tort, statute or otherwise), except that if the property damage, personal injuries, or death are caused in part, but not entirely, by the indemnified Party then the indemnifying Party shall be obligated under this Section only to the extent of the percentage of fault attributed to such indemnifying Party and/or its affiliates, employees, agents, representatives, contractors or subcontractors. The foregoing provisions do not in any way limit the rights of either Party under law or at equity, except as provided by Article V of this Agreement.

SECTION 3.3 Notices.

All notices required hereunder shall be given in writing and addressed or delivered to the following individuals. Notices shall be deemed received (i) upon delivery, when personally delivered; (ii) 48 hours after mailing, when sent via certified mail, return receipt requested; (iii) the next Business Day, when sent via overnight courier; (iv) upon transmittal, when sent via email (with receipt confirmed).

Notices:

If to NSPM:

Northern States Power Company
Attention: Manager, Transmission Business Relations
414 Nicollet Mall – MP8
Minneapolis, MN 55401

If to Shakopee:

Shakopee Public Utilities
Attention: Joe Adams
255 Sarazin Street
Shakopee, MN 55379
Email: JAdams@ShakopeeUtilities.com

Billings and Payments:

If to NSPM

Northern States Power Company
Attention: Eugene Kotz
414 Nicollet Mall – MP8
Minneapolis, MN 55401
Email: Eugene.Kotz@xcelenergy.com

If to Shakopee:

Shakopee Public Utilities
Attention: Joe Adams
255 Sarazin Street
Shakopee, MN 55379
Email: JAdams@ShakopeeUtilities.com

The designation and title of a person to be notified or the address of such person may be changed at any time by written notice.

SECTION 3.4 Construction Completion Commitments.

Shakopee and NSPM shall design, procure, and construct the facilities described in Article II using Reasonable Efforts to complete such facilities by the dates set forth above and in the construction schedule developed under Section 2.3 (c), subject to the receipt of all approvals required from governmental authorities with competent jurisdiction and the receipt of all land rights necessary to commence construction of such facilities, and such other permits or authorizations as may be required. Shakopee and NSPM shall not be required to undertake any action which is inconsistent with their standard safety practices, their material and equipment specifications, their design criteria and construction procedures, their labor agreements, applicable laws and regulations, and Good Utility Practice. In the event Shakopee or NSPM reasonably expects that it will not be able to complete such facilities by the specified dates, either Party shall promptly provide written notice to the other specifying the cause of delay and the anticipated length of the delay and shall continue the exercise of Reasonable Efforts to meet the earliest feasible dates.

SECTION 3.5 Uncontrollable Forces.

Unless otherwise mutually agreed to by the Parties, any temporary electric service under this Agreement during the term of this Agreement shall be subject to the following:

- (a) Interruptions or reductions due to Uncontrollable Forces, which by exercise of due diligence and foresight could not reasonably have been avoided. The Party rendered unable to fulfill any obligation by reason of Uncontrollable Forces shall exercise due diligence to remove such inability with all reasonable dispatch; *provided that* this does not include the settlement of strikes or labor disputes by acceding to the demands of the opposition in such strikes or disputes when such course is inadvisable in the discretion of the Party having such difficulty.
- (b) Interruptions or reductions due to testing or operation of devices installed for power system protection. The Party responsible for testing or operating such

devices shall exercise due diligence to remove such interruption with all reasonable dispatch.

- (c) Temporary interruptions or reductions which are necessary or desirable for the purposes of maintenance, repairs, replacements, installation of equipment, or investigation and inspection. Each Party will give the other Party and other affected utilities reasonable advance notice of such interruptions or reductions, except in the case of an emergency as reasonably determined by the Party creating the interruption or reduction, and will remove the cause thereof with all reasonable dispatch.

SECTION 3.6 No Third Party Beneficiary.

No provision of this Agreement shall in any way inure to the benefit of any customer of either Shakopee or NSPM or to any other person so as to render any such customer or person a third party beneficiary of this Agreement, or of any one or more of the terms of this Agreement, or otherwise give rise to any cause of action in any person not a party to this Agreement.

SECTION 3.7 Headings.

All titles, subject headings, section titles, and similar items are provided for the purpose of reference and convenience and are not intended to be inclusive, definitive, or to affect the meaning of the contents or scope of this Agreement.

SECTION 3.8 Regulation.

This Agreement and all rights and obligations of the Parties hereunder are subject to acceptance for filing by the Federal Energy Regulatory Commission ("FERC"), and to all applicable state and federal laws and regulations. The Parties agree to defend this entire Agreement before any regulatory body with competent jurisdiction and to cooperate to seek to obtain any necessary regulatory or governmental approvals, *provided that*, in either case neither Party shall support a material change to the Agreement without first conferring with the other Party.

SECTION 3.9 Successors and Assigns.

This Agreement shall be binding upon the respective Parties and their successors and assigns on and after the Effective Date hereof. None of the provisions of this Agreement, whether in whole or in part, shall be assigned by either Party to any third party without the written consent of the other Party, which shall not be unreasonably withheld, except that a Party, without the consent of the other Party, may assign to a successor in the event of a merger or

reorganization, and such successor shall be bound by all terms and conditions hereof and shall assume all obligations of the assignor, and *provided further that* this Section is not a restriction on a Party's ability to pledge its electric transmission or distribution system as security under a mortgage or trust indenture.

SECTION 3.10 Severability.

If any governmental agency or court, each of competent jurisdiction, holds that any provision of this Agreement is invalid, or if as a result of a change in any federal or state law or constitutional provision, or any rule or regulation promulgated pursuant thereto, any provision of this Agreement is rendered invalid or results in the impossibility of performance thereof, the remainder of this Agreement not affected thereby shall continue in full force and effect; *provided, however, that* if the impact of such holding or promulgation materially increases the cost of providing service hereunder or materially increases or decreases the amount of compensation to be paid for services rendered hereunder, either Party may within ninety days after the issuance of such holding or promulgation terminate this Agreement by giving not less than thirty days prior written notice to the other Party. In any event, Parties shall promptly renegotiate in good faith new provisions to restore this Agreement as nearly as possible to its original intent and effect.

SECTION 3.11 Term of Agreement.

This Agreement shall be in effect from the date first stated above until the last of the following events are completed: (i) the Dean Lake Substation expansion is placed in service; (ii) the amended Interconnection and Interchange Agreement between NSPM and MMPA is executed; and (iii) and the Ownership & Operation agreement is executed for the facilities installed under this Agreement.

SECTION 3.12 Drafting Responsibility.

Neither Party shall be deemed solely responsible for drafting all or any portion of this Agreement and in the event of a dispute the responsibility for any ambiguities arising from any provision of this Agreement shall be equally shared by the Parties.

SECTION 3.13 Governing Law.

This Agreement shall be interpreted and governed by the laws of the State of Minnesota or the laws of the United States of America, as applicable. Shakopee retains, without waiver, the legal immunities afforded Municipalities under Minnesota law, in particular, under Minnesota Statutes sections 466.01 to 466.15.

SECTION 3.14 Binding Obligation.

This Agreement has been executed by a duly authorized representative of each Party with the authority to bind the Party to the Agreement and constitutes a legal, valid, and binding obligation of the Parties, enforceable against each of the Parties and its successors in accordance with its terms.

SECTION 3.15 No Warranties.

No warranties of any kind whether statutory, written, oral, express or implied are given by NSPM or Shakopee, *provided, however, that* each Party shall use Good Utility Practice in design, engineering, and construction practices and shall have a professional engineer approve design drawings and monitor construction compliance with said design drawings and construction and engineering practices; *provided further, however, that* no explicit covenant in this Agreement shall be deemed a warranty precluded by this Section.

ARTICLE IV

DISPUTE RESOLUTION AND ARBITRATION

SECTION 4.1 Arbitration.

Except as set forth below, any dispute under this Agreement shall be subject to resolution by binding arbitration. In such event, the procedures set forth in this Article IV shall apply.

(a) Scope of Arbitration.

Any controversy or claim arising out of or relating to this Agreement, or the breach thereof, shall be subject to resolution by arbitration, except that antitrust claims, and any claims involving a third party and based upon contribution, indemnification; or damages based on tortious conduct shall not be subject to arbitration under this Agreement. Also, any changes filed by NSPM, including changes to rates, are subject to review by the FERC and shall not be subject to arbitration. Also, any complaint or proceeding initiated by, or intervened in, by Shakopee before the FERC or Midcontinent Independent System Operator, Inc. ("MISO") shall not be subject to arbitration unless the Parties mutually agree otherwise, provided that the complaint or proceeding is initiated or intervened in by Shakopee before a notice to arbitrate described in Section 4.1(b) has been issued.

(b) Condition Precedent.

Prior to initiation of arbitration, a Party shall first provide notice of the controversy or claim to the other Party in writing pursuant to Section 3.3. The Parties shall meet for the purpose of discussing and attempting resolution of the controversy or claim. If the controversy or claim is not resolved or referred for mediation within 60 calendar days of such initial notice, either Party may give notice in writing that the

controversy or claim shall be decided by arbitration. Any failure to initiate arbitration within said 60 day period, or within 30 days after termination of mediation proceedings, shall be deemed a waiver of the right to arbitrate that controversy or claim. Any such waiver shall not prejudice a Party's right to arbitrate a controversy or claim based on facts arising subsequent to the facts that gave rise to the previous controversy or claim.

(c) Arbitration Procedure.

The arbitration shall be conducted before three arbitrators appointed by the American Arbitration Association and shall be conducted in accordance with the Commercial Arbitration Rules of the American Arbitration Association then in effect, and judgment upon the award rendered by the arbitrators may be entered in any court having jurisdiction thereof. The arbitrators shall be competent by virtue of education and experience in the particular matter subject to arbitration. The arbitrators shall have jurisdiction and authority to interpret, apply, or determine compliance with the provisions of this Agreement insofar as shall be necessary to the determination of issues properly before the arbitrators. In making the decision, the arbitrators shall issue appropriate findings and conclusions regarding the issues. The arbitrators shall not have jurisdiction or authority to add to, detract from, or alter the provisions of this Agreement or any applicable law or rule of civil procedure. The arbitrators shall have the authority to require either Party to specifically perform its obligations under this Agreement.

The arbitration shall be closed to observation or monitoring by a third party unless either Party requests the arbitrators to allow third party presence, or unless required by law. The Parties agree to be bound by the decision of the arbitrators with respect to such request.

(d) Discovery.

Unless mutually agreed between the Parties, discovery shall be limited to providing the other Party the equivalent of initial disclosures under the Federal Rules of Civil Procedure, Rule 26(a)(1). All discovery issues shall be determined by order of the arbitrators upon motion made to them by either Party. When a Party is asked to reveal material which the Party considers to be proprietary information or trade secrets, the Party shall bring the matter to the attention of the arbitrators, who shall make such protective orders as are reasonable and necessary or as are otherwise provided by law.

(e) Continuation of Performance.

Pending the final decision of the arbitrators, the Parties agree to diligently proceed with the performance of all obligations required by this Agreement.

- (f) Costs.
Each Party shall pay one-half of the arbitrators' fees, costs, and expenses, and those of the American Arbitration Association incurred in connection with any arbitration of any matter hereunder. However, if the arbitrators find that a Party has unreasonably brought or has unreasonably forced the other Party to commence an arbitration proceeding the arbitrators shall order such Party to pay 100% of such fees, costs, and expenses. In all cases, however, each Party shall pay its own employees' costs, expert witness and consultants and attorney fees, as well as its costs of exhibits and other incidental costs associated with any arbitration of any matter hereunder.
- (g) Judicial Review.
Either Party may request a review of the arbitration award in the event of fraud, abuse of process, conflict of interest, or similar misconduct, by a court of competent jurisdiction. Any requested review must be commenced by a Party, with written notice to the other Party, within 30 days after the arbitrator's award is furnished to the Parties.
- (h) Enforcement.
Any decision (including orders arising out of disputes as to the scope or appropriateness of a request for, or a response to, discovery) of the arbitrators may be enforced in a court of competent jurisdiction with all such enforcement costs paid by the Party in default or in error.
- (i) Venue.
All arbitration proceedings under this Article IV shall take place in the State of Minnesota. Any arbitration shall be held at a location agreed upon by the Parties and, in the event of failure to agree, the arbitrators shall determine the most convenient location based on the location of the majority of the documentary evidence and prospective witnesses.

SECTION 4.2 Compromise and Settlement.

- (a) Except as may be necessary for any review by FERC of any matter determined to be within its exclusive jurisdiction, or for any enforcement proceeding under Section 4.1(h), no communications sent or documents delivered by either Party because of a proceeding under Section 4.1 shall be disclosed by the other Party to a third party if that communication or document contains the caption "Privileged and Confidential; Settlement Proceedings" or similar caption, subject to Shakopee's legal obligations under the Minnesota Data Practices Act.
- (b) Except as may be necessary for any review by FERC of any matter determined to be within its exclusive jurisdiction, or for any enforcement proceeding under Section 4.1(h), the arbitrators' decision shall be deemed to be a settlement between the

Parties and the decision shall be treated as a settlement for all purposes in the future, subject to Shakopee's legal obligations under the Minnesota Data Practices Act.

SECTION 4.3 Continued Performance.

The Parties shall continue to perform their obligations under this Agreement during the pendency of a dispute.

SECTION 4.4 Effect of Termination.

This Article IV shall survive the termination of this Agreement as necessary to resolve any disputes arising under this Agreement.

IN WITNESS WHEREOF, the Parties have caused this Agreement to be duly executed as of the day and year first above written.

**THE SHAKOPEE PUBLIC UTILITIES
COMMISSION
OF THE CITY OF
SHAKOPEE, MINNESOTA
A MINNESOTA MUNICIPAL
UTILITY**

Shakopee Commission President

John Crooks
Shakopee Commission Secretary

**NORTHERN STATES POWER
COMPANY
A MINNESOTA CORPORATION**

Teresa M. Mogensen
SVP, Transmission
Xcel Energy Services Inc.
Authorized Agent for
Northern States Power Company,
a Minnesota corporation

Exhibit A

Proposed Detailed 115 KV One-Line Diagram Dean Lake Substation

Exhibit B

Dean Lake Substation and Related Transmission System Modifications
Ownership, E&D, and Construction Responsibilities

Description	Ownership	Financial Responsibility for Construction	Responsibility to Accomplish Engineering Design and Construction
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	TRANSMISSION			
1	NSPM's existing Blue Lake to Scott County Sub 115 kV Line (existing and no work required).	NSPM	NSPM	NSPM
	SUBSTATION			
2	Dean Lake Substation property acquisition, grading, and site preparation.	Shakopee	Shakopee	Shakopee
3	Dean Lake Substation, City of Shakopee facilities including but not limited to 3 rd transformer and control house.	Shakopee	Shakopee	Shakopee
4	Dean Lake Substation metering and required communication equipment.	NSPM	NSPM	NSPM
5	Dean Lake Substation new 115 kV circuit breakers and associated equipment.	NSPM	NSPM	NSPM

Exhibit C
Estimated Costs for Dean Lake Shakopee Substation

NSPM Estimated Costs for the Dean Lake Substation

ITEMS	DESCRIPTION	ESTIMATED COST
	Substation Work:	\$3,792,000
	Metering and telecommunications at Dean Lake Shakopee,	
	new 115 kV circuit breakers and associated equipment, new	
	electric equipment enclosure	
	Transmission Work:	
	N/A	
	NSPM Total Estimated Costs	\$3,792,000

Shakopee Estimated Costs for the Dean Lake Substation

ITEMS	DESCRIPTION	ESTIMATED COST
	Substation Work:	\$4,700,000.00
	Dean Lake Substation	
	includes land, site development, power transformer,	
	switchgear building, and associated U.G. duct work,	
	construction (including supplying all other facilities),	
	landscaping, and engineering	
	Transmission Work:	
	N/A	
	Shakopee Total Estimated Costs	\$4,700,000.00

March 18, 2016



Mr. John Crooks
Shakopee Public Utilities
255 Sarazin Street
Shakopee, MN 55379

Subject: Dean Lake Substation Power Transformer - Bid Evaluation

Dear Mr. Crooks:

Per your request, we have reviewed and evaluated the bids received for supplying the 47 MVA¹ Dean Lake Substation power transformer. The Dean Lake Substation power transformer will connect the proposed Dean Lake switchgear building (to which the proposed MMPA DG power plant will be connected) to the Xcel Energy 115 kV transmission system.

Bids were received from the following suppliers/manufacturers:

- ABB
- CG Power Systems USA Inc.
- Dakota Supply Group/GE Prolec Transformers, Inc.
- Pennsylvania Transformer
- SPX Waukesha
- Virginia Transformer Corp
- WESCO

Economic Evaluation

The bids were evaluated based on the purchase price and the cost of energy losses. The bid documents informed the bidders that the bids would be evaluated for three separate loss components: no load losses @ \$7,800 per kilowatt (kW), load losses @ \$2,800 per kW, and auxiliary losses @ \$140 per kW. The no load losses are primarily

¹ MVA means mega-volt-ampere which is a measure of electrical capacity.

due to the transformer steel core design and are constant, regardless of load level. The load losses are primarily due to the transformer copper winding design and vary based on the load level. The auxiliary losses are primarily due to the operation of fans to cool the transformer during heavy load and high ambient temperature conditions. The above cost evaluation factors are based on the estimated cost of energy losses over a 30-year period.

The economic evaluation of bids for the power transformer are summarized below in Table 1.

Table 1					
Bid Evaluation (\$)					
Supplier / Manufacturer	Bid Amount	Evaluated Cost of Energy Losses [1]	Total	Rounded Difference	% Difference
Virginia Tr	775,646	301,260	1,076,906	0	0.0%
Dakota Supply	710,400	388,948	1,099,348	22,000	2.0%
CG Global	784,950	327,532	1,112,482	36,000	3.2%
WESCO	884,532	406,420	1,290,952	214,000	16.6%
SPX Waukesha	919,608	394,562	1,314,170	237,000	18.0%
Pennsylvania Tr	966,436	373,544	1,339,980	263,000	19.6%
ABB	1,104,160	337,674	1,441,834	365,000	25.3%
[1] Evaluated energy losses include no load losses, load losses, and auxiliary losses.					

As shown in the above table, the bid from Virginia Transformer Corporation has the lowest evaluated amount which is \$22,000 or 2.0% lower than the bid from Dakota Supply Group which has the next lowest evaluated amount. Although the Dakota Supply Group bid has a lower bid price, the total evaluated amount including the evaluated cost of energy losses, is greater than the Virginia Transformer bid.

Virginia Transformer Corporation

Virginia Transformer Corporation ("VTC") submitted the bid that had the lowest evaluated amount as described above. According to the company's web site, VTC was founded in 1971 and is the 4th largest power transformer manufacturer in North America. VTC supplies custom-made transformers to power generating and distributing companies, heavy industries, and other businesses.

The VTC bid indicates the Dean Lake power transformer would be manufactured in the VTC Pocatello, Idaho facility. I witnessed tests at the Pocatello facility for three 47 MVA power transformers (size and high voltage windings identical to the proposed Dean Lake power transformer) purchased in 2006 by Brainerd Public Utilities (BPU). The acceptance tests went well and the facility has state of the art equipment and appeared to be well run.

VTC reports that over the last eight years there have been major investments in the Pocatello facility totaling over \$7 million. These have included adding a vapor phase drying oven, adding pressurization to the climate controlled winding room, and expanding it. VTC has added another steel core cutting machine so that two steel core lines can be run simultaneously. The metal fabrication portion has been sealed from the high voltage portion of the facility. The floors have been sealed and the test department has new equipment to test up to 1050 kV BIL. The Dean Lake power transformer has a high voltage winding rating of 550 kV BIL.

I contacted the BPU general manager who reports that the VTC power transformers have performed well. He indicated there was a leak in one of the nitrogen gas supply systems and that VTC was very responsive in correcting the problem.

I have called several other VTC references and received positive reports on meeting production and delivery schedules, quality of equipment, and responsiveness to issues. There have been a few operating issues with accessory components and VTC has been responsive to correct those issues. Some have purchased multiple VTC power transformers over a number of years.

VTC provided a copy of the ISO 9001:2008 certificate for the Pocatello facility. ISO 9000 is a family of standards for quality management systems. ISO 9000 is maintained by the International Organization for Standardization ("ISO") and is administered by accreditation and certification bodies. The rules are periodically updated, as the requirements motivate changes over time. Some of the requirements in ISO 9001:2008 (which is one of the standards in the ISO 9000 family) include:

- a set of procedures that cover all key processes in the business
- monitoring processes to ensure they are effective
- keeping adequate records
- checking output for defects, with appropriate and corrective action where necessary
- regularly reviewing individual processes and the quality system itself for effectiveness
- facilitating continual improvement

A company or organization that has been independently audited and certified to be in conformance with ISO 9001 may publicly state that it is "ISO 9001 certified."

Certification to an ISO 9001 standard does not guarantee any quality of end products and services. Rather, it certifies that formalized business processes are being applied.

VTC Delivery

The VTC bid indicated delivery 26 weeks after receipt of order. From March 21, that would indicate delivery by September 19. VTC has indicated the manufacturing schedule could be arranged for delivery in mid-October to fit the substation construction and MMPA DG plant schedule.

VTC did not take any exceptions to the bid documents.

Dakota Supply Bid

There are no advantages in the Dakota Supply bid that would warrant accepting the \$22,000 higher evaluated cost.

Summary

We recommend that SPU purchase the 47 MVA power transformer for Dean Lake substation from the Virginia Transformer Corporation for a purchase price of \$775,646.

Mr. John Crooks

March 18, 2016

Page 5

Let me know if you would like any additional analysis on this matter. Thank you for the opportunity to assist SPU with this assignment.

Sincerely,

Leidos Engineering, LLC

A handwritten signature in black ink that reads "Kevin Favero". The signature is written in a cursive style with a red horizontal line underlining the name.

Kevin Favero, P.E.
Senior Project Manager

March 17, 2016



John Crooks
Utilities Manager
Shakopee Public Utilities
255 Sarazin Street
Shakopee, MN 55379

Subject: Dean Lake Substation Switchgear Building – Bid Evaluation

Dear Mr. Crooks:

Per your request, we have reviewed and evaluated the bids received for supplying the switchgear building for the Dean Lake Substation upgrade project. The proposed MMPA distributed generation (DG) plant will interconnect to the SPU system at the proposed Dean Lake Substation switchgear building.

Bids were received from the following suppliers and manufacturers:

- AZZ/Central Engineering with Eaton switchgear
- Eaton Corporation with Eaton Switchgear
- States Manufacturing with Eaton Switchgear
- States Manufacturing with Siemens Switchgear
- States Manufacturing with Square D Switchgear

Economic Evaluation

The bids are summarized in the following table.

Bid Results			
Dean Lake Substation Switchgear Building			
Bidder	Bid Amount (\$)	Difference (\$)	Delivery after Receipt of Order
States w/Siemens [1]	1,288,200	0	30 weeks
AZZ w/Eaton	1,526,877	239,000	30 weeks
States w/Square D.[1]	1,583,000	285,000	30 weeks
Eaton w/Eaton	1,699,135	411,000	18 weeks
States w/Eaton [1]	1,863,000	565,000	30 weeks
[1] Based on a bid of \$1,298,000 plus a \$4,200 adder for bright galvanized interior walls and a \$14,000 deduct for not supplying spare relays which duplicate existing spare relays.			

As shown in the above table, the bid from States Manufacturing with Siemens switchgear has the lowest amount which is \$239,000 lower than the bid from AZZ with Eaton switchgear which has the next lowest amount.

States Manufacturing

As shown in the above table, States Manufacturing with Siemens switchgear had the lowest bid. States has previously constructed four switchgear buildings for SPU, one at the Dean Lake substation in 2000, one at the South Shakopee substation in 2008, one at Pike Lake substation in 2011, and one at Shakopee Substation in 2015. SPU operating personnel report no substantive problems with the switchgear buildings and equipment that States has provided except that there were two outages in the Pike Lake switchgear caused by faults in the medium voltage cables to the control transformers and the station service transformer. During testing of the Shakopee Substation switchgear, one of the potential transformers was damaged. For both the Pike Lake Substation and Shakopee Substation, the switchgear manufacturer/supplier was Square D.

Siemens Switchgear

As described above, the lowest bid by States is based on using Siemens switchgear for the Dean Lake Substation. Also, the potential transformers in the Siemens switchgear are not manufactured by the same company that manufactured the potential transformers that failed in the Shakopee Substation switchgear. The potential transformers used by Siemens are manufactured by ITI which is a well-known instrument transformer manufacturer and it has supplied potential and current transformers for the other switchgear buildings on the SPU system.

Siemens is a well-known electric equipment manufacturer who has made electrical switchgear for decades and is one of the approved switchgear manufacturers included in the bid documents. Siemens has been manufacturing arc-resistant switchgear since 2007 (which is comparable to the period from other manufacturers) and ships approximately 1200 breakers per year with 500 breakers comprising arc-resistant switchgear.

I have contacted several Siemens switchgear users (including larger utilities such as Xcel Energy and Rochester Gas & Electric) and have received favorable reports on the Siemens equipment and service.

The Siemens breaker will not be interchangeable with the Square D breakers in the existing arc-resistant switchgear on the SPU system. However, spare breakers are being supplied with the Siemens switchgear which addresses the concern about quick breaker replacement in the event of a breaker failure. It is SPU policy to have spare breakers in each switchgear building so any breaker failure would require it to be replaced regardless of the spare breakers in other switchgear buildings.

States Manufacturing Experience

States has been responsive to correcting minor problems with the switchgear buildings it has provided. According to the States bid, States has experience in manufacturing switchgear equipment comparable to that required by the contract documents as a prime manufacturer for 92 years, as a component manufacturer for 92 years, and as an equipment supplier for 92 years.

States delivery schedule of 30 weeks would result in delivery by mid-October which meets the schedule for the development of the MMPA DG plant which will interconnect to the Dean Lake switchgear building.

The States bid includes a five-year warranty.

AZZ/Central

The next lowest bid was from AZZ/Central. AZZ/Central previously supplied one of the switchgear buildings at Dean Lake substation. According to the AZZ/Central bid, AZZ/Central has experience in manufacturing switchgear equipment comparable to that required by the contract documents as a prime manufacturer for 58 years and as a component manufacturer for 58 years.

The AZZ/Central bid included only a 12-month warranty from date of energization or an 18-month warranty from date of shipment, whichever occurs first. AZZ also took exception to some of the standard terms and conditions of the procurement contract.

There are no advantages to the AZZ bid that warrant the additional \$239,000 cost compared to the States/Siemens bid.

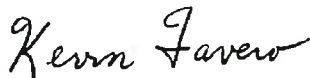
Summary

We recommend that SPU purchase the switchgear building for Dean Lake substation from States Manufacturing with Siemens switchgear, which has the lowest bid amount and includes a 5-year warranty. We recommend that SPU staff be allowed to decide to include the proposed spare relays for a price of \$1,302,200 or accept a \$14,000 deduction if the spare relays are not supplied as indicated in the bid summary table above for \$1,288,200.

Let me know if you would like any additional analysis on this matter. Thank you for the opportunity to assist SPU with this assignment.

Sincerely,

Leidos Engineering, LLC



Kevin Favero, P.E.
Senior Project Manager

3/21/16

DEAN LAKE SUBSTATION CONSTRUCTION AGREEMENT

Between

**Northern States Power Company,
a Minnesota Corporation**

And

**The Shakopee Public Utilities Commission, City of
Shakopee, Minnesota
a Minnesota Municipal Utility**

Dated: _____, 2016

THIS CONSTRUCTION AGREEMENT ("**Agreement**") is made this ____ day of _____, 2016, between the Shakopee Public Utilities Commission of the City of Shakopee, Minnesota, organized pursuant to Chapter 412 Minnesota Statutes, a Minnesota municipal utility, hereinafter called "**Shakopee**", and Northern States Power Company, a Minnesota corporation, hereinafter called "**NSPM**". For purposes of this Agreement, "**Party**" shall mean Shakopee or NSPM, and "**Parties**" shall mean Shakopee and NSPM.

WITNESSETH:

WHEREAS, NSPM is an electric utility engaged, inter alia, in the business of generating, transmitting, distributing and selling electric power and energy and related services in the States of Minnesota, North Dakota, and South Dakota; and

WHEREAS, Shakopee is a municipal utility member of Minnesota Municipal Power Agency ("**MMPA**"), and Shakopee owns and operates the Shakopee municipal electric distribution system, which is interconnected to the NSPM transmission system; and

WHEREAS, NSPM and MMPA are parties to an Interconnection and Interchange Agreement, dated April 27, 1994 governing, inter alia, the interconnection between the NSPM and Shakopee facilities (the "**I&I Agreement**"); and

WHEREAS, MMPA is a municipal power agency formed under Section 453.52 of the Minnesota Statutes; and

WHEREAS, the Shakopee municipal system includes the Shakopee distribution facilities, which were designed and built to interconnect to NSPM's transmission facilities to deliver power and energy purchased by Shakopee from MMPA and/or other wholesale suppliers; and

WHEREAS, Shakopee desires to expand its existing Dean Lake Substation by adding a third transformer, hereinafter called "the Project," with a requested in-service date of December 31, 2016.

NOW THEREFORE, in consideration of the mutual covenants and agreements contained in this Agreement and for value received, the Parties hereto agree as follows:

ARTICLE I

DEFINITIONS

SECTION 1.0 Definitions.

The following terms, when used herein, shall have the meanings specified below:

“Agreement” shall mean this Construction Agreement between NSPM, and Shakopee.

“Dean Lake Substation” means the existing Dean Lake Substation, owned by Shakopee and located at 3755 Eagle Creek Blvd., Shakopee, Minnesota.

“Dean Lake Substation Site” means the real property upon which the Dean Lake Substation is located.

“Effective Date” shall mean the date on which this Construction Agreement becomes effective upon execution by the Parties subject to acceptance by FERC.

“FERC” means the Federal Energy Regulatory Commission or successor agency.

“Good Utility Practice” means any of the practices, methods and acts engaged in or approved by a significant portion of the electric utility industry during the relevant time period, or any of the practices, methods and acts which, in the exercise of reasonable judgment in light of the facts known at the time the decision was made, could have been expected to accomplish the desired result at a reasonable cost consistent with good business practices, reliability, safety and expedition. Good Utility Practice is not intended to be limited to the optimum practice, method, or act to the exclusion of all others, but rather to be acceptable practices, methods, or acts generally accepted in the region.

“Line” means NSPM’s Blue Lake Substation to Scott County Substation 115 kV line No. 0898 that interconnects to the Dean Lake Substation, including but not limited to transmission structures, dead-end structures, and associated facilities as required.

“Reasonable Effort” means the best effort of a Party to complete an action it is obligated to undertake pursuant to this Agreement consistent with Good Utility Practice, the applicable regulatory environment, and prudent financial integrity.

“Project” means the expansion of the existing Dean Lake Substation, interconnected to NSPM’s existing 115 kV transmission line No.0898. Expansion includes, but not limited to the addition of the third 115/13.8 kV transformer, the additional 115 kV circuit breakers and associated equipment, to be completed by December 31, 2016.

“Uncontrollable Forces” shall mean such forces which, by exercise of Good Utility Practice, due diligence and foresight, could not reasonably have been avoided. Uncontrollable Force shall be deemed to mean any cause beyond the control of the Party affected, including but not limited to, failure of facilities, flood, earthquake, storm, fire, lightning, epidemic, war, riot, civil disturbance, labor disturbance, sabotage, terrorism, and restraint by court or public authority.

SECTION 1.1 Completion Date.

The parties acknowledge that time is of the essence in the completion of the construction of the Project by December 31, 2016, and that Shakopee relies upon completion as a critical component to provide service to its customers; *provided, however, that* this construction completion date shall be modified to the extent that Uncontrollable Forces cause a delay by a Party (the **“Affected Party”**) and the Affected Party is prompt and diligent in curing the delay, consistent with Good Utility Practice.

ARTICLE II

OBLIGATIONS AND RESPONSIBILITIES REGARDING TRANSMISSION FACILITIES

SECTION 2.0 Dean Lake Substation (Shakopee).

Shakopee owns the Dean Lake Substation Site and will, at its cost, prepare, design, procure, and construct the pad, fence, access road and the Shakopee-owned facilities in the Dean Lake Substation using Reasonable Efforts to complete such facilities prior to December 31, 2016, as shown on Exhibits A and B and more fully described as follows:

- (a) Shakopee will install one (1) 115/13.8 kV 47 MVA transformer (TR3).
- (b) Shakopee will install one (1) new switchgear building (CB3).
- (c) Shakopee will provide space necessary for NSPM to install a new electric equipment enclosure (EEE) as shown on drawing “Dean Lake Substation Phase III Conduit Plan” which has been supplied by Shakopee to NSPM.
- (d) Shakopee will provide NSPM capacity for one 36 kVA 120/240 volt AC circuit (150 amps) for NSPM’s new EEE as shown on drawing “Dean Lake Substation Phase III 120/240V AC Service to SPU CB3 and Xcel EEE” which has been supplied by Shakopee to NSPM, including a padmount transformer for preferred service and a 150-amp breaker in the CB3 AC panel for backup service. The backup service will be from a separate transformer than the preferred service. This 120/240V AC service will be metered and NSPM will pay for the 120/240V service under Shakopee’s standard retail rates. Shakopee will provide NSPM temporary

construction service from the padmount transformer under Shakopee's standard tariff.

- (e) Shakopee will provide space in the Dean Lake CB3 for NSPM equipment to meter the power and energy delivered over TR3. Shakopee will provide voltage transformers (VTs) connected to the 13.8 kV CB3 bus and current transformers (CTs) measuring current through the 13.8 kV CB3 main breaker for use by the NSPM metering equipment. Shakopee will provide a PVC conduit from CB3 to CB1 and from CB1 to CB2 for a communication circuit to be furnished and installed by NSPM to connect the NSPM metering equipment with the existing phone line in CB2.
- (f) Shakopee will install two (2) new 161 kV class circuit switchers for TR1 and TR3.
- (g) Shakopee will make available to NSPM two 600/5 multi-ratio (MR) CTs in TR1, two 600/5 MR CTs in TR2, and two 2000/5 multi-ratio CTs in TR3 for use in the associated 115 kV bus protection relay schemes. Shakopee will jointly use with NSPM one of the 600/5 MR CTs in TR1 and one of the 600/5 MR CTs in TR2 for the TR1 and TR2 protection schemes, respectively.
- (h) Shakopee will be responsible for installing a new access road to the north side of Dean Lake Substation including but not limited to any required easement acquisition, permits, grading and any required changes to existing fencing. NSPM will be able to use the new access road in furtherance of its Project obligations under Section 2.2 provided NSPM provides advanced notice and coordinates with the Shakopee contractor relative to protection of other equipment and material.
- (i) The Dean Lake Substation and Dean Lake Substation Site are and remain the property of Shakopee.

SECTION 2.1 Blue Lake – Scott County 115 kV Line (NSPM).

NSPM shall, at its cost, design, procure, construct, and own the Line using Reasonable Efforts to complete such facility prior to December 31, 2016, as shown on Exhibits A and B.

- (a) The point of interconnection of the Line to the Dean Lake Substation (the "Point of Interconnection") will be at the point where the Point of Interconnection is shown on Exhibit A.
- (b) NSPM will not be required to modify or make changes to the Line as part of this Project.
- (c) Make relay changes at both the Scott County and Blue Lake substations required by the addition of the Dean Lake 115 kV ring bus breakers.

SECTION 2.2 Dean Lake Substation (NSPM).

NSPM shall, at its cost, design, procure, construct, and own the necessary equipment to complete the 115 kV 5-position ring bus including any relaying, metering and communication equipment required to accommodate the addition of the third 115/13.8 kV transformer at Dean Lake Substation using Reasonable Efforts to complete such facilities prior to December 31, 2016, as shown on Exhibits A and B and as more fully described as follows:

- (a) Furnish and install two (2) new 115 kV box structures and associated 115 kV bus and switches, one at each end of the existing 115 kV structures, with 161 kV-rated, resistive-graded insulators similar to the existing insulators.
- (b) Furnish and install four (4) new 115 kV circuit breakers. The existing 115 kV circuit breaker and associated disconnect switches and insulators, which are owned by Shakopee and currently protect TR1, will not be replaced as part of this Project. The existing Shakopee 115 kV circuit breaker and associated 115 kV disconnect switches and insulators may be purchased by NSPM to be used as part of the 115 kV ring bus. As soon as practicable after the Effective Date of this Agreement, NSPM will pay Shakopee the cost of \$65,580 for these materials. After NSPM has made such payment to Shakopee, the 115 kV circuit breaker, disconnect switches, and insulators will become the property of NSPM.
- (d) Remove and dispose of one 115 kV bus support structure immediately west of the existing Shakopee 115 kV breaker. Remove the associated 115 kV insulators and bus and provide them to Shakopee for re-use by Shakopee.
- (e) Furnish and install one (1) new electric equipment enclosure (EEE) with an associated AC and DC auxiliary system, including the AC service meter socket base, the preferred service to the Shakopee padmount transformer, and the backup service to the SPU CB3 AC panel as shown on drawing "Dean Lake Substation Phase III 120/240V AC Service to SPU CB3 and Xcel EEE" which has been supplied by Shakopee to NSPM.
- (f) Furnish and install all AC, DC, and control circuits from the NSPM EEE required by the five 115 kV breakers and associated conduits, if any.
- (g) Furnish and install two (2) line relaying panels, three (3) T-bus relaying panels, one (1) PAC terminal cabinet, and one (1) RTU/HMI panel in the NSPM EEE.
- (h) Make relay changes at both the Scott County and Blue Lake substations required by the addition of the Dean Lake 115 kV ring bus breakers.
- (i) Install a new phone line to the NSPM EEE.

- (j) Make available to Shakopee terminal blocks in the NSPM EEE which will provide access to dry contacts indicating the status of the NSPM 115 kV breakers and switches. Shakopee will install the required wiring between CB3 and the NSPM EEE terminal blocks.

SECTION 2.3 Other.

- (a) NSPM agrees to use Reasonable Efforts to revise and restate the existing Interconnection and Interchange Agreement between NSPM and MMPA (the "I&I Agreement") to accurately reflect the expansion of the Dean Lake Substation.
- (b) The Parties shall also use Reasonable Efforts to complete and execute an agreement pertaining to and addressing such issues related to the ownership and operation of the New Substation (the "Ownership & Operation Agreement"). The Parties agree to promptly commence negotiations on the Ownership & Operation Agreement after the execution of this Agreement, and within a reasonable time thereafter to complete negotiations and execute such agreement by the target date of December 15, 2016. The Parties shall use Reasonable Efforts to ensure that the Ownership & Operation Agreement does not conflict with the I&I Agreement. NSPM will provide Shakopee a copy of the existing I&I Agreement at the commencement of negotiations for the Ownership and Operation Agreement, and a copy of any amended I&I Agreement within a reasonable period of time prior to its execution.
- (c) The Parties agree to meet, confer, and cooperate so that the work of the Parties on the Dean Lake Substation shall be scheduled and performed with a minimum of inconvenience and disruption to both Parties. A construction plan and schedule shall be agreed to and exchanged by the Parties within ten (10) business days of the execution of this Agreement or as soon as practicable thereafter. Such construction plan and schedule will include milestone dates for various portions of the construction for this Project. Upon adoption of this plan, employees and subcontractors of each Party may access the Dean Lake Substation and the Dean Lake Substation Site to the extent reasonably required or permitted by the construction plan and schedule with reasonable advance notice of each intrusion. The Parties shall provide regular, and at least monthly, status reports as to the progress of construction in relation to the construction plan and schedule and confer on an as needed basis to address any issues or disputes that arise. The Parties shall cause their employees and subcontractors to coordinate their construction and other activities at the Dean Lake Substation and Dean Lake Substation Site.
- (d) The Parties acknowledge and agree that Shakopee is not a retail customer of NSPM, and that the Dean Lake Substation is intended for Shakopee to provide electric service to its customers at retail. Nothing in this Agreement is intended to disrupt, breach, or in any manner interfere with the I&I Agreement or MMPA's providing transmission, power, energy, or related services to Shakopee.

- (e) The Parties acknowledge that Minnesota Municipal Power Agency is proposing to build and operate a 48 MW distributed generation facility in Shakopee and interconnect said facility at the distribution level at the Dean Lake Substation. The Parties agree that Shakopee will install at its sole cost any and all protection devices necessary to ensure that the energy generated does not enter onto NSPM's transmission system.
- (f) The Parties agree that NSPM has the right to inspect and/or test the existing 115 kV circuit breaker and associated switches to determine whether or not NSPM will proceed with the purchase of said equipment. NSPM will perform said inspection and/or testing in a timely manner as to not delay the in-service date of the Project. Should NSPM determine any or all of said equipment is not suitable for NSPM to purchase the Parties agree Shakopee will at its sole cost be responsible for the removal of said equipment as required for NSPM to proceed with its Project obligations under Section 2.2.

SECTION 2.4 Attachments.

Exhibits A, B, and C attached to this Agreement are hereby incorporated into this Agreement and shall be considered a part of this Agreement. In the event of a conflict between a provision in an exhibit and a provision in the Agreement, the Agreement shall govern.

ARTICLE III

GENERAL

SECTION 3.1 Damages.

In no event shall the Parties be liable to each other under this Agreement for any indirect, special, or consequential damages, including but not limited to, loss of use, loss of revenue, loss of profit, and/or cost of replacement power, interest charges, cost of capital, claims of customers to which service is made, from any cause however arising unless the claim is based upon gross negligence, willful or intentional acts or omissions, or material breach of the Agreement.

SECTION 3.2 Indemnity.

Subject to Section 4.1, each Party shall indemnify, save harmless, and defend the other, its parent, contractors and subcontractors and successors, and their respective trustees, agents, officers, directors, managers, employees, and representatives, and their heirs, successors and assigns, against all claims, demands, losses, judgments, damages and associated costs and

expenses (including, without limitation, reasonable fees, disbursements and expenses for attorneys and experts incurred by the indemnified Party in any actions or proceedings between the indemnified Party and a third party) related to property damage, personal injuries or death suffered by third persons resulting from any act or failure to act by such indemnifying Party related to this Agreement, or from the execution by such Party of any activity contemplated by this Agreement, regardless of whether attributable (in whole or in part) to any act, omission, negligence (active, passive, sole, joint or concurrent with that of the indemnified Party or any other person), strict liability, any condition or defect on or in any property, or other fault or responsibility of the indemnifying Party or any other person or party (whether such liability is based on contract, warranty, tort, statute or otherwise), except that if the property damage, personal injuries, or death are caused in part, but not entirely, by the indemnified Party then the indemnifying Party shall be obligated under this Section only to the extent of the percentage of fault attributed to such indemnifying Party and/or its affiliates, employees, agents, representatives, contractors or subcontractors. The forgoing provisions do not in any way limit the rights of either Party under law or at equity, except as provided by Article V of this Agreement.

SECTION 3.3 Notices.

All notices required hereunder shall be given in writing and addressed or delivered to the following individuals. Notices shall be deemed received (i) upon delivery, when personally delivered; (ii) 48 hours after mailing, when sent via certified mail, return receipt requested; (iii) the next Business Day, when sent via overnight courier; (iv) upon transmittal, when sent via email (with receipt confirmed).

Notices:

If to NSPM:

Northern States Power Company
Attention: Manager, Transmission Business Relations
414 Nicollet Mall – MP8
Minneapolis, MN 55401

If to Shakopee:

Shakopee Public Utilities
Attention: Joe Adams
255 Sarazin Street
Shakopee, MN 55379
Email: JAdams@ShakopeeUtilities.com

Billings and Payments:

If to NSPM

Northern States Power Company
Attention: Eugene Kotz
414 Nicollet Mall – MP8
Minneapolis, MN 55401
Email: Eugene.Kotz@xcelenergy.com

If to Shakopee:

Shakopee Public Utilities
Attention: Joe Adams
255 Sarazin Street
Shakopee, MN 55379
Email: JAdams@ShakopeeUtilities.com

The designation and title of a person to be notified or the address of such person may be changed at any time by written notice.

SECTION 3.4 Construction Completion Commitments.

Shakopee and NSPM shall design, procure, and construct the facilities described in Article II using Reasonable Efforts to complete such facilities by the dates set forth above and in the construction schedule developed under Section 2.3 (c), subject to the receipt of all approvals required from governmental authorities with competent jurisdiction and the receipt of all land rights necessary to commence construction of such facilities, and such other permits or authorizations as may be required. Shakopee and NSPM shall not be required to undertake any action which is inconsistent with their standard safety practices, their material and equipment specifications, their design criteria and construction procedures, their labor agreements, applicable laws and regulations, and Good Utility Practice. In the event Shakopee or NSPM reasonably expects that it will not be able to complete such facilities by the specified dates, either Party shall promptly provide written notice to the other specifying the cause of delay and the anticipated length of the delay and shall continue the exercise of Reasonable Efforts to meet the earliest feasible dates.

SECTION 3.5 Uncontrollable Forces.

Unless otherwise mutually agreed to by the Parties, any temporary electric service under this Agreement during the term of this Agreement shall be subject to the following:

- (a) Interruptions or reductions due to Uncontrollable Forces, which by exercise of due diligence and foresight could not reasonably have been avoided. The Party rendered

unable to fulfill any obligation by reason of Uncontrollable Forces shall exercise due diligence to remove such inability with all reasonable dispatch; *provided that* this does not include the settlement of strikes or labor disputes by acceding to the demands of the opposition in such strikes or disputes when such course is inadvisable in the discretion of the Party having such difficulty.

- (b) Interruptions or reductions due to testing or operation of devices installed for power system protection. The Party responsible for testing or operating such devices shall exercise due diligence to remove such interruption with all reasonable dispatch.
- (c) Temporary interruptions or reductions which are necessary or desirable for the purposes of maintenance, repairs, replacements, installation of equipment, or investigation and inspection. Each Party will give the other Party and other affected utilities reasonable advance notice of such interruptions or reductions, except in the case of an emergency as reasonably determined by the Party creating the interruption or reduction, and will remove the cause thereof with all reasonable dispatch.

SECTION 3.6 No Third Party Beneficiary.

No provision of this Agreement shall in any way inure to the benefit of any customer of either Shakopee or NSPM or to any other person so as to render any such customer or person a third party beneficiary of this Agreement, or of any one or more of the terms of this Agreement, or otherwise give rise to any cause of action in any person not a party to this Agreement.

SECTION 3.7 Headings.

All titles, subject headings, section titles, and similar items are provided for the purpose of reference and convenience and are not intended to be inclusive, definitive, or to affect the meaning of the contents or scope of this Agreement.

SECTION 3.8 Regulation.

This Agreement and all rights and obligations of the Parties hereunder are subject to acceptance for filing by the Federal Energy Regulatory Commission ("FERC"), and to all applicable state and federal laws and regulations. The Parties agree to defend this entire Agreement before any regulatory body with competent jurisdiction and to cooperate to seek to obtain any necessary regulatory or governmental approvals, *provided that*, in either case neither Party shall support a material change to the Agreement without first conferring with the other Party.

SECTION 3.9 Successors and Assigns.

This Agreement shall be binding upon the respective Parties and their successors and assigns on and after the Effective Date hereof. None of the provisions of this Agreement, whether in whole or in part, shall be assigned by either Party to any third party without the written consent of the other Party, which shall not be unreasonably withheld, except that a Party, without the consent of the other Party, may assign to a successor in the event of a merger or reorganization, and such successor shall be bound by all terms and conditions hereof and shall assume all obligations of the assignor, and *provided further that* this Section is not a restriction on a Party's ability to pledge its electric transmission or distribution system as security under a mortgage or trust indenture.

SECTION 3.10 Severability.

If any governmental agency or court, each of competent jurisdiction, holds that any provision of this Agreement is invalid, or if as a result of a change in any federal or state law or constitutional provision, or any rule or regulation promulgated pursuant thereto, any provision of this Agreement is rendered invalid or results in the impossibility of performance thereof, the remainder of this Agreement not affected thereby shall continue in full force and effect; *provided, however, that* if the impact of such holding or promulgation materially increases the cost of providing service hereunder or materially increases or decreases the amount of compensation to be paid for services rendered hereunder, either Party may within ninety days after the issuance of such holding or promulgation terminate this Agreement by giving not less than thirty days prior written notice to the other Party. In any event, Parties shall promptly renegotiate in good faith new provisions to restore this Agreement as nearly as possible to its original intent and effect.

SECTION 3.11 Term of Agreement.

This Agreement shall be in effect from the date first stated above until the last of the following events are completed: (i) the Dean Lake Substation expansion is placed in service; (ii) the amended Interconnection and Interchange Agreement between NSPM and MMPA is executed; and (iii) the Ownership & Operation agreement is executed for the facilities installed under this Agreement.

SECTION 3.12 Drafting Responsibility.

Neither Party shall be deemed solely responsible for drafting all or any portion of this Agreement and in the event of a dispute the responsibility for any ambiguities arising from any provision of this Agreement shall be equally shared by the Parties.

SECTION 3.13 Governing Law.

This Agreement shall be interpreted and governed by the laws of the State of Minnesota or the laws of the United States of America, as applicable. Shakopee retains, without waiver, the legal immunities afforded Municipalities under Minnesota law, in particular, under Minnesota Statutes sections 466.01 to 466.15.

SECTION 3.14 Binding Obligation.

This Agreement has been executed by a duly authorized representative of each Party with the authority to bind the Party to the Agreement and constitutes a legal, valid, and binding obligation of the Parties, enforceable against each of the Parties and its successors in accordance with its terms.

SECTION 3.15 No Warranties.

No warranties of any kind whether statutory, written, oral, express or implied are given by NSPM or Shakopee, *provided, however, that* each Party shall use Good Utility Practice in design, engineering, and construction practices and shall have a professional engineer approve design drawings and monitor construction compliance with said design drawings and construction and engineering practices; *provided further, however, that* no explicit covenant in this Agreement shall be deemed a warranty precluded by this Section.

ARTICLE IV

DISPUTE RESOLUTION AND ARBITRATION

SECTION 4.1 Arbitration.

Except as set forth below, any dispute under this Agreement shall be subject to resolution by binding arbitration. In such event, the procedures set forth in this Article IV shall apply.

(a) **Scope of Arbitration.**

Any controversy or claim arising out of or relating to this Agreement, or the breach thereof, shall be subject to resolution by arbitration, except that antitrust claims, and any claims involving a third party and based upon contribution, indemnification; or damages based on tortious conduct shall not be subject to arbitration under this Agreement. Also, any changes filed by NSPM, including changes to rates, are subject to review by the FERC and shall not be subject to arbitration. Also, any complaint or proceeding initiated by, or intervened in, by Shakopee before the FERC or Midcontinent Independent System Operator, Inc. ("MISO") shall not be subject to arbitration unless the Parties mutually agree otherwise, provided that the complaint

or proceeding is initiated or intervened in by Shakopee before a notice to arbitrate described in Section 4.1(b) has been issued.

(b) Condition Precedent.

Prior to initiation of arbitration, a Party shall first provide notice of the controversy or claim to the other Party in writing pursuant to Section 3.3. The Parties shall meet for the purpose of discussing and attempting resolution of the controversy or claim. If the controversy or claim is not resolved or referred for mediation within 60 calendar days of such initial notice, either Party may give notice in writing that the controversy or claim shall be decided by arbitration. Any failure to initiate arbitration within said 60 day period, or within 30 days after termination of mediation proceedings, shall be deemed a waiver of the right to arbitrate that controversy or claim. Any such waiver shall not prejudice a Party's right to arbitrate a controversy or claim based on facts arising subsequent to the facts that gave rise to the previous controversy or claim.

(c) Arbitration Procedure.

The arbitration shall be conducted before three arbitrators appointed by the American Arbitration Association and shall be conducted in accordance with the Commercial Arbitration Rules of the American Arbitration Association then in effect, and judgment upon the award rendered by the arbitrators may be entered in any court having jurisdiction thereof. The arbitrators shall be competent by virtue of education and experience in the particular matter subject to arbitration. The arbitrators shall have jurisdiction and authority to interpret, apply, or determine compliance with the provisions of this Agreement insofar as shall be necessary to the determination of issues properly before the arbitrators. In making the decision, the arbitrators shall issue appropriate findings and conclusions regarding the issues. The arbitrators shall not have jurisdiction or authority to add to, detract from, or alter the provisions of this Agreement or any applicable law or rule of civil procedure. The arbitrators shall have the authority to require either Party to specifically perform its obligations under this Agreement.

The arbitration shall be closed to observation or monitoring by a third party unless either Party requests the arbitrators to allow third party presence, or unless required by law. The Parties agree to be bound by the decision of the arbitrators with respect to such request.

(d) Discovery.

Unless mutually agreed between the Parties, discovery shall be limited to providing the other Party the equivalent of initial disclosures under the Federal Rules of Civil Procedure, Rule 26(a)(1). All discovery issues shall be determined by order of the arbitrators upon motion made to them by either Party. When a Party is asked to reveal material which the Party considers to be proprietary information or trade secrets, the Party shall bring the matter to the attention of the arbitrators, who shall make such protective orders as are reasonable and necessary or as are otherwise provided by law.

- (e) Continuation of Performance.
Pending the final decision of the arbitrators, the Parties agree to diligently proceed with the performance of all obligations required by this Agreement.
- (f) Costs.
Each Party shall pay one-half of the arbitrators' fees, costs, and expenses, and those of the American Arbitration Association incurred in connection with any arbitration of any matter hereunder. However, if the arbitrators find that a Party has unreasonably brought or has unreasonably forced the other Party to commence an arbitration proceeding the arbitrators shall order such Party to pay 100% of such fees, costs, and expenses. In all cases, however, each Party shall pay its own employees' costs, expert witness and consultants and attorney fees, as well as its costs of exhibits and other incidental costs associated with any arbitration of any matter hereunder.
- (g) Judicial Review.
Either Party may request a review of the arbitration award in the event of fraud, abuse of process, conflict of interest, or similar misconduct, by a court of competent jurisdiction. Any requested review must be commenced by a Party, with written notice to the other Party, within 30 days after the arbitrator's award is furnished to the Parties.
- (h) Enforcement.
Any decision (including orders arising out of disputes as to the scope or appropriateness of a request for, or a response to, discovery) of the arbitrators may be enforced in a court of competent jurisdiction with all such enforcement costs paid by the Party in default or in error.
- (i) Venue.
All arbitration proceedings under this Article IV shall take place in the State of Minnesota. Any arbitration shall be held at a location agreed upon by the Parties and, in the event of failure to agree, the arbitrators shall determine the most convenient location based on the location of the majority of the documentary evidence and prospective witnesses.

SECTION 4.2 Compromise and Settlement.

- (a) Except as may be necessary for any review by FERC of any matter determined to be within its exclusive jurisdiction, or for any enforcement proceeding under Section 4.1(h), no communications sent or documents delivered by either Party because of a proceeding under Section 4.1 shall be disclosed by the other Party to a third party if that communication or document contains the caption "Privileged and Confidential; Settlement Proceedings" or similar caption, subject to Shakopee's legal obligations under the Minnesota Data Practices Act.

- (b) Except as may be necessary for any review by FERC of any matter determined to be within its exclusive jurisdiction, or for any enforcement proceeding under Section 4.1(h), the arbitrators' decision shall be deemed to be a settlement between the Parties and the decision shall be treated as a settlement for all purposes in the future, subject to Shakopee's legal obligations under the Minnesota Data Practices Act.

SECTION 4.3 Continued Performance.

The Parties shall continue to perform their obligations under this Agreement during the pendency of a dispute.

SECTION 4.4 Effect of Termination.

This Article IV shall survive the termination of this Agreement as necessary to resolve any disputes arising under this Agreement.

IN WITNESS WHEREOF, the Parties have caused this Agreement to be duly executed as of the day and year first above written.

**THE SHAKOPEE PUBLIC UTILITIES
COMMISSION
OF THE CITY OF
SHAKOPEE, MINNESOTA
A MINNESOTA MUNICIPAL
UTILITY**

**NORTHERN STATES POWER
COMPANY
A MINNESOTA CORPORATION**

Shakopee Commission President

John Crooks
Shakopee Commission Secretary

Teresa M. Mogensen
SVP, Transmission
Xcel Energy Services Inc.
Authorized Agent for
Northern States Power Company,
a Minnesota corporation

Proposed Detailed 115 KV One-Line Diagram Dean Lake Substation

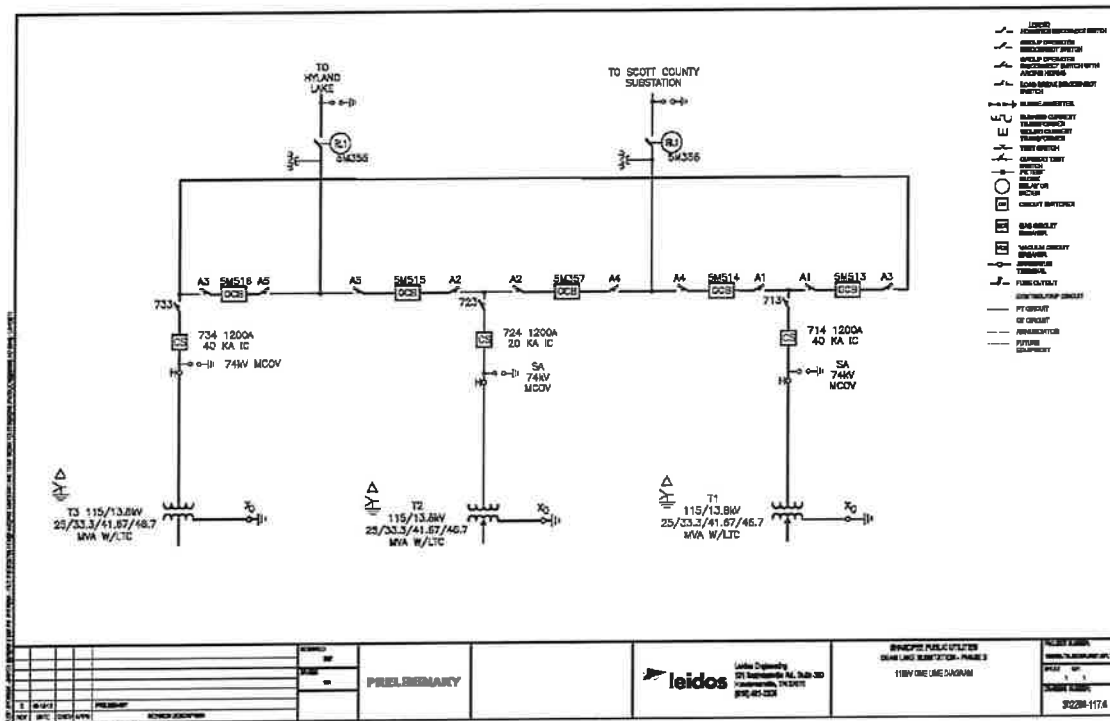


Exhibit B
Dean Lake Substation and Related Transmission System Modifications
Ownership, E&D, and Construction Responsibilities

Description	Ownership	Financial Responsibility for Construction	Responsibility to Accomplish Engineering Design and Construction
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	TRANSMISSION			
1	NSPM's existing Blue Lake to Scott County Sub 115 kV Line (existing and no work required).	NSPM	NSPM	NSPM
	SUBSTATION			
2	Dean Lake Substation property acquisition, grading, and site preparation.	Shakopee	Shakopee	Shakopee
3	Dean Lake Substation, City of Shakopee facilities including but not limited to 3 rd transformer and control house.	Shakopee	Shakopee	Shakopee
4	Dean Lake Substation metering and required communication equipment.	NSPM	NSPM	NSPM
5	Dean Lake Substation new 115 kV circuit breakers and associated equipment.	NSPM	NSPM	NSPM

Exhibit C
Estimated Costs for Dean Lake Shakopee Substation

NSPM Estimated Costs for the Dean Lake Substation

ITEMS	DESCRIPTION	ESTIMATED COST
	Substation Work:	\$3,792,000
	Metering and telecommunications at Dean Lake Shakopee,	
	new 115 kV circuit breakers and associated equipment, new	
	electric equipment enclosure	
	Transmission Work:	
	N/A	
	NSPM Total Estimated Costs	\$3,792,000

Shakopee Estimated Costs for the Dean Lake Substation

ITEMS	DESCRIPTION	ESTIMATED COST
	Substation Work:	\$4,230,000
	Dean Lake Substation	
	includes land, site development, power transformer,	
	switchgear building, and associated U.G. duct work,	
	construction (including supplying all other facilities),	
	landscaping, and engineering	
	Transmission Work:	
	N/A	
	Shakopee Total Estimated Costs	\$4,230,000




SHAKOPEE PUBLIC UTILITIES

"Lighting the Way – Yesterday, Today and Beyond"

March 15, 2016

TO: John Crooks, Utilities Manager

CC: Commissioner Amundson
Commissioner Helkamp
Commissioner Joos
Commissioner Mars
Commissioner Olson

FROM: Renee Schmid,  Director of Finance and Administration

SUBJECT: Shakopee Public Utilities - 2015 Audited Financial Statements and Communications Letter

The presentation of the 2015 audited financial statements and related auditor report is scheduled on the agenda of the Shakopee Public Utilities Commission for Monday, March 21st, 2016. Steve Wischmann, Audit Partner with BerganKDV, will be present to deliver the report to the Commission.

A copy of the 2015 audited financial statements and related communications letter from BerganKDV is attached for your review.



**Shakopee Public Utilities Commission
Shakopee, Minnesota**

Communications Letter

December 31, 2015



**Shakopee Public Utilities Commission
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BerganKDV, Ltd.

Report on Matters Identified as a Result of the Audit of the Financial Statements

Board of Commissioners and Management
Shakopee Public Utilities Commission
Shakopee, Minnesota

In planning and performing our audit of the financial statements of the Shakopee Public Utilities Commission, Shakopee, Minnesota, as of and for the year ended December 31, 2015, in accordance with auditing standards generally accepted in the United States of America, we considered the Commission's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the Commission's financial statements will not be prevented, or detected and corrected on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

The accompanying memorandum includes financial analysis and recommendations for improvement of accounting procedures and internal control measures that came to our attention as a result of our audit of the financial statements of the Commission for the year ended December 31, 2015. The matters discussed herein were considered by us during our audit and they do not modify the opinion expressed in our Independent Auditor's Report dated February 25, 2016, on such statements.

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bergankdv.com



This communication is intended solely for the information and use of management, the Board of Commissioners, and others within the Commission and oversight agencies is not intended to be and should not be used by anyone other than these specified parties.

Bergan KDV, Ltd.

St. Cloud, Minnesota
February 25, 2016

Shakopee Public Utilities Commission Required Communication

We have audited the basic financial statements of the Commission for the year ended December 31, 2015, and have issued our report dated February 25, 2016. Professional standards require that we provide you with the following information related to our audit.

OUR RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA

As stated in our engagement letter, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of the Commission. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning internal control.

Our responsibility for the supplementary information accompanying the financial statements, as described by professional standards, is to evaluate the presentation of the supplementary information in relation to the financial statements as a whole and to report on whether the supplementary information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

PLANNED SCOPE AND TIMING OF THE AUDIT

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit involved judgment about the number of transactions to be examined and the areas to be tested.

Our audit included obtaining an understanding of the Commission and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. Material misstatements may result from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the Commission or to acts by management or employees acting on behalf of the Commission.

QUALITATIVE ASPECTS OF ACCOUNTING PRACTICES

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Commission are described in Note 1 to the financial statements. The Commission implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. We noted no transactions entered into during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the proper period.

Shakopee Public Utilities Commission Required Communication

QUALITATIVE ASPECTS OF ACCOUNTING PRACTICES (CONTINUED)

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

Depreciation – The Commission is currently depreciating its capital assets over their estimated useful lives, as determined by management, using the straight-line method.

Expense Allocation – The Commission is currently allocating certain costs among the utility funds based on management's estimates of the benefit provided to each particular fund.

Allowance for Doubtful Accounts – The Commission is currently using an estimate to determine what accounts will be uncollectible. Amounts are based on bills past due.

Net Pension Liability, Deferred Outflows of Resources Related to Pensions and Deferred Inflows of Resources Related to Pensions – These balances are based on an allocation by the pension plans using estimates based on contributions.

The financial statement disclosures are neutral, consistent, and clear.

DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

We encountered no difficulties in dealing with management in performing and completing our audit.

CORRECTED AND UNCORRECTED MISSTATEMENTS

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management did not identify and we did not notify them of any uncorrected financial statement misstatements.

DISAGREEMENTS WITH MANAGEMENT

For purposes of this letter, a disagreement with management is a financial accounting, reporting or auditing matter, whether or not resolved to our satisfaction that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

MANAGEMENT REPRESENTATIONS

We requested certain representations from management which were provided to us in the management representation letter.

Shakopee Public Utilities Commission Required Communication

MANAGEMENT CONSULTATIONS WITH OTHER INDEPENDENT ACCOUNTANTS

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the Commission's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

OTHER AUDIT FINDINGS OR ISSUES

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Organization's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

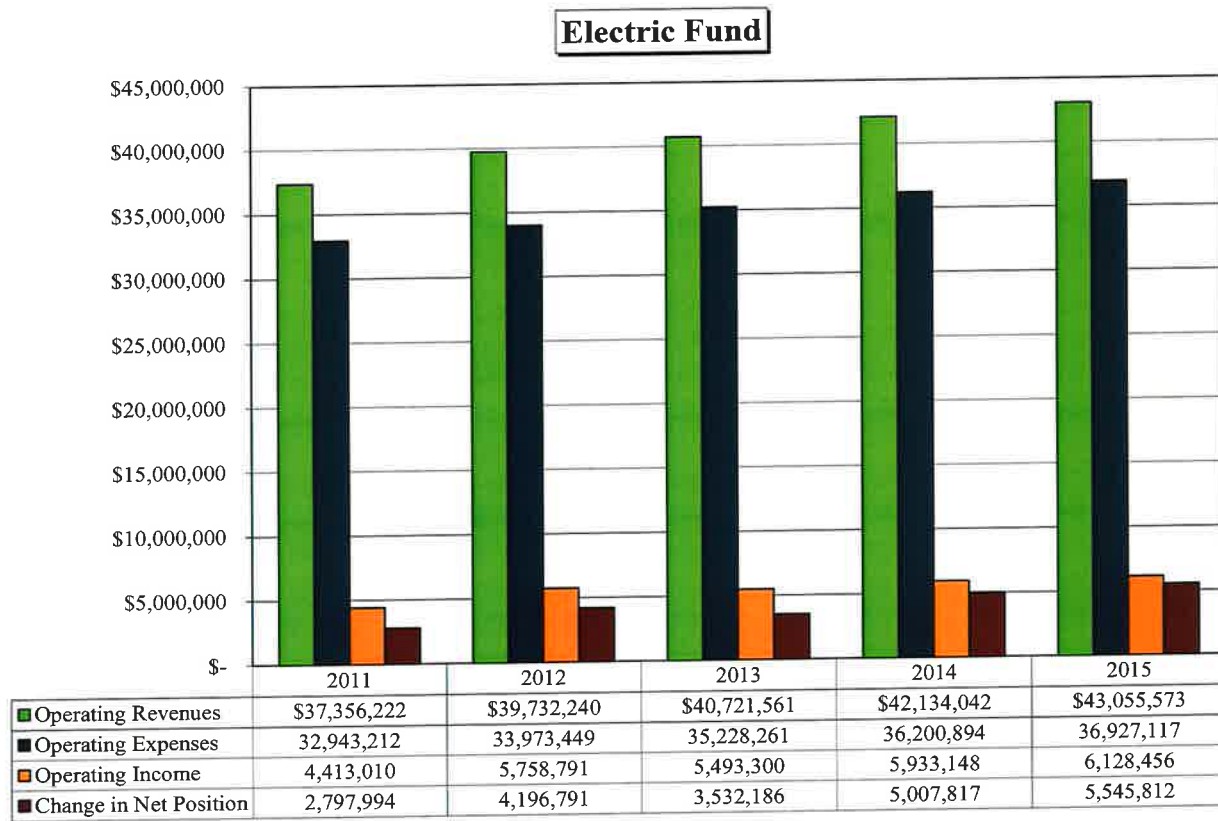
OTHER MATTERS

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content and methods of preparing the information to determine that the information complies with accounting principles generally accepted in United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Shakopee Public Utilities Commission Financial Analysis

The following pages provide graphic representation of select data pertaining to the financial position and operations of the Commission for the past 5 years. Our analysis of each graph is presented to provide a basis for discussion of past performance.

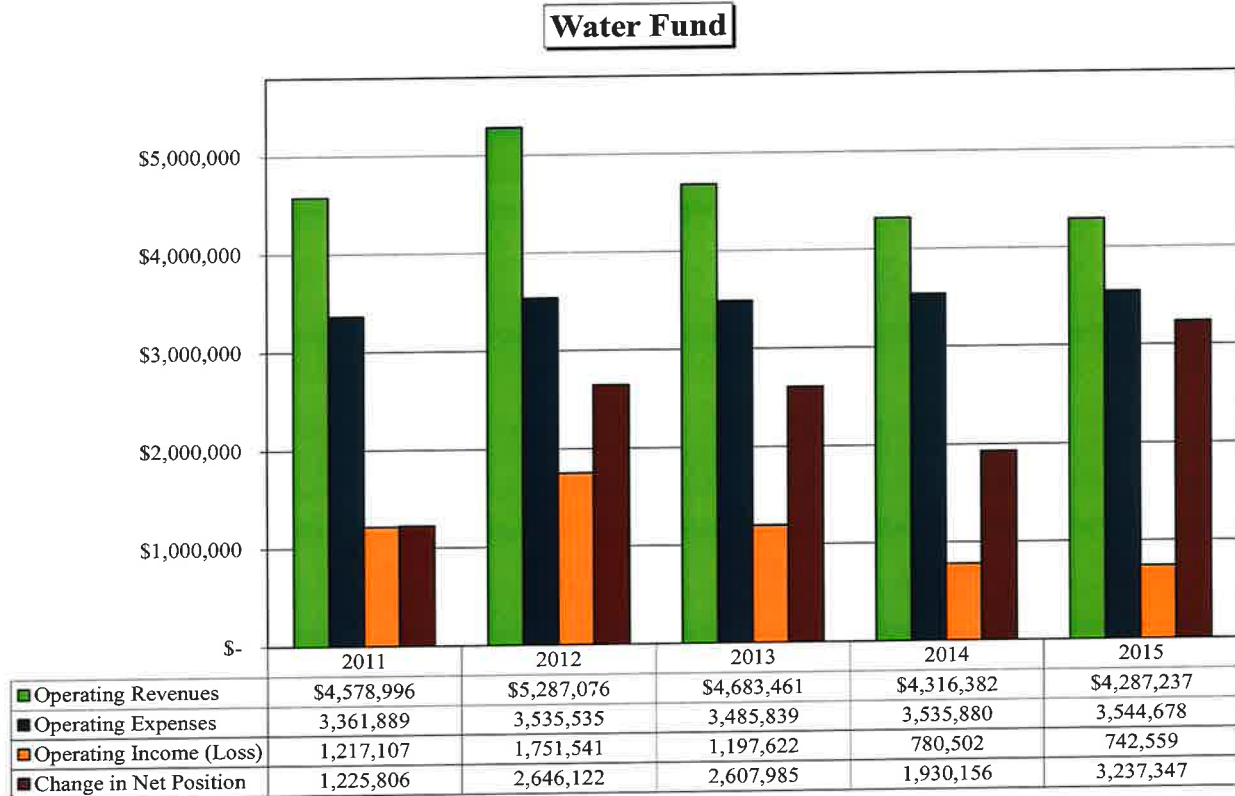
ELECTRIC FUND



Revenue has increased in all 5 years presented. In 2015, operating revenues increased \$921,531 due to an increase in sales and power cost adjustment. Expenses increased \$726,223 from 2014 to 2015. This is the result of higher cost of power being purchased by the Commission. The end result of 2015 activity was operating income of \$6,128,456. The Commission also received \$658,279 in capital contributions from developers and transferred \$1,314,312 to the City of Shakopee as payments in lieu of taxes. As a result, net position increased to \$5,545,812 in 2015. There was also an adjustment to decrease beginning net position as a result of a change in accounting principle. For the year ended December 31, 2015, the Commission implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. This resulted in an adjustment to reduce the beginning net position on the Statement of Revenues, Expenses, and Changes in Fund Net Position of \$2,225,683 to add the beginning net pension liability.

Shakopee Public Utilities Commission Financial Analysis

WATER FUND



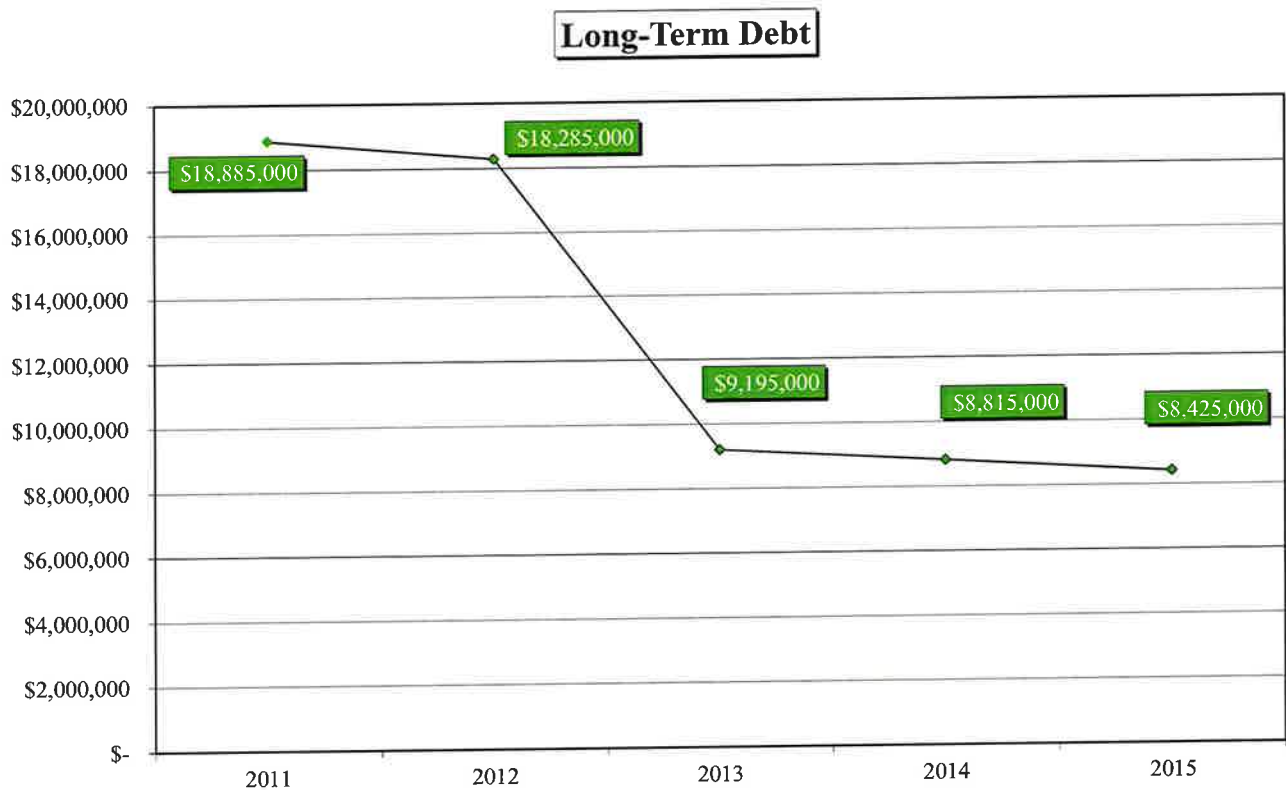
Operating revenues have exceeded operating expenses for the years presented above. During 2015, operating revenues exceeded expenses by \$742,559. Operating revenues decreased \$29,145 from 2014 to 2015, driven by lower demand in sales due to change in the summer weather pattern year to year. Expenses increased \$8,798 primarily due to increased operation and maintenance expense. During 2015, the Commission received \$3,163,624 in capital contributions from developers and connection charges and transferred \$843,988 to the City of Shakopee as payments in lieu of taxes. As a result, net position increased to \$3,237,347 from 2014 to 2015. There was also an adjustment to decrease beginning net position as a result of a change in accounting principle. For the year ended December 31, 2015, the Commission implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. This resulted in an adjustment to reduce the beginning net position on the Statement of Revenues, Expenses, and Changes in Fund Net Position of \$741,893 to add the beginning net pension liability.

Shakopee Public Utilities Commission Financial Analysis

LONG-TERM DEBT

The following chart and graph illustrates the Commission's long-term debt outstanding and reserved at December 31, of each of the past 5 years:

	2011	2012	2013	2014	2015
Long-Term Debt:					
Total Debt	\$ 18,885,000	\$ 18,285,000	\$ 9,195,000	\$ 8,815,000	\$ 8,425,000

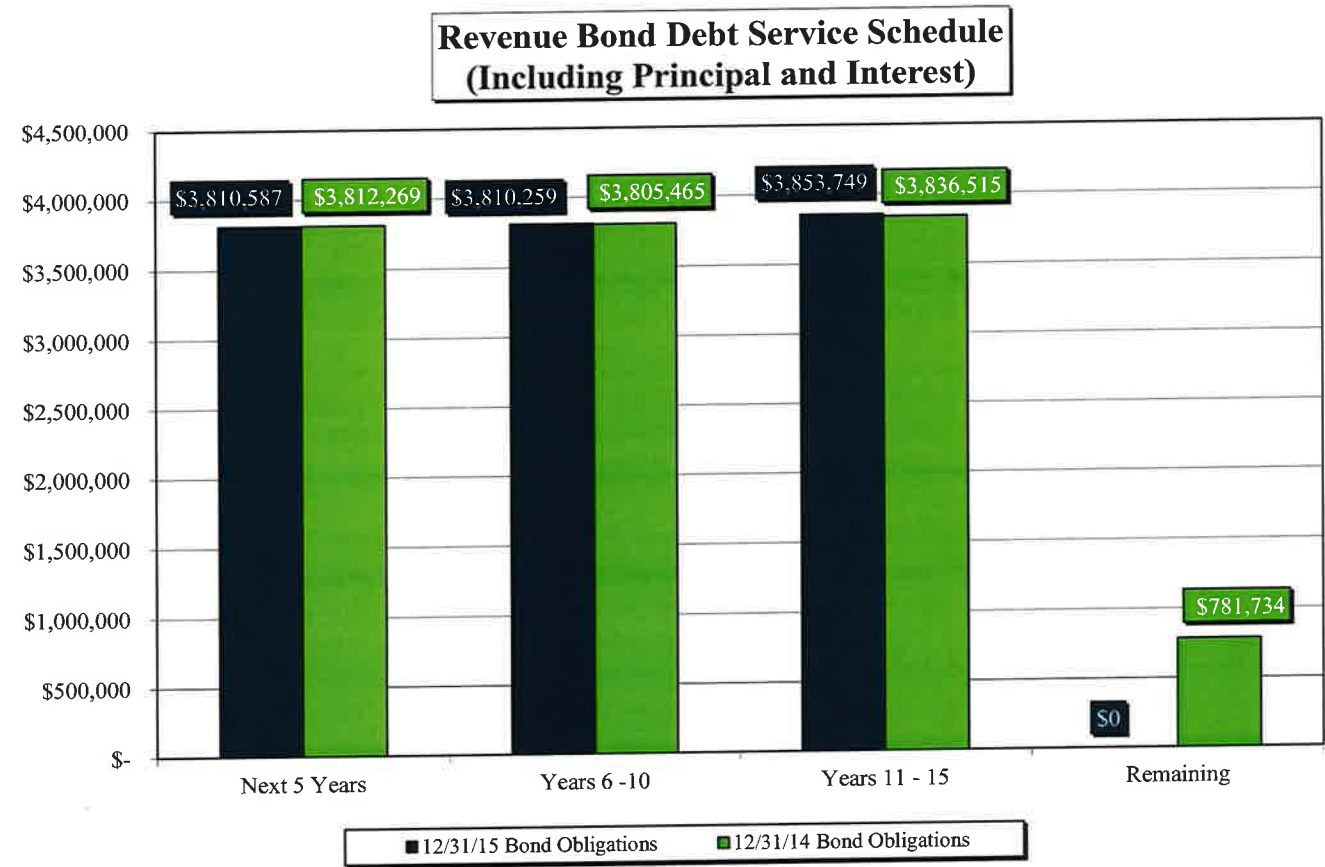


During 2015, the Commission paid off \$390,000 in bonds. The Commission used cash on hand to provide payment for early retirement of the 2004 Refunding Bonds in the amount of \$8,500,000 in 2013.

**Shakopee Public Utilities Commission
Financial Analysis**

DEBT SERVICE

The following chart illustrates debt service requirements through 2030:



**Shakopee Public Utilities Commission
Separate Enterprise Funds of the
City of Shakopee, Minnesota**

Financial Statements

Year Ended December 31, 2015



**Shakopee Public Utilities Commission
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**Shakopee Public Utilities Commission
Board of Commissioners and Administration
December 31, 2015**

<u>Officials</u>	<u>Position</u>	<u>Term Expires</u>
William Mars	President	March 31, 2016
Terry Joos	Vice President	March 31, 2017
Joe Helkamp	Commissioner	March 31, 2016
Jordan Olson	Commissioner	March 31, 2017
Deb Amundson	Commissioner	March 31, 2018
<u>Administration</u>		
John R. Crooks	Utilities Manager	
Renee Schmid	Director of Finance and Administration	



BerganKDV, Ltd.

Independent Auditor's Report

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Shakopee, Minnesota

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Report on the Financial Statements

We have audited the accompanying financial statements of each major fund of the Shakopee Public Utilities Commission, Shakopee, Minnesota, as of and for the year ended December 31, 2015, and the related notes to financial statements, which collectively comprise the Commission's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Commission's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.



We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Shakopee Public Utilities Commission, Shakopee, Minnesota, as of December 31, 2015, and the respective changes in financial position and cash flows, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

As discussed in Note 1, the financial statements present only the Commission's Enterprise Funds and are not intended to present fairly the financial position of the City of Shakopee, Minnesota, and the changes in its financial position and its cash flows in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Implementation of GASB 68 and GASB 71

As discussed in Note 8 to the financial statements, the Commission has adopted the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting, and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Our opinion is not modified with respect to this matter.



Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, which follows this report letter, and the schedule of commission proportionate share of net pension liability GERS retirement fund on page 44 and schedule of commission contributions GERS retirement fund on page 45, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by GASB, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Bergan KDV, Ltd.

St. Cloud, Minnesota
February 25, 2016

Shakopee Public Utilities Commission Management's Discussion and Analysis

The management of the Shakopee Public Utilities Commission (electric and water utilities) offers all persons interested in the financial position of the utilities an objective, easy to read overview and analysis of the utilities' financial performance during the years ending December 31, 2015. You are invited to read this narrative in conjunction with the Utilities' financial statements.

Financial Highlights

- The electric utility's net position increased \$3,320,129 to \$58,924,667 in 2015, an increase of 6.0% which includes a change in accounting principle to implement GASB 68 Accounting and Financial Reporting for Pensions, resulting in a restatement and decrease of beginning net position of \$2,225,683. The change in net position from 2015 operating results was \$5,545,812, an increase of 9.9%, prior to the change in accounting principle and compared to an increase of 9.9% from 2013 to 2014. This increase was mainly due to an increase in cash and investments and investment in net capital assets offset by increased net pension liabilities driven by 2015 results including net operating income of \$6,128,456, capital contributions from developers of \$658,279, less transfers of \$1,314,312 to the City of Shakopee for payment in lieu of taxes. (See Table 1)
- The electric utility's operating revenues, generated mostly by user fees, increased by \$921,531 or 2.2% driven by higher kWh sales. Total kWh sales volume increased 1.3%. The electric utility added 185 new customers in 2015, an increase of 1.1% from 2014. (See Table 3)
- The electric utility's operating expenses in 2015 increased \$726,223 or 2.0% primarily due to higher purchased power expense of \$513,379 driven by higher sales, and increased distribution operation and maintenance and customer and administrative expenses of \$212,842.
- The water utility's net position increased \$2,495,454 to \$52,071,993 in 2015, an increase of 5.0% which includes a change in accounting principle to implement GASB 68 Accounting and Financial Reporting for Pensions, resulting in a restatement and decrease of beginning net position of \$741,893. The change in net position from 2015 operating results was \$3,237,347, an increase of 6.5% prior to the change in accounting principle and compared to an increase of \$1,930,156 from 2013 to 2014 or a 4.1% increase. The increase in net position is primarily due to increases in Connection Account fee activity and net capital assets due to water main reconstruction and tank construction, and partially offset by increases in net pension liability and accounts payable. (See Table 2)
- The water utility's 2015 operating revenues, generated mostly by user fees, decreased \$29,146, or 0.7%, compared to a decrease of \$367,079 or 7.8%, in 2014. The decrease in operating revenues is the result of lower sales demand due to change in the summer weather pattern year to year. The water utility added 85 new customers in 2015, an increase of 0.8%. (See Table 4)
- The water utility's operating expenses in 2015 increased \$8,758, or 0.2% reflecting increases in depreciation expense related to capital investments.
- Capital Contributions increased from 2014 to 2015 by \$1,716,607 due to Connection Fee activity in water and developer contributions for electric projects.

Shakopee Public Utilities Commission Management's Discussion and Analysis

Overview of the Financial Statements

The electric and water utilities are self-supporting entities and separate enterprise funds of the City of Shakopee. The utilities provide electric and water service to properties within the City of Shakopee and some areas outside the municipality. Water service is provided within the corporate limits of the City of Shakopee. The electric utility service territory is a matter of state law, which became effective in 1975 and is supported by official maps. The areas generally served are the City of Shakopee, Townships of Jackson and Louisville, and part of the City of Prior Lake lying north of Prior Lake and abutting the City of Shakopee.

The electric and water utility is managed by a utilities commission and operates under Minnesota Statutes 453. The Commission has and continues to establish rates and charges without approval, review, or veto authority of the City Council. The Commission also establishes the policies and service rules that guide the administration and management of the Shakopee Public Utilities. The City Council created the utility commission in the mid-1950s.

The current utility commission is made up of five members having authority under the Power Agency Law, Minnesota Statutes 453, adopted by the State Legislature in 1976. The Power Agency Law replaces the original empowerment authority and provides the legal platform for the Commission to operate as the governing body of the "electric utility" and join other utilities to solve the issues of generation and transmission.

This annual report consists of 2 parts: Management's Discussion and Analysis and the financial statements as well as the Independent Auditor's Report.

An analysis of the utilities' financial position begins with a review of the statement of net position and the statement of revenues, expenses, and changes in net fund position. These two statements report the Utilities' Net Position and changes therein. The Utilities' Net Position, the difference between assets and deferred outflows of resources and liabilities, are key to measuring the financial health of the Utility. Over time, increases or decreases in the net position value are an indicator of whether the financial position is improving or deteriorating. However, it should be noted that the financial position may also be affected by other non-financial factors, including economic conditions, customer growth, climate conditions, and new regulations.

Utility Financial Analysis

The Statement of Net Position includes all of the Utilities' assets and deferred outflows and inflows of resources and liabilities and provides information about the nature and amount of investments in resources and the obligations to creditors. This Statement provides the basis for evaluating the capital structure and assessing the liquidity and financial flexibility of the Utilities.

A summary of the Utilities' Statement of Net Position is presented on the following pages in Tables 1 and 2.

**Shakopee Public Utilities Commission
Management's Discussion and Analysis**

Utility Financial Analysis (Continued)

**Table 1
Condensed Statement of Net Position – Electric Utility**

	2015	2014
Current and other assets	\$35,310,845	\$32,777,551
Net capital assets	40,685,967	37,878,886
Total assets	<u>75,996,812</u>	<u>70,656,437</u>
Deferred outflows of resources	<u>527,822</u>	<u>214,444</u>
Total assets & deferred outflows of resources	<u>\$ 76,524,634</u>	<u>\$ 70,870,881</u>
Long-term debt outstanding	8,425,000	8,815,000
Net pension liability	2,363,230	
Other liabilities	6,557,831	6,451,343
Total liabilities	<u>17,346,061</u>	<u>15,266,343</u>
Deferred inflows of resources	<u>253,906</u>	<u>-</u>
Net investment in capital assets	32,270,185	29,162,444
Restricted for debt service	375,834	357,500
Unrestricted	26,278,648	26,084,594
Total net position	<u>58,924,667</u>	<u>55,604,538</u>
Total liabilities, deferred inflows, & net position	<u>\$ 76,524,634</u>	<u>\$ 70,870,881</u>

As can be seen from the table above, the electric utility net position increased \$3,320,129 to \$58,924,667 in 2015, an increase of 6.0% which includes a change in accounting principle to implement GASB 68 Accounting and Financial Reporting for Pensions, resulting in a restatement and decrease of beginning net position of \$2,225,683. The change in net position from 2015 operating results was \$5,545,812, an increase of 9.9% prior to the change in accounting principle and compared to an increase of \$5,007,817 from 2013 to 2014, an increase of 9.9%. Total Assets increased by \$5,340,375 due to an increase in net capital assets of \$2,807,081 reflecting investment in a substation and other infrastructure, and increases in cash and investments of \$2,474,616 from net operating activity. Deferred outflows of resources increased \$313,378 reflecting the implementation of GASB 68 and reporting of pension activity.

Total Liabilities increased by \$2,079,718 due to an increase in net pension liability of \$2,363,230, the result of implementation of GASB 68, and a reduction of long term debt of \$390,000. Deferred Inflows of Resources increased due to implementation of GASB 68 reporting of pension activity.

**Shakopee Public Utilities Commission
Management's Discussion and Analysis**

Utility Financial Analysis (Continued)

**Table 2
Condensed Statement of Net Position – Water Utility**

	2015	2014
Current and other assets	\$ 16,525,720	\$ 13,366,046
Net capital assets	37,638,352	36,761,331
Total assets	<u>54,164,072</u>	<u>50,127,377</u>
Deferred outflows of resources	<u>109,225</u>	
Total assets & deferred outflows of resources	<u>\$ 54,273,297</u>	<u>\$ 50,127,377</u>
Net pension liability	787,742	
Other liabilities	1,328,927	550,838
Total liabilities	<u>2,116,669</u>	<u>550,838</u>
Deferred inflows of resources	<u>84,635</u>	
Net investment in capital assets	37,638,352	36,761,331
Restricted for debt service		
Restricted for connections & reconstruction	10,813,151	7,942,347
Unrestricted	3,620,490	4,872,861
Total net position	<u>52,071,993</u>	<u>49,576,539</u>
Total liabilities, deferred inflows, & net position	<u>\$ 54,273,297</u>	<u>\$ 50,127,377</u>

As can be seen from the table above, the water utility net position increased by \$2,495,454 to \$52,071,993 in 2015, an increase of 5.0% which includes a change in accounting principle to implement GASB 68 Accounting and Financial Reporting for Pensions, resulting in a restatement and decrease of beginning net position of \$741,893. The change in net position from 2015 operating results was \$3,237,347, an increase of 6.5% prior to the change in accounting principle and compared to an increase of \$1,930,156 from 2013 to 2014 or a 4.1% increase. Total Assets increased by \$4,036,695 due to an increase in the Connection Account of \$2,979,173 for fees related to several new large development projects, net capital assets of \$877,021 for investment in water main reconstruction and tank construction, and accounts receivable of \$276,874. Deferred outflows of resources increased \$109,225 reflecting the implementation of GASB 68 and reporting of pension activity. Total Liabilities increased by \$1,565,831 due to an increase in net pension liability of \$787,742, the result of implementation of GASB 68, and increases in accounts payable of \$734,330 for water main reconstruction and other payables. Deferred Inflows of Resources increased \$84,635 due to implementation of GASB 68 reporting of pension activity.

Shakopee Public Utilities Commission Management's Discussion and Analysis

Utility Financial Analysis (Continued)

The restricted portion of net position includes accounts that are limited by bond covenants. Listed below are restricted assets:

- Sinking — Used to segregate resources accumulated for debt service payments over the next twelve months.
- Customer — Restricted resources from customers required to deposit monies before the utility will begin service. These deposits are subject to repayment when the customer leaves the utility's service area.
- Deposit Account
- Connection and — Restricted resources, per enabling legislation, to be used for future water production and trunk distribution facility acquisitions.
- Trunk Water Accts

The specific nature or source of these changes becomes more evident in the statement of revenues, expenses, and changes in fund net position as shown in Tables 3 and 4.

The statement of revenues, expenses, and changes in fund net position provide an indication of the utilities' financial health.

Table 3
Condensed Statement of Revenues, Expenses, and Changes in Fund Net Position
Electric Utility

	2015	2014
Operating revenues	\$ 43,055,573	\$ 42,134,042
Operation, customer, and administrative depreciation expense	35,099,679	34,370,505
Amortization of plant acquisition	1,764,433	1,767,386
Total operating expenses	63,005	63,003
	36,927,117	36,200,894
Operating income	6,128,456	5,933,148
Non-operating revenues (expenses)	73,389	72,484
Capital contributions	658,279	291,568
Transfers to municipality	(1,314,312)	(1,289,383)
Change in net position	5,545,812	5,007,817
Beginning net position	55,604,538	50,596,721
Change in accounting principle	(2,225,683)	-
Beginning of year, as restated	53,378,855	50,596,721
Ending net position	\$ 58,924,667	\$ 55,604,538

Shakopee Public Utilities Commission Management's Discussion and Analysis

Utility Financial Analysis (Continued)

As can be seen in Table 3 on the previous page, the electric utility's operating revenues increased in 2015 by \$921,531, or 2.2% reflecting an increase in total kWh sales volume of 1.3%. This compares to an increase in revenues of \$1,412,481 in 2014, or 3.5%. Operating expenses increased \$726,223 or 2.0%, primarily due to increases in purchased power costs of \$513,379 driven by higher sales, and increases in operations and maintenance, customer, administrative expenses of \$212,842. Purchased power costs were \$29,939,985 in 2015, an increase of \$513,379 or 1.7%, as compared to an increase of \$926,707, or 3.3%, in 2014. Purchased power will remain the single largest expense item in the electric system operating budget. Capital Contributions increased by \$366,711 driven by projects for a large new industrial customer. The Change in Accounting Principle reflects the implementation of GASB 68, Accounting and Report for Pension Activity.

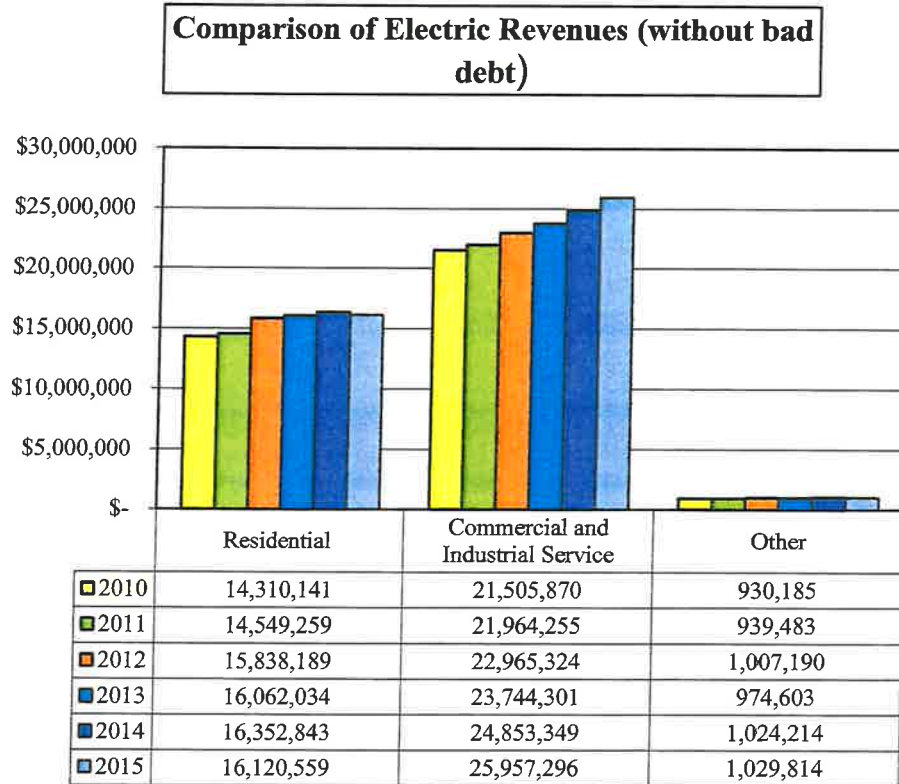
Table 4
Condensed Statement of Revenues, Expenses, and Changes in Fund Net Position
Water Utility

	2015	2014
Operating revenues	\$ 4,287,237	\$ 4,316,382
Operation, customer, and administrative	2,392,860	2,401,805
Depreciation expense	1,151,818	1,134,075
Amortization of plant acquisition	-	-
Total operating expenses	3,544,678	3,535,880
Operating income	742,559	780,502
Non-operating revenues (expenses)	175,152	198,423
Capital contributions	3,163,624	1,813,728
Transfers to municipality	(843,988)	(862,497)
Change in net position	3,237,347	1,930,156
Beginning net position	49,576,539	47,646,383
Change in accounting principle	(741,893)	-
Beginning of year, as restated	48,834,646	47,646,383
Ending net position	\$ 52,071,993	\$ 49,576,539

In 2015 the water utility's operating revenues decreased by \$29,145, or 0.7%. Operating expenses increased \$8,798, or 0.2%. The decrease in operating revenues is the result of lower sales demand due to change in the summer weather pattern year to year. Non-Operating Income decreased \$23,371 from \$198,423 to \$175,152 reflecting a decrease in rental and miscellaneous income. Capital Contributions increased by \$1,349,896 or 74.4% year over year attributable to higher water connection fees activity related to development in the city of Shakopee. Transfers to Municipality expenses decreased from \$862,497 to \$843,988 driven by lower water sales revenue from year to year. The Change in Accounting Principle reflects the implementation of GASB 68, Accounting and Report for Pension Activity.

Shakopee Public Utilities Commission Management's Discussion and Analysis

Utility Financial Analysis (Continued)



Residential, commercial, and other sales of electricity (without bad debt) increased in 2015 by \$877,263 or 2.0%, compared to an increase of \$1,449,468 or 3.4%, in 2014. The most recent rate adjustment was effective January 1, 2013. The electric utility added 185 new customers in 2015, an increase of 1.1%.

The utility joined MMPA as a full member in 2004, with a long-term Purchase Power Agreement extending to 2050. The MMPA Purchase Power Agreement began January 1, 2006 upon the conclusion of the old (1992) MMPA contract that expired December 31, 2005; under the terms of the 'MMPA Purchase Power Agreement', MMPA assumed the load of the expiring contract of Xcel on December 31, 2009.

**Shakopee Public Utilities Commission
Management's Discussion and Analysis**

Utility Financial Analysis (Continued)

Historical Power and Energy Requirements

<u>Year</u>	<u>Energy (kWh)</u>			<u>Total Energy (kWh)</u>	<u>System Peak Demand (kW)</u>
	<u>Minnesota Municipal Power Agency</u>	<u>Great River Energy</u>	<u>Xcel Energy</u>		
2015	425,268,243	-	-	425,268,243	92,605
2014	417,376,994	-	-	417,376,994	93,549
2013	413,119,096	-	-	413,119,096	95,148
2012	416,558,417	-	-	416,558,417	96,369
2011	414,150,120	-	-	414,150,120	97,882
2010	412,310,323	-	-	412,310,323	93,027
2009	394,883,403	-	-	394,883,403	85,603
2008	333,614,158	-	80,200,250	413,814,408	86,877
2007	339,640,716	-	80,096,825	419,737,541	93,058
2006	331,905,689	-	74,038,372	405,944,061	93,175
2005	325,158,300	-	65,542,322	390,700,622	86,525
2004	283,920,096	-	55,080,230	339,000,326	77,149

Kilowatt (kWh) Hours

Following is the total cost of kilowatt-hours purchased, total kilowatt-hours purchased, and total kilowatt-hours delivered for the past 12 years.

<u>Year</u>	<u>Cost of kWh Purchased</u>	<u>Total kWh Purchased</u>	<u>Total kWh Delivered</u>
2015	\$ 29,939,985	425,268,243	406,459,331
2014	29,426,606	417,376,994	401,272,664
2013	28,499,899	413,119,096	394,596,477
2012	27,338,777	416,558,417	399,828,851
2011	26,782,506	414,150,120	397,223,982
2010	25,808,252	412,310,323	395,127,626
2009	23,452,081	394,883,403	376,253,876
2008	29,186,136	413,814,408	392,910,208
2007	27,614,868	419,737,541	398,514,597
2006	23,140,642	405,944,061	382,412,938
2005	18,762,030	390,700,622	373,691,009
2004	14,197,133	339,002,330	322,905,586

Shakopee Public Utilities Commission Management's Discussion and Analysis

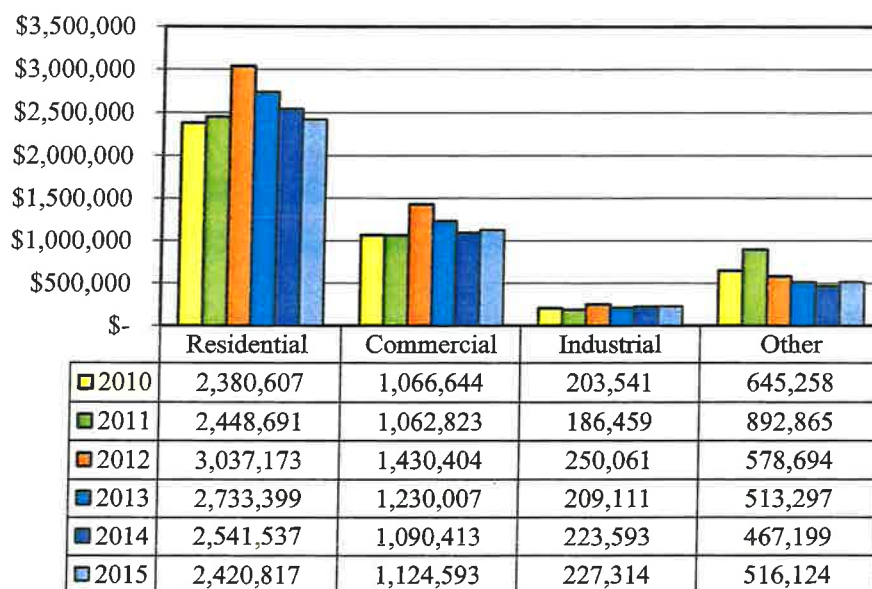
Utility Financial Analysis (Continued)

Metered Electric Customers

Following are the number of metered connections for the past 12 years.

<u>Year</u>	<u>Meters</u>	<u>Year</u>	<u>Meters</u>
2015	16,885	2009	15,984
2014	16,700	2008	15,625
2013	16,508	2007	15,436
2012	16,398	2006	15,275
2011	16,314	2005	14,698
2010	16,139	2004	14,042

Comparison of Water Revenues (without bad debt)



Sales of water (without bad debt) decreased in 2015 by \$33,894, or 0.8%, as compared to a decrease of \$363,071, or 7.8%, in 2014. The decrease in operating revenues is the result of lower demand in sales due to change in the summer weather pattern year to year. The water utility added 85 new customers in 2015, an increase of 0.8%.

**Shakopee Public Utilities Commission
Management's Discussion and Analysis**

Utility Financial Analysis (Continued)

Water Demand

Following is the average daily demand and peak daily demand for 11 reporting periods.

<u>Year</u>	Average Daily Demand (MGD)	Peak Daily Demand (MGD)
2015	4.556	9.936
2014	4.631	10.878
2013	4.987	13.379
2012	5.948	16.257
2011	4.852	10.799
2010	4.707	10.624
2009	5.112	12.832
2008	5.084	13.593
2007	5.557	14.680
2006	5.289	13.369
2005	4.828	12.409

Water Meters/Production

The following shows the number of meters and production for the water utility for the past 11 years:

<u>Year</u>	Average Daily Water Pumped (gallons)	Service Population*	Total Service Connections	Residential Usage	Non-Residential Usage
2015	4,555,603	37,488	11,170	60%	40%
2014	4,631,167	35,300	11,085	62	38
2013	4,987,855	35,120	10,956	62	38
2012	5,948,063	34,652	10,872	60	40
2011	4,852,447	34,652	10,781	62	38
2010	4,706,923	34,076	10,648	61	39
2009	5,111,956	30,000	10,470	63	37
2008	5,084,200	30,000	10,156	61	39
2007	5,557,000	31,050	9,924	59	41
2006	5,289,000	30,634	9,717	59	41
2005	4,828,000	29,143	9,310	63	37

**Shakopee Public Utilities Commission
Management's Discussion and Analysis**

Utility Financial Analysis (Continued)

The statement of cash flows report the cash provided and used by operating activities, as well as other cash sources such as investment income and cash payments for repayment of bonds and capital additions.

**Condensed Statements of Cash Flows (Table 5)
Electric Utility**

	<u>2015</u>	<u>2014</u>
Cash flows from:		
Operating activities	\$ 8,244,215	\$ 8,342,575
Noncapital financing activities	(996,717)	(1,002,311)
Capital & related financing activities	(4,779,333)	(2,465,185)
Investing activities	<u>(36,418)</u>	<u>132,429</u>
Net change in cash and cash equivalents	2,431,747	(5,007,508)
Cash and cash equivalents – beginning of year	<u>12,244,219</u>	<u>7,236,711</u>
Cash and cash equivalents – end of year	<u><u>\$ 14,675,966</u></u>	<u><u>\$ 12,244,219</u></u>

**Condensed Statements of Cash Flows (Table 6)
Water Utility**

	<u>2015</u>	<u>2014</u>
Cash flows from:		
Operating activities	\$ 2,011,536	\$ 2,008,330
Noncapital financing activities	(274,910)	(788,980)
Capital & related financing activities	1,134,742	(1,335,792)
Investing activities	<u>1,793</u>	<u>22,986</u>
Net change in cash and cash equivalents	2,873,161	(93,456)
Cash and cash equivalents – beginning of year	<u>10,941,275</u>	<u>11,034,731</u>
Cash and cash equivalents – end of year	<u><u>\$ 13,814,436</u></u>	<u><u>\$ 10,941,275</u></u>

**Shakopee Public Utilities Commission
Management's Discussion and Analysis**

Utility Financial Analysis (Continued)

**Table 7
Capital Assets – Electric Utility**

	<u>2015</u>	<u>2014</u>
Capital assets:		
Distribution	\$ 40,409,883	\$ 39,153,218
General	<u>16,234,129</u>	<u>16,091,428</u>
Total capital assets	56,644,012	55,244,646
Less: accumulated depreciation	(20,605,191)	(18,914,155)
Construction in progress	<u>4,647,146</u>	<u>1,548,395</u>
Net capital assets	<u>\$ 40,685,967</u>	<u>\$ 37,878,886</u>

The electric utility's capital assets increased \$2,807,081 or 7.4%, compared to an increase of \$158,824 or 0.4%, in 2014. The utility is upgrading a substation with expected completion in 2016 as well as other distribution infrastructure and reflected as Construction in Progress.

**Table 8
Capital Assets – Water Utility**

	<u>2015</u>	<u>2014</u>
Capital assets:		
Distribution	\$ 48,438,519	\$ 47,728,262
General	<u>1,410,470</u>	<u>1,225,484</u>
Total capital assets	49,848,989	48,953,746
Less: accumulated depreciation	(15,838,294)	(14,779,557)
Construction in progress	<u>3,627,657</u>	<u>2,587,142</u>
Net capital assets	<u>\$ 37,638,352</u>	<u>\$ 36,761,331</u>

During 2015, the water utility's capital assets increased by \$877,021, or 2.4%, compared to an increase of \$2,015,414 or 5.8%, in 2014. Construction of a new two million gallon water tank was in progress in 2015 with expected completion in 2016 and reflected as Construction in Progress.

Please refer to the notes to the financial statements for further detail of the utilities' capital assets.

Shakopee Public Utilities Commission Management's Discussion and Analysis

Long-Term Debt

As of December 31, 2015, the electric and water utilities have total net revenue bond debt outstanding of \$8,425,000 payable from and secured by a pledge of income and revenue to be derived from the operation of the electric and water utilities and were primarily issued for various infrastructure projects. Expansion of the water and electric utilities is dependent on (1) cash flow from operations (after expenses) for the electric utilities, (2) special connection and trunk charges for the water utilities, and (3) the ability to access the capital markets to borrow funds. Bonds are issued only on an as needed basis and for projects described within the capital improvement program approved annually by the Commission.

The Shakopee Public Utilities Commission currently has one refunding net revenue bond issue outstanding consisting of \$8,425,000 Crossover Refunding Net Revenue Bonds, Series 2006.

The Bonds are limited obligations of the Shakopee Public Utilities Commission, payable solely from net revenues of the Commission. The Bonds are not general obligations of the Commission, and neither the full faith and credit nor the taxing powers of the City of Shakopee, the County of Scott, or the State of Minnesota are available to pay for the principal and interest on the Bonds.

Currently Known Facts/Economic Conditions

The City of Shakopee is located approximately 25 miles southwest of downtown Minneapolis. Shakopee is the county seat of Scott County. The City was organized in 1870 and became a statutory city, Plan A, in April 1975. It is organized under a mayor/council form of government as outlined in *Minnesota Statutes* 412. A Mayor is elected for a two year term and four City Council Members are elected to overlapping four year terms. The community is served by US No. 169 and Scott County Highway No. 101; US No. 169 connects Scott County with Hennepin County and the Metro Center of Minneapolis-Saint Paul.

The City Council has the obligation to appoint the members to the Shakopee Public Commission.

Contacting Utility Management

This financial report is designed to provide our customers, investors, and creditors with a general overview of the utilities' finances. If you have questions about this report, or need additional financial information, contact the Director of Finance and Administration, Post Office Box 470, 255 Sarazin Street, Shakopee, Minnesota 55379.

General information relating to the Shakopee Public Utilities can be found at the Utility web site: <http://www.spucweb.com>.

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BASIC FINANCIAL STATEMENTS

Shakopee Public Utilities Commission
Statement of Net Position - Proprietary Funds
December 31, 2015

	Electric	Water	Total
Assets			
Current assets	\$ 27,531,120	\$ 4,936,015	\$ 32,467,135
Cash and investments			
Restricted assets			
Sinking account	527,227	-	527,227
Accrued interest receivable	24,040	7,249	31,289
Customer accounts receivable	3,553,068	273,009	3,826,077
Allowance for uncollectible accounts	(23,902)	(8,764)	(32,666)
Other accounts receivable	70,137	63,950	134,087
Due from City of Shakopee	85,763	366,781	452,544
Inventory	1,294,826	34,769	1,329,595
Prepaid expenses	56,726	18,909	75,635
Total current assets	<u>33,119,005</u>	<u>5,691,918</u>	<u>38,810,923</u>
Noncurrent assets			
Restricted assets	2,048,907	20,651	2,069,558
Customer deposits account	-	10,670,936	10,670,936
Connection account	-	142,215	142,215
Water reconstruction account			
Capital assets	56,644,012	49,848,989	106,493,001
Plant in service	(20,605,191)	(15,838,294)	(36,443,485)
Accumulated depreciation	4,647,146	3,627,657	8,274,803
Construction in progress			
Other assets	100,000	-	100,000
Emergency repairs account	42,933	-	42,933
Prepaid bond insurance	42,877,807	48,472,154	91,349,961
Total noncurrent assets	<u>75,996,812</u>	<u>54,164,072</u>	<u>130,160,884</u>
Total assets			
Deferred Outflows of Resources	327,674	109,225	436,899
Deferred outflows of resources related to pensions	200,148	-	200,148
Unamortized loss on refunding	527,822	109,225	637,047
Total deferred outflows of resources	<u>\$ 76,524,634</u>	<u>\$ 54,273,297</u>	<u>\$ 130,797,931</u>
Total assets and deferred outflows of resources			
Liabilities			
Current liabilities	\$ 3,430,304	\$ 455,837	\$ 3,886,141
Accounts Payable	348,014	558,978	906,992
Due to City of Shakopee	220,872	164,881	385,753
Other current liabilities	3,999,190	1,179,696	5,178,886
Total current liabilities			
Liabilities payable from restricted assets	410,000	-	410,000
Current portion of revenue bonds	151,393	-	151,393
Accrued interest payable	2,048,907	20,651	2,069,558
Customer deposits	2,610,300	20,651	2,630,951
Total liabilities payable from restricted assets			
Noncurrent liabilities	8,015,000	-	8,015,000
Revenue bonds	(9,218)	-	(9,218)
Unamortized bond discount	6,091	-	6,091
Unearned revenues	361,468	128,580	490,048
Customer advances	2,363,230	787,742	3,150,972
Net pension liability	10,736,571	916,322	11,652,893
Total noncurrent liabilities	<u>17,346,061</u>	<u>2,116,669</u>	<u>19,462,730</u>
Total liabilities			
Deferred Inflows of Resources	253,906	84,635	338,541
Deferred inflows of resources related to pensions			
Net Position	32,270,185	37,638,352	69,908,537
Net investment in capital assets	375,834	-	375,834
Restricted for debt service	-	10,813,151	10,813,151
Restricted for connections & reconstruction	26,278,648	3,620,490	29,899,138
Unrestricted	58,924,667	52,071,993	110,996,660
Total net position	<u>\$ 76,524,634</u>	<u>\$ 54,273,297</u>	<u>\$ 130,797,931</u>
Total liabilities, deferred inflows of resources, and net position			

See notes to financial statements.

Shakopee Public Utilities Commission
Statement of Revenues, Expenses, and Changes
in Fund Net Position - Proprietary Funds
Year Ended December 31, 2015

	<u>Electric</u>	<u>Water</u>	<u>Total</u>
Operating revenues	\$ 43,055,573	\$ 4,287,237	\$ 47,342,810
Operating expenses	<u>36,927,117</u>	<u>3,544,678</u>	<u>40,471,795</u>
Operating income	<u>6,128,456</u>	<u>742,559</u>	<u>6,871,015</u>
Nonoperating revenues (expenses)			
Rentals and miscellaneous	274,079	154,597	428,676
Interdepartmental rent from water	90,000	-	90,000
Investment income	79,725	10,498	90,223
Interest expense	(366,734)	(43)	(366,777)
Amortization of bond discount and loss on refunding	(17,802)	-	(17,802)
Gain (loss) on disposition of property	14,121	10,100	24,221
Total nonoperating revenues (expenses)	<u>73,389</u>	<u>175,152</u>	<u>248,541</u>
Income before contributions and transfers	6,201,845	917,711	7,119,556
Capital contributions	658,279	3,163,624	3,821,903
Transfers to municipality	<u>(1,314,312)</u>	<u>(843,988)</u>	<u>(2,158,300)</u>
Change in net position	5,545,812	3,237,347	8,783,159
Net position			
Beginning of year	<u>55,604,538</u>	<u>49,576,539</u>	<u>105,181,077</u>
Change in accounting principle (see Note 8)	<u>(2,225,683)</u>	<u>(741,893)</u>	<u>(2,967,576)</u>
Beginning of year, as restated	<u>53,378,855</u>	<u>48,834,646</u>	<u>102,213,501</u>
End of year	<u><u>\$ 58,924,667</u></u>	<u><u>\$ 52,071,993</u></u>	<u><u>\$ 110,996,660</u></u>

Shakopee Public Utilities Commission
Statement of Cash Flows - Proprietary Funds
Year Ended December 31, 2015

	<u>Electric</u>	<u>Water</u>	<u>Total</u>
Cash Flows - Operating Activities			
Receipts from customers and users	\$ 43,205,355	\$ 4,209,135	\$ 47,414,490
Payments to suppliers	(31,349,362)	(535,669)	(31,885,031)
Payments to employees	(3,611,778)	(1,661,930)	(5,273,708)
Net cash flows - operating activities	<u>8,244,215</u>	<u>2,011,536</u>	<u>10,255,751</u>
Cash Flows - Noncapital financing Activities			
Payments to City of Shakopee	(1,139,214)	(285,010)	(1,424,224)
Proceeds from sale of assets	142,497	10,100	152,597
Net cash flows - noncapital financing activities	<u>(996,717)</u>	<u>(274,910)</u>	<u>(1,271,627)</u>
Cash Flows - Capital and Related financing Activities			
Principal paid on debt	(390,000)	-	(390,000)
Interest paid on debt	(373,437)	(43)	(373,480)
Acquisition of capital assets	(4,015,896)	(2,028,839)	(6,044,735)
Installation fees	-	39,000	39,000
Connection charges	-	2,973,497	2,973,497
Trunk charges	-	151,127	151,127
Net cash flows - capital and related financing activities	<u>(4,779,333)</u>	<u>1,134,742</u>	<u>(3,644,591)</u>
Cash Flows - Investing Activities			
Proceeds (purchases) of investments	(112,770)	(8,288)	(121,058)
Interest and dividends received	76,352	10,081	86,433
Net cash flows - investing activities	<u>(36,418)</u>	<u>1,793</u>	<u>(34,625)</u>
Net change in cash and cash equivalents	2,431,747	2,873,161	5,304,908
Cash and Cash Equivalents			
Beginning of year	<u>12,244,219</u>	<u>10,941,275</u>	<u>23,185,494</u>
End of year	<u>\$ 14,675,966</u>	<u>\$ 13,814,436</u>	<u>\$ 28,490,402</u>

Shakopee Public Utilities Commission
Statement of Cash Flows - Proprietary Funds
Year Ended December 31, 2015

	<u>Electric</u>	<u>Water</u>	<u>Total</u>
Reconciliation of Operating Income to Net Cash Flows - Operating Activities			
Operating income	\$ 6,128,456	\$ 742,559	\$ 6,871,015
Adjustments to reconcile operating income to net cash flows - operating activities			
Free electric service to City of Shakopee	(175,098)	-	(175,098)
Nonoperating revenues	364,079	154,597	518,676
Depreciation expense	1,764,433	1,151,818	2,916,251
Pension related activity	63,779	21,259	85,038
Amortization of plant acquisition	63,005	-	63,005
Allowance for uncollectible accounts	(7,833)	(431)	(8,264)
Change in assets and liabilities			
Customer accounts receivable	28,046	43,895	71,941
Other accounts receivable	3,237	(51,295)	(48,058)
Due from City of Shakopee	114,802	(268,627)	(153,825)
Inventory	(214,213)	(1,000)	(215,213)
Prepaid items	(1,049)	(350)	(1,399)
Accounts payable	335,427	280,716	616,143
Customer deposits	58,270	(3,457)	54,813
Unearned revenue	3,959	-	3,959
Customer advances	(239,680)	47,216	(192,464)
Due to City of Shakopee	(79,425)	(73,517)	(152,942)
Other liabilities	34,020	(31,847)	2,173
Total adjustments	<u>2,115,759</u>	<u>1,268,977</u>	<u>3,384,736</u>
Net cash flows - operating activities	<u>\$ 8,244,215</u>	<u>\$ 2,011,536</u>	<u>\$ 10,255,751</u>

**Reconciliation of Cash and Cash
Equivalents to the Statement
of Net Position**

Sinking account	\$ 527,227	\$ -	\$ 527,227
Customer deposits account	2,048,907	20,651	2,069,558
Emergency repairs account	100,000	-	100,000
Connection account	-	10,670,936	10,670,936
Water reconstruction account	-	142,215	142,215
Cash and investments	<u>27,531,120</u>	<u>4,936,015</u>	<u>32,467,135</u>
Total	30,207,254	15,769,817	45,977,071
Less long-term investments	<u>(15,531,288)</u>	<u>(1,955,381)</u>	<u>(17,486,669)</u>
Cash and cash equivalents	<u>\$ 14,675,966</u>	<u>\$ 13,814,436</u>	<u>\$ 28,490,402</u>

**Noncash Investing, Capital and
Financing Activities**

Contributions of capital assets from the municipality and developers	\$ 658,279	\$ -	\$ 658,279
Free electric service to City of Shakopee	175,098	-	175,098

See notes to financial statements.

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**Shakopee Public Utilities Commission
Notes to Financial Statements**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The electric and water utilities of the Shakopee Public Utilities Commission (the “Commission”) are self-supporting entities and collectively comprise separate enterprise funds of the City of Shakopee (the “City”). The Commission provides electric and water operations to properties within the City as well as electric distribution to certain other areas outside of the City. The Commission accounts for the costs of electric and water operations on a continuing basis and is managed by the Commission. The Commission consists of 5 members who serve 3 year consecutive terms.

Customer and service rates are established by the Commission.

B. Fund Financial Statements

Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business or where the governing body has decided that the determination of revenues earned, costs incurred, and net income is necessary for management accountability.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

Description of Funds

Proprietary Funds:

Electric Fund – This Fund accounts for the activities of the Commission's electric utility.

Water Fund – This Fund accounts for the operations of the Commission's water utility.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Electric and Water Enterprise Funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Commission's policy to use restricted resources first, then unrestricted resources as they are needed.

**Shakopee Public Utilities Commission
Notes to Financial Statements**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, and Net Position or Equity

1. Deposits and Investments

The Commission's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of 3 months or less from the date of acquisition. Investments are stated at fair value.

Minnesota Statutes authorizes the Commission to invest in obligations of the U.S. Treasury, agencies and instrumentalities, shares of investment companies whose only investments are in the aforementioned securities, obligations of the State of Minnesota or its municipalities, bankers' acceptances, future contracts, repurchase and reverse repurchase agreements and commercial paper of the highest quality with a maturity of no longer than 270 days and in the Minnesota Municipal Investment Pool.

The Minnesota Municipal Investment Pool is an external investment pool not registered with the Securities Exchange Commission (SEC) that follows the same regulatory rules of the SEC under Rule 2.a.7. The fair value of the position in the pool is the same as the value of the pool shares.

Custodial Credit Risk – Deposits: This is the risk that in the event of bank failure, the Commission's deposits may not be returned to it. *Minnesota Statutes* requires all deposits be protected by federal deposit insurance, corporate surety bonds, or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by Federal Deposit Insurance Corporation (FDIC) insurance or corporate surety bonds. The Commission's policy states that deposits shall be fully insured at all times by FDIC insurance or otherwise collateralized.

Credit Risk: This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. *Minnesota Statutes* 118A.04 and 118A.05 limit investments that are in the top 2 ratings issued by nationally recognized statistical rating organizations. The Commission's policy states to ensure safety, it is the policy of the Shakopee Public Utilities Commission that when considering an investment, all depositories under consideration be cross-checked against existing investments to make certain that funds in excess of insurance limits are not made in the same institution unless collateralized as outlined below. Furthermore, the Shakopee Public Utilities Commission will approve all financial institutions, brokers, and advisers with which the Shakopee Public Utilities Commission will do business.

Concentration of Credit Risk: This is the risk of loss attributed to the magnitude of an investment in a single issuer. The Commission's policy states it will minimize deposit Custodial Risk, which is the risk of loss due to failure of the depository bank (or credit union), by obtaining collateral or bond for all uninsured amounts on deposit, and by obtaining necessary documentation to show compliance with state law and a perfected security interest under federal law.

**Shakopee Public Utilities Commission
Notes to Financial Statements**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities and Net Position or Equity (Continued)

1. Deposits and Investments (Continued)

Interest Rate Risk: This is the risk that market values of securities in a portfolio would decrease due to changes in market interest rates. The Commission's policy states it will minimize interest rate risk by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity.

Custodial Credit Risk – Investments: This is the risk that, in the event of the failure of the counterparty, the Commission will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The Commission's policy states they will minimize risk by only purchasing investments that are held in safekeeping with a Federal Reserve bank, United States Bank with corporate trust powers, a primary reporting dealer to the Federal Reserve Bank of New York, or a broker dealer having its principal executive office in Minnesota and that designated brokers have insurance through the SIPC (Securities Investor Protection Corporation).

2. Receivables and Payables

Activity between funds that are representative of lending or borrowing arrangements outstanding at the end of the year are referred to as advances to/from other funds. All other outstanding balances between funds are reported as due to/from other funds. Any residual balances outstanding between the Commission and other funds of the City are reported as receivables from or payables to the City.

An allowance for uncollectible accounts is used to account for delinquent customer balances greater than 120 days overdue as of December 31, 2015. Bad debts are expensed annually when deemed uncollectible.

3. Inventory, Prepaid Items and Other Assets

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the financial statements.

Inventory is valued at average cost and using the first-in, first-out (FIFO) method.

Other assets include unamortized debt issuance costs, the Emergency Repairs Account and the asset and related amortization relating to the Electric Plant Acquisition.

4. Restricted Assets

Certain proceeds of the Commission's revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of Net Position because their use is limited by applicable bond covenants. The revenue bond accounts on the following page are reported as restricted assets.

Shakopee Public Utilities Commission
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities and Net Position or Equity (Continued)

4. Restricted Assets (Continued)

Sinking Account – Used to segregate resources accumulated for debt service payments over the next 12 months.

Other restricted assets:

Customer Deposit Account – Restricted resources from customers required to deposit monies before the Commission will begin electric or water service. These deposits are subject to repayment when the customer leaves the Commission's service area.

Connection Account – Restricted resources, per enabling legislation, to be used for future expansion of the water system.

Water Reconstruction Account – Restricted resources to be used for future water reconstruction projects.

5. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the proprietary fund financial statements. Capital assets are defined as assets with an initial, individual cost of more than \$3,000 and an estimated useful life in excess of 1 year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Major outlays for capital assets are capitalized as projects are constructed. Interest incurred (net of interest earned on invested proceeds during the construction phase) is reflected in the capitalized value of capital assets constructed.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Property, plant, and equipment of the Commission are depreciated using a half year convention the first year with the straight-line method over the remaining estimated useful lives.

	<u>Years</u>
Electric	
Distribution	10 - 40
General	4 - 20
Water	
Distribution	20 - 75
General	4 - 40

**Shakopee Public Utilities Commission
Notes to Financial Statements**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Assets, Liabilities, and Net Position or Equity (Continued)

6. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until that time. The Commission has two items that qualify for reporting in this category. The Commission presents deferred outflows of resources on the Statement of Net Position for the deferred charge on refunding. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The Commission presents deferred outflows of resources on the Statement(s) of Net Position for deferred outflows of resources related to pensions. Deferred outflows of resources related to pensions results from the net effect of the change in proportionate share and employer contributions paid to PERA subsequent to the measurement date.

In addition to liabilities, the statement of financial position and fund financial statements will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Commission has one item that qualifies for reporting in this category. The Commission presents deferred inflows of resources on the Statement(s) of Net Position for deferred inflows of resources related to pensions. Deferred inflows of resources related to pensions results from the net difference between projected and actual earnings on plan investments.

7. Electric Plant Acquisition

The Commission acquired a plant from Minnesota Valley Electric Cooperative, including legal, engineering, and plant costs, which is being amortized over 25 years using the straight-line method and is shown net of the accumulated amortization and depreciation on the Statement of Net Position.

8. Customer Advances for Construction

This account represents customer advances for construction which may be refundable in part or in whole.

9. Customer Deposits

This account represents required deposits to be used to guaranty electric and water utility billings.

**Shakopee Public Utilities Commission
Notes to Financial Statements**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities and Net Position or Equity (Continued)

10. Compensated Absences

Commission employees earn vacation time based on years of Commission service. Employees also can earn compensatory time for hours worked above 80 hours per pay period. A liability has been recorded in the Statement of Net Position for accrued vacation and compensatory pay. Employees also earn sick leave; however, this is not paid out upon separation so no liability exists for this benefit.

11. Pensions

For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA except that PERA's fiscal year end is June 30. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

12. Long-Term Obligations

Long-term debt and other obligations are reported as liabilities in the statement of net position. Bond premiums and discounts, as well as bond issuance costs, are deferred and amortized over the life of the bonds using the straight-line method.

13. Capital Contributions

Cash and capital assets are contributed to the Commission from customers, the municipality, or external parties. The value of property contributed to the utility is reported as revenues on the statement of revenues, expenses, and changes in fund net position.

14. Transfers

Transfers include the contribution in lieu of taxes to the municipality and free service to the municipality for street lights.

15. Net Position

Net Position represents the difference between assets, deferred outflows of resources, and liabilities in the financial statements. Net Position invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire the capital assets. Net Position is reported as restricted when there are limitations on their use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

Shakopee Public Utilities Commission
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities and Net Position or Equity (Continued)

16. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenue and expense during the reporting period. Actual results could differ from those estimates.

NOTE 2 – DEPOSITS AND INVESTMENTS

A. Deposits

In accordance with applicable *Minnesota Statutes*, the Commission maintains deposits at depository banks authorized by the Commission Board.

Custodial Credit Risk – As of December 31, 2015, the Commission's bank balance was insured and fully collateralized with securities held by the pledging financial institution's trust department or agent and in the Commission's name.

As of December 31, 2015, the Commission had the following deposits:

	<u>2015</u>
Checking	\$ 4,068,557
CDARS	5,312,338
Money market	<u>231,361</u>
Total deposits	<u><u>\$ 9,612,256</u></u>

Shakopee Public Utilities Commission
Notes to Financial Statements

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments

As of December 31, 2015, the Commission had the following investments:

	Rating	Fair Value	Years to Maturity	
			Less than One Year	1-5 Years
U.S. Agencies	AAA	\$ 6,099,828	\$ 2,201,006	\$ 3,898,822
U.S. Treasuries	AAA	12,087,664	3,525,898	8,561,766
Brokered cash	N/A	5,187	5,187	-
4M Fund	N/A	18,095,210	18,095,210	-
Money Market Fund	N/A	75,226	75,226	-
Total		<u>\$ 36,363,115</u>	<u>\$ 23,902,527</u>	<u>\$ 12,460,588</u>

Credit Risk: As of December 31, 2015, the Commission's investments in U.S. Treasury and Agency obligations were rated as noted in the table above. The Commission's investments in external investment pools and money market funds are not rated.

At December 31, 2015, the investment portfolio was concentrated as follows:

Federal Home Loan Bank	1.5%
Federal National Mortgage Association	8.2%
Federal Home Loan Mortgage Corporation	6.8%
Federal Farm Credit Bank	0.2%

Concentration of Credit Risk: As of December 31, 2015, the Commission had more than 5% of total investments in one issuer as noted above. U.S. Treasuries and investments in external investment pools and money markets are excluded from this requirement.

The following is a summary of total deposits and investments:

	2015
Deposit (Note 2.A.)	\$ 9,612,256
Investments (Note 2.B.)	36,363,115
Petty cash	<u>1,700</u>
Total deposits and investments	<u>\$ 45,977,071</u>

Shakopee Public Utilities Commission
Notes to Financial Statements

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments (Continued)

Deposits and investments are presented in the December 31, 2015 financial statements as follows:

	<u>2015</u>
Statement of net position	
Current assets	
Cash and investments	\$ 32,467,135
Restricted assets	
Sinking account	527,227
Noncurrent assets	
Restricted assets	
Customer deposit account	2,069,558
Connection account	10,670,936
Water reconstruction account	142,215
Other assets	
Emergency repairs account	<u>100,000</u>
Total	<u><u>\$ 45,977,071</u></u>

NOTE 3 – CAPITAL ASSETS

Electric capital asset activity for the year ended December 31, 2015, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated				
Land and land rights	\$ 4,205,199	\$ -	\$ -	\$ 4,205,199
Construction in progress	<u>1,548,395</u>	<u>4,498,866</u>	<u>1,400,115</u>	<u>4,647,146</u>
Total capital assets not being depreciated	<u>5,753,594</u>	<u>4,498,866</u>	<u>1,400,115</u>	<u>8,852,345</u>
Capital assets being depreciated				
Distribution	38,499,347	1,400,115	143,451	39,756,011
General	<u>12,540,100</u>	<u>175,308</u>	<u>32,606</u>	<u>12,682,802</u>
Total capital assets being depreciated	<u>51,039,447</u>	<u>1,575,423</u>	<u>176,057</u>	<u>52,438,813</u>
Less accumulated depreciation	<u>18,914,155</u>	<u>1,738,718</u>	<u>47,682</u>	<u>20,605,191</u>
Total capital assets being depreciated, net	<u>32,125,292</u>	<u>(163,295)</u>	<u>128,375</u>	<u>31,833,622</u>
Capital assets, net	<u><u>\$ 37,878,886</u></u>	<u><u>\$ 4,335,571</u></u>	<u><u>\$ 1,528,490</u></u>	<u><u>\$ 40,685,967</u></u>

Shakopee Public Utilities Commission
Notes to Financial Statements

NOTE 3 – CAPITAL ASSETS (CONTINUED)

Water capital asset activity for the year ended December 31, 2015, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated				
Land and land rights	\$ 892,333	\$ -	\$ -	\$ 892,333
Construction in progress	2,587,142	1,802,245	761,730	3,627,657
Total capital assets not being depreciated	<u>3,479,475</u>	<u>1,802,245</u>	<u>761,730</u>	<u>4,519,990</u>
Capital assets being depreciated				
Distribution	46,835,928	761,730	51,473	47,546,185
General	1,225,485	241,714	56,728	1,410,471
Total capital assets being depreciated	<u>48,061,413</u>	<u>1,003,444</u>	<u>108,201</u>	<u>48,956,656</u>
Less accumulated depreciation	<u>14,779,557</u>	<u>1,151,818</u>	<u>93,081</u>	<u>15,838,294</u>
Total capital assets being depreciated, net	<u>33,281,856</u>	<u>(148,374)</u>	<u>15,120</u>	<u>33,118,362</u>
Capital assets, net	<u>\$ 36,761,331</u>	<u>\$ 1,653,871</u>	<u>\$ 776,850</u>	<u>\$ 37,638,352</u>

NOTE 4 – INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The composition of interfund balances as of December 31, 2015, are as follows:

Receivable Fund	Payable Fund	2015 Amount
Electric fund	City of Shakopee	\$ 85,763
City of Shakopee	Electric fund	348,014
Water fund	City of Shakopee	366,781
City of Shakopee	Water fund	558,978

The interfund receivables and payables generally represent billing expenses, general operating expenses, and capital projects.

Shakopee Public Utilities Commission
Notes to Financial Statements

NOTE 4 – INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS (CONTINUED)

The composition of interfund transfers as of December 31, 2015, was as follows:

Transfer To	Transfer From	2015 Amount
City of Shakopee	Water fund	\$ 843,988
City of Shakopee	Electric fund	1,314,312
Total		<u>\$ 2,158,300</u>

Transfers were made from the Water and Electric Funds to the City for contributions in lieu of taxes and for free service to the City.

NOTE 5 – LONG-TERM DEBT

A. Revenue Bonds

The Commission issues revenue bonds for electric and water activity. Debt service is covered through the revenue producing activities of these Funds.

B. Components of Long-Term Liabilities

Long-term liabilities for the year ended December 31, 2015, consist of:

	Issue Date	Interest Rates	Original Issue	Final Maturity	2015 Balance
Long-term liabilities					
Utility revenue bonds					
Series 2006A crossover refunding bonds	11/21/06	4.125%-4.375%	\$ 10,570,000	02/01/30	\$ 8,425,000
Total utility revenue bonds					8,425,000
Unamortized loss on refunding					(200,148)
Unamortized discounts and charges					<u>(52,151)</u>
Total all long-term liabilities					<u>\$ 8,172,701</u>

Long-term liability information for the year ended December 31, 2015, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds Payable:					
Utility Revenue Bonds	\$ 8,815,000	\$ -	\$ 390,000	\$ 8,425,000	\$ 410,000
Unamortized Loss on Refunding	(214,444)	-	14,296	(200,148)	(14,296)
Unamortized Discounts and Charges	(55,657)	-	3,506	(52,151)	(3,506)
Total Long-Term Liabilities	<u>\$ 8,544,899</u>	<u>\$ -</u>	<u>\$ 407,802</u>	<u>\$ 8,172,701</u>	<u>\$ 392,198</u>

Shakopee Public Utilities Commission
Notes to Financial Statements

NOTE 5 – LONG-TERM DEBT (CONTINUED)

C. Minimum Debt Requirements

Annual debt service requirements to maturity for all bonded debt outstanding are as follows:

	Utility Revenue Bonds		
	Principal	Interest	Total
2016	\$ 410,000	\$ 354,888	\$ 764,888
2017	425,000	337,400	762,400
2018	445,000	318,912	763,912
2019	460,000	299,681	759,681
2020	480,000	279,706	759,706
2021-2025	2,745,000	1,065,259	3,810,259
2026-2030	3,460,000	393,749	3,853,749
Total	<u>\$ 8,425,000</u>	<u>\$ 3,049,595</u>	<u>\$ 11,474,595</u>

D. Bond Compliance

The Commission's Sinking Fund account was adequately funded during 2015.

NOTE 6 – RISK MANAGEMENT

The Commission is exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets, errors and omissions, workers compensation and health care of its employees. These risks are covered through the purchase of commercial insurance, with minimal deductibles.

There were no significant reductions in insurance from the previous year or settlements in excess of insurance coverage for any of the past 3 years.

The Commission's workers' compensation insurance policy is retrospectively rated. With this type of policy, final premiums are determined after loss experience is known. The amount of premium adjustment for 2015 is estimated to be immaterial based on workers' compensation rates and salaries for the year.

At December 31, 2015, there were no other claims liabilities reported in the fund based on the requirements of GASB Statement No. 10, which requires a liability for claims be reported if information prior to the issuance of the financial statements indicates it is probable a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

**Shakopee Public Utilities Commission
Notes to Financial Statements**

NOTE 7 – PENSION PLANS

Public Employees' Retirement Association

A. Plan Description

The Commission participates in the following cost-sharing multiple-employer defined benefit pension plans administered by PERA. PERA's defined benefit pension plans are established and administered in accordance with Minnesota Statutes, Chapters 353 and 356. PERA's defined benefit pension plans are tax qualified plans under Section 401(a) of the Internal Revenue Code.

General Employees Retirement Fund (GERF)

All full-time and certain part-time employees of the Commission are covered by the GERF. GERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan.

B. Benefits Provided

PERA provides retirement, disability, and death benefits. Benefit provisions are established by state statute and can only be modified by the state legislature.

Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Members in plans that are at least 90% funded for two consecutive years are given 2.5% increases. Members in plans that have not exceeded 90% funded, or have fallen below 80%, are given 1% increases.

The benefit provisions stated in the following paragraphs of this section are current provisions and apply to active plan participants. Vested, terminated employees who are entitled to benefits but are not receiving them yet are bound by the provisions in effect at the time they last terminated their public service.

GERF Benefits

Benefits are based on a member's highest average salary for any 5 successive years of allowable service, age and years of credit at termination of service. 2 methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2% of average salary for each of the first ten years of service and 2.7% for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2% of average salary for each of the first ten years and 1.7% for each remaining year. Under Method 2, the annuity accrual rate is 2.7% of average salary for Basic Plan members and 1.7% for Coordinated Plan members for each year of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66. Disability benefits are available for vested members, and are based upon years of service and average high-five salary.

**Shakopee Public Utilities Commission
Notes to Financial Statements**

NOTE 7 – PENSION PLANS (CONTINUED)

Public Employees' Retirement Association (Continued)

C. Contributions

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. Contribution rates can only be modified by the state legislature.

GERF Contributions

Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.50%, respectively, of their annual covered salary in calendar year 2015. The Commission was required to contribute 11.78% of pay for Basic Plan members and 7.50% for Coordinated Plan members in calendar year 2015. The Commission's contributions to the GERF for the year ended December 31, 2015, were \$263,747. The Commission's contributions were equal to the required contributions as set by state statute.

D. Pension Costs

GERF Pension Costs

At December 31, 2015, the Commission reported a liability of \$3,150,972 for its proportionate share of the GERF's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Commission's proportion of the net pension liability was based on the Commission's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the Commission's proportion was 0.0608%.

For the year ended December 31, 2015, the Commission recognized pension expense of \$360,124 for its proportionate share of GERF's pension expense.

Shakopee Public Utilities Commission
Notes to Financial Statements

NOTE 7 –PENSION PLANS (CONTINUED)

Public Employees' Retirement Association (Continued)

D. Pension Costs (Continued)

At December 31, 2015, the Commission reported its proportionate share of GERS's deferred outflows of resources and deferred inflows of resources, and its contributions subsequent to the measurement date, from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 158,862
Changes in actuarial assumptions	-	-
Difference between projected and actual investment earnings	298,288	-
Changes in proportion	-	179,679
Contributions paid to PERA subsequent to the measurement date	<u>138,611</u>	<u>-</u>
	<u><u>\$ 436,899</u></u>	<u><u>\$ 338,541</u></u>

\$138,611 reported as deferred outflows of resources related to pensions resulting from Commission contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

	Pension Expense Amount
2016	\$ (38,275)
2017	(38,275)
2018	(38,275)
2019	74,572

E. Actuarial Assumptions

The total pension liability in the June 30, 2015, actuarial valuation was determined using the entry age normal actuarial cost method and the following actuarial assumptions:

Inflation	2.75%	Per year
Salary increase	3.50%	Per year
Investment rate of return	7.90%	

**Shakopee Public Utilities Commission
Notes to Financial Statements**

NOTE 7 –PENSION PLANS (CONTINUED)

Public Employees' Retirement Association (Continued)

E. Actuarial Assumptions (Continued)

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants were based on RP-2000 tables for males or females, as appropriate, with slight adjustments. Benefit increases for retirees are assumed to be 1% effective every January 1st through 2026 and 2.5% thereafter.

Actuarial assumptions used in the June 30, 2015, valuation were based on the results of actuarial experience studies. The experience study in the GERS was for the period July 1, 2004 through June 30, 2008, with an update of economic assumptions in 2014. Experience studies have not been prepared for PERA's other plans, but assumptions are reviewed annually.

The long-term expected rate of return on pension plan investments is 7.9%. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages.

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Stocks	45%	5.50 %
International Stock	15%	6.00
Bonds	18%	1.45
Alternative Assets	20%	6.40
Cash	2%	0.50
Total	<u>100%</u>	

Shakopee Public Utilities Commission
Notes to Financial Statements

NOTE 7 –PENSION PLANS (CONTINUED)

Public Employees' Retirement Association (Continued)

F. Discount Rate

The discount rate used to measure the total pension liability was 7.9%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on those assumptions, each of the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

G. Pension Liability Sensitivity

The following table presents the Commission's proportionate share of the net pension liability for all plans it participates in, calculated using the discount rate disclosed in the preceding paragraph, as well as what the Commission's proportionate share of the net pension liability would be if it were calculated using a discount rate 1 percentage point lower or 1 percentage point higher than the current discount rate:

	1% Decrease in Discount Rate (6.9%)	Discount Rate (7.9%)	1% Increase in Discount Rate (8.9%)
Commission's proportionate share of the GERF net pension liability	\$ 4,954,447	\$ 3,150,972	\$ 1,661,578

H. Pension Plan Fiduciary Net Position

Detailed information about each pension plan's fiduciary net position is available in a separately-issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the Internet at www.mnpera.org; by writing to PERA at 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088; or by calling (651) 296-7460 or 1-800-652-9026.

NOTE 8 – CHANGE IN ACCOUNTING PRINCIPLE

For the year ended December 31, 2015 , the Commission implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. This resulted in an adjustment to reduce the beginning net position on the Statement of Revenues, Expenses, and Changes in Fund Net Position of \$2,967,576 to add the beginning net pension liability.

Shakopee Public Utilities Commission
Notes to Financial Statements

NOTE 9 – COMMITMENTS

The Commission has entered into contracts for construction as follows:

Project	Contract Amount	Expended through 12/31/15	Commitment
DN Tanks - water tank	\$ 2,739,676	\$ 2,663,151	\$ 76,525
MJ Electric - site construction	1,182,540	1,043,044	139,496

REQUIRED SUPPLEMENTARY INFORMATION

**Shakopee Public Utilities Commission
Schedule of Commission's Proportionate Share
of Net Pension Liability
Last 10 Years GERS Retirement Fund**

<u>For Fiscal Year Ended June 30,</u>	<u>Commission's Proportion of the Net Pension Liability (Asset)</u>	<u>Commission's Proportionate Share of the Net Pension Liability (Asset)</u>	<u>Commission's Covered- Employee Payroll</u>	<u>Commission's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered- Employee Payroll</u>	<u>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</u>
2015	0.0608%	\$ 3,150,972	\$ 3,516,627	89.60%	78.19%

**Shakopee Public Utilities Commission
Schedule of Commission Contributions
GERF Retirement Fund
Last 10 Years**

<u>Fiscal Year Ending June 30,</u>	<u>Statutorily Required Contribution</u>	<u>Contributions in Relation to the Statutorily Required Contributions</u>	<u>Contribution Deficiency (Excess)</u>	<u>Commission's Covered- Employee Payroll</u>	<u>Contributions as a Percentage of Covered- Employee Payroll</u>
2015	\$ 263,747	\$ 263,747	\$ -	\$ 3,516,627	7.50%

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SUPPLEMENTARY INFORMATION
ELECTRIC UTILITY FUND

Shakopee Public Utilities Commission
Statement of Net Position - Electric Utility
December 31, 2015

Assets

Current assets	
Cash and investments	\$ 27,531,120
Restricted assets	
Sinking account	527,227
Accrued interest receivable	24,040
Customer accounts receivable	3,553,068
Allowance for uncollectible accounts	(23,902)
Other accounts receivable	70,137
Due from City of Shakopee	85,763
Inventory	1,294,826
Prepaid expenses	56,726
Total current assets	<u>33,119,005</u>

Noncurrent assets

Restricted assets	
Customer deposits account	2,048,907
Capital assets	
Plant in service	56,644,012
Accumulated depreciation	(20,605,191)
Construction in progress	4,647,146
Other assets	
Emergency repairs account	100,000
Prepaid bond insurance	42,933
Total noncurrent assets	<u>42,877,807</u>
Total assets	<u>75,996,812</u>

Deferred Outflows of Resources

Deferred outflows of resources related to pensions	327,674
Unamortized loss on refunding	200,148
Total deferred outflows of resources	<u>527,822</u>

Total assets and deferred outflows of resources \$ 76,524,634

Liabilities

Current liabilities	
Accounts Payable	\$ 3,430,304
Due to City of Shakopee	348,014
Other current liabilities	220,872
Total current liabilities	<u>3,999,190</u>

Liabilities payable from restricted assets

Current portion of revenue bonds	410,000
Accrued interest payable	151,393
Customer deposits	2,048,907
Total liabilities payable from restricted assets	<u>2,610,300</u>

Noncurrent liabilities

Revenue bonds	8,015,000
Unamortized bond discount	(9,218)
Unearned revenues	6,091
Customer advances	361,468
Net pension liability	2,363,230
Total noncurrent liabilities	<u>10,736,571</u>
Total liabilities	<u>17,346,061</u>

Deferred Inflows of Resources

Deferred inflows of resources related to pensions	<u>253,906</u>
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Net Position

Net investment in capital assets	32,270,185
Restricted for debt service	375,834
Unrestricted	26,278,648
Total net position	<u>58,924,667</u>

Total liabilities, deferred inflows of resources and net position \$ 76,524,634

Shakopee Public Utilities Commission
Statement of Revenues, Expenses, and Changes
in Fund Net Position - Electric Utility
Year Ended December 31, 2015

Operating revenues	\$ 43,055,573
Operating expenses	
Operation, customer and administrative	35,099,679
Depreciation of capital assets	1,738,718
Depreciation of plant acquisition	25,715
Amortization of plant acquisition	63,005
Total operating expenses	<u>36,927,117</u>
Operating income	6,128,456
Nonoperating revenues (expenses)	
Rentals and miscellaneous	274,079
Interdepartmental rent from water	90,000
Investment income	79,725
Interest expense	(366,734)
Amortization of bond discount and loss on refunding	(17,802)
Gain (loss) on disposition of property	14,121
Total nonoperating revenues (expenses)	<u>73,389</u>
Income before contributions and transfers	6,201,845
Capital contributions	658,279
Transfers to municipality	<u>(1,314,312)</u>
Change in net position	5,545,812
Net position	
Beginning of year	<u>55,604,538</u>
Change in accounting principle (see Note 8)	<u>(2,225,683)</u>
Beginning of year, as restated	<u>53,378,855</u>
End of year	<u><u>\$ 58,924,667</u></u>

**Shakopee Public Utilities Commission
Statement of Cash Flows - Electric Utility
Year Ended December 31, 2015**

Cash Flows - Operating Activities

Receipts from customers and users	\$ 43,205,355
Payments to suppliers	(31,349,362)
Payments to employees	<u>(3,611,778)</u>
Net cash flows - operating activities	<u>8,244,215</u>

Cash Flows - Noncapital

Financing Activities

Payments to City of Shakopee	(1,139,214)
Proceeds from sale of assets	<u>142,497</u>
Net cash flows - noncapital financing activities	<u>(996,717)</u>

Cash Flows - Capital and Related

Financing Activities

Principal paid on debt	(390,000)
Interest paid on debt	(373,437)
Acquisition of capital assets	<u>(4,015,896)</u>
Net cash flows - capital and related financing activities	<u>(4,779,333)</u>

Cash Flows - Investing Activities

Purchases of investments	(112,770)
Interest and dividends received	<u>76,352</u>
Net cash flows - investing activities	<u>(36,418)</u>

Net change in cash and cash equivalents	2,431,747
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Cash and Cash Equivalents

Beginning of year	<u>12,244,219</u>
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End of year	<u><u>\$ 14,675,966</u></u>
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Shakopee Public Utilities Commission
Statement of Cash Flows - Electric Utility
Year Ended December 31, 2015

**Reconciliation of Operating
Income to Net Cash Flows -
Operating Activities**

Operating income	\$ 6,128,456
Adjustments to reconcile operating income to net cash flows - operating activities	
Free electric service to City of Shakopee	(175,098)
Nonoperating revenues	364,079
Depreciation expense	1,764,433
Pension related activity	63,779
Amortization of plant acquisition	63,005
Allowance for uncollectible accounts	(7,833)
Change in assets and liabilities	
Customer accounts receivable	28,046
Other accounts receivable	3,237
Due from City of Shakopee	114,802
Inventory	(214,213)
Prepaid items	(1,049)
Accounts payable	335,427
Customer deposits	58,270
Unearned revenue	3,959
Customer advances	(239,680)
Due to City of Shakopee	(79,425)
Other liabilities	34,020
Total adjustments	<u>2,115,759</u>
Net cash flows - operating activities	<u>\$ 8,244,215</u>

**Reconciliation of Cash and Cash
Equivalents to the Statement
of Net Position**

Sinking account	\$ 527,227
Customer deposits account	2,048,907
Emergency repairs account	100,000
Cash and investments	<u>27,531,120</u>
Total	<u>30,207,254</u>
Less long-term investments	<u>(15,531,288)</u>
Cash and cash equivalents	<u>\$ 14,675,966</u>

**Noncash Investing, Capital and
Financing Activities**

Contributions of capital assets from the municipality and developers	\$ 658,279
Free electric service to City of Shakopee	175,098

Shakopee Public Utilities Commission
Detailed Statement of Operating Revenues
and Expenses - Electric Utility
Year Ended December 31, 2015

Operating Revenues

Sales of electricity	
Residential	\$ 16,120,559
Commercial	25,957,296
Uncollectible accounts	(52,096)
Total sales of electricity	<u>42,025,759</u>
Forfeited discounts	227,563
Free service to City of Shakopee	175,098
Conservation program	627,153
Total operating revenues	<u>43,055,573</u>

Operating Expenses

Operation and maintenance	
Purchased power	29,939,985
Distribution operation expenses	357,821
Distribution system maintenance	641,662
Maintenance of general plant	266,773
Total operating expenses	<u>31,206,241</u>
Customer accounts	
Meter reading	114,837
Customer records and collection	415,085
Energy conservation	627,153
Total customer accounts	<u>1,157,075</u>
Administrative and general	
Administrative and general salaries	477,323
Office supplies and expense	133,387
Outside services employed	174,845
Insurance	156,319
Employee benefits	1,463,728
Miscellaneous general	330,761
Total administrative and general	<u>2,736,363</u>
Total operation, customer, and administrative expenses	35,099,679
Depreciation of capital assets	1,738,718
Depreciation of plant acquisition	25,715
Amortization of plant acquisition	63,005
Total operating expenses	<u>36,927,117</u>
Operating income	<u>\$ 6,128,456</u>

Shakopee Public Utilities Commission
Schedule of Plant in Service - Electric Utility
December 31, 2015

	Balance 12/31/14	Additions	Retirements/ Adjustments	Balance 12/31/15
Capital Assets				
Distribution				
Land and land rights	\$ 653,870	\$ -	\$ -	\$ 653,870
Structures and improvements	460,701	-	-	460,701
Station equipment	12,678,438	-	-	12,678,438
Station battery	1,857	-	-	1,857
Poles, towers and fixtures	487,579	40,245	-	527,824
Overhead conductors and devices	2,678,974	-	4,986	2,673,988
Underground conduit	907,681	-	1,400	906,281
Underground conductors and devices	15,345,003	1,122,374	88,030	16,379,347
Line transformers	4,785,850	168,380	48,792	4,905,438
Services	50,476	-	243	50,233
Meters	1,102,789	69,116	-	1,171,905
Total distribution	<u>39,153,218</u>	<u>1,400,115</u>	<u>143,451</u>	<u>40,409,882</u>
General				
Land and land rights	3,551,329	-	-	3,551,329
Structures and improvements	8,965,008	-	-	8,965,008
Office furniture and equipment	1,024,103	-	707	1,023,396
Computer equipment	401,470	30,516	-	431,986
Transportation equipment	1,590,800	106,733	31,899	1,665,634
Tools, shop and garage equipment	120,867	31,945	-	152,812
Laboratory equipment	20,041	-	-	20,041
Power operated equipment	370,252	6,114	-	376,366
Communication equipment	47,558	-	-	47,558
Total general	<u>16,091,428</u>	<u>175,308</u>	<u>32,606</u>	<u>16,234,130</u>
 Total plant in service	 <u>\$ 55,244,646</u>	 <u>\$ 1,575,423</u>	 <u>\$ 176,057</u>	 <u>\$ 56,644,012</u>

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SUPPLEMENTARY INFORMATION
WATER UTILITY FUND

Shakopee Public Utilities Commission
Statement of Net Position - Water Utility
December 31, 2015

Assets

Current assets

Cash and investments	\$ 4,936,015
Accrued interest receivable	7,249
Customer accounts receivable	273,009
Allowance for uncollectible accounts	(8,764)
Other accounts receivable	63,950
Due from City of Shakopee	366,781
Inventory	34,769
Prepaid Expenses	18,909
Total current assets	<u>5,691,918</u>

Noncurrent assets

Restricted assets

Customer deposits account	20,651
Connection account	10,670,936
Water reconstruction account	142,215

Capital assets

Plant in service	49,848,989
Accumulated depreciation	(15,838,294)
Construction in progress	3,627,657
Total noncurrent assets	<u>48,472,154</u>

Deferred Outflows of Resources

Deferred outflows of resources related to pension activity	<u>109,225</u>
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Total assets and deferred outflows of resources	<u><u>\$ 54,273,297</u></u>
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Liabilities

Current liabilities

Accounts Payable	\$ 455,837
Due to city of shakopee	558,978
Other current liabilities	164,881
Total current liabilities	<u>1,179,696</u>

Liabilities payable from restricted assets

Customer deposits	20,651
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Noncurrent liabilities

Customer advances	128,580
Net pension liability	787,742
Total noncurrent liabilities	<u>916,322</u>
Total liabilities	<u>2,116,669</u>

Deferred Inflows of Resources

Deferred inflows of resources related to pension	<u>84,635</u>
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Net Position

Net investment in capital assets	37,638,352
Restricted for connections and reconstruction	10,813,151
Unrestricted	3,620,490
Total net position	<u>52,071,993</u>

Total liabilities, deferred inflows of resources, and net position	<u><u>\$ 54,273,297</u></u>
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Shakopee Public Utilities Commission
Statement of Revenues, Expenses, and Changes
in Fund Net Position - Water Utility
Year Ended December 31, 2015

Operating revenues	\$ 4,287,237
Operating expenses	
Operation, customer, and administrative	2,392,860
Depreciation	1,151,818
Total operating expenses	<u>3,544,678</u>
Operating income	742,559
Nonoperating revenues (expenses)	
Rentals and miscellaneous	154,597
Investment income	10,498
Interest expense	(43)
Gain (loss) on disposition of property	10,100
Total nonoperating revenues (expenses)	<u>175,152</u>
Income before contributions and transfers	917,711
Capital contributions	3,163,624
Transfers to municipality	<u>(843,988)</u>
Change in net position	3,237,347
Net position	
Beginning of year	49,576,539
Change in accounting principle (see note 8)	<u>(741,893)</u>
Beginning of year, as restated	<u>48,834,646</u>
End of year	<u><u>\$ 52,071,993</u></u>

Shakopee Public Utilities Commission
Statement of Cash Flows - Water Utility
Year Ended December 31, 2015

Cash Flows - Operating Activities

Receipts from customers and users	\$ 4,209,135
Payments to suppliers	(535,669)
Payments to employees	(1,661,930)
Net cash flows - operating activities	<u>2,011,536</u>

Cash Flows - Noncapital

Financing Activities

Payments to City of Shakopee	(285,010)
Proceeds from sale of assets	<u>10,100</u>
Net cash flows - noncapital financing activities	<u>(274,910)</u>

Cash Flows - Capital and Related

Financing Activities

Interest paid on debt	(43)
Acquisition of capital assets	(2,028,839)
Installation fees	39,000
Connection charges	2,973,497
Trunk charges	<u>151,127</u>
Net cash flows - capital and related financing activities	<u>1,134,742</u>

Cash Flows - Investing Activities

Proceeds of investments	(8,288)
Interest and dividends received	<u>10,081</u>
Net cash flows - investing activities	<u>1,793</u>

Net change in cash and cash equivalents	<u>2,873,161</u>
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Cash and Cash Equivalents

Beginning of year	<u>10,941,275</u>
End of year	<u><u>\$ 13,814,436</u></u>

Shakopee Public Utilities Commission
Statement of Cash Flows - Water Utility
Year Ended December 31, 2015

**Reconciliation of Operating Income
to Net Cash Flows- Operating Activities**

Operating income	\$ 742,559
Adjustments to reconcile operating income to net cash flows - operating activities	
Nonoperating revenues	154,597
Depreciation expense	1,151,818
Pension related activity	21,259
Allowance for uncollectible accounts	(431)
Change in assets and liabilities	
Customer accounts receivable	43,895
Other accounts receivable	(51,295)
Due from City of Shakopee	(268,627)
Inventory	(1,000)
Prepaid items	(350)
Accounts payable	280,716
Customer deposits	(3,457)
Customer advances	47,216
Due to City of Shakopee	(73,517)
Other liabilities	(31,847)
Total adjustments	<u>1,268,977</u>
Net cash flows - operating activities	<u>\$ 2,011,536</u>

**Reconciliation of Cash and Cash Equivalents
to the Statement of Net Position**

Customer deposits account	\$ 20,651
Connection account	10,670,936
Water reconstruction account	142,215
Cash and investments	<u>4,936,015</u>
Total	15,769,817
Less long-term investments	<u>(1,955,381)</u>
Cash and cash equivalents	<u>\$ 13,814,436</u>

Shakopee Public Utilities Commission
Detailed Statement of Operating Revenues
and Expenses - Water Utility
Year Ended December 31, 2015

Operating revenues	
Sales of water	\$ 4,271,200
Forfeited discounts	17,648
Uncollectible accounts	(1,611)
Total operating revenues	<u>4,287,237</u>
Operating expenses	
Operation and maintenance	
Pumping and distribution operation	429,327
Pumping and distribution maintenance	281,798
Power for pumping	250,289
Maintenance of general plant	17,074
Total operation and maintenance	<u>978,488</u>
Customer accounts	
Meter reading	64,040
Customer records and collection	109,784
Total customer accounts	<u>173,824</u>
Administrative and general	
Administrative and general salaries	311,443
Office supplies and expense	58,091
Outside services employed	79,076
Insurance	52,595
Employee benefits	527,171
Miscellaneous general	212,172
Total administrative and general	<u>1,240,548</u>
Total operation, customer, and administrative expenses	2,392,860
Depreciation	<u>1,151,818</u>
Total operating expenses	<u>3,544,678</u>
Operating income	<u>\$ 742,559</u>

Shakopee Public Utilities Commission
Schedule of Plant in Service - Water Utility
December 31, 2015

	<u>Balance</u> <u>12/31/14</u>	<u>Additions</u>	<u>Retirements/ Adjustments</u>	<u>Balance</u> <u>12/31/15</u>
Capital Assets				
Distribution				
Land and land rights	\$ 892,333	\$ -	\$ -	\$ 892,333
Wells	4,313,589	-	-	4,313,589
Electric pumping equipment	5,045,808	18,178	-	5,063,986
Towers and pump houses	2,565,031	11,100	-	2,576,131
Distribution system	32,786,108	612,945	51,473	33,347,580
Meters	2,125,393	119,507	-	2,244,900
Total distribution	<u>47,728,262</u>	<u>761,730</u>	<u>51,473</u>	<u>48,438,519</u>
General				
Office furniture and equipment	125,972	-	-	125,972
Computer equipment	106,420	25,212	-	131,632
Transportation equipment	291,682	117,125	55,339	353,468
Tools, shop and garage equipment	11,716	7,478	-	19,194
Laboratory equipment	54,386	-	-	54,386
Power operated equipment	5,812	-	-	5,812
Communication equipment	22,480	-	-	22,480
Scada equipment	262,278	91,899	-	354,177
Building improvements	344,738	-	1,389	343,349
Total general	<u>1,225,484</u>	<u>241,714</u>	<u>56,728</u>	<u>1,410,470</u>
Total plant in service	<u>\$ 48,953,746</u>	<u>\$ 1,003,444</u>	<u>\$ 108,201</u>	<u>\$ 49,848,989</u>

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Report on Legal Compliance

Independent Auditor's Report

Board of Commissioners
Shakopee Public Utilities Commission
Shakopee, Minnesota

We have audited, in accordance with auditing standards general accepted in the United States of America, the financial statements of the business-type activities of the Shakopee Public Utilities Commission, Shakopee, Minnesota, as of and for the year ended December 31, 2015, which collectively comprise the Commission's basic financial statements and have issued our report thereon dated February 25, 2016.

The *Minnesota Legal Compliance Audit Guide for Other Political Subdivisions*, promulgated by the State Auditor pursuant to *Minnesota Statutes* § 6.65, contains 6 categories of compliance to be tested: contracting and bidding, deposits, and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions. Our audit considered all of the listed categories

In connection with our audit, nothing came to our attention that caused us to believe that the Commission failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Commission's noncompliance with the above referenced provisions.

This report is intended solely for the information and use of those charged with governance and management of the Commission and the State Auditor and is not intended to be and should not be used by anyone other than these specified parties.

Bergan KDV, Ltd.

St. Cloud, Minnesota
February 25, 2016

BerganKDV, Ltd.

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Coralville, IA
52241-0267
T 319.248.0367
F 319.248.0582

Des Moines
9207 Northpark Drive
Johnston, IA
50131-2933
T 515.727.5700
F 515.727.5800

Minneapolis
3800 American Blvd W
Suite 1000
Bloomington, MN
55431-4420
T 952.563.6800
F 952.563.6801

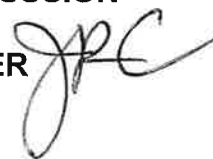
St. Cloud
220 Park Avenue S
P.O. Box 1304
St. Cloud, MN
56302-3713
T 320.251.7010
F 320.251.1784

Waterloo
100 East Park Avenue
Suite 300
P.O. Box 2100
Waterloo, IA
50704-2100
T 319.234.6885
F 319.234.6287

bergankdv.com

**SHAKOPEE PUBLIC UTILITIES
MEMORANDUM**

TO: SHAKOPEE PUBLIC UTILITIES COMMISSION
FROM: JOHN R. CROOKS, UTILITIES MANAGER
SUBJECT: CUSTOMER SURVEY - DISCUSSION
DATE: MARCH 18, 2016



During the March 7 Commission discussion on the 2016 Goals and Objectives, the Goal to consider a customer survey was reviewed by the Board.

The discussion among the Commissioners considered several different ways to reach the objective of seeing the efforts of our Utility through the eyes of our customers.

At one point it was stated that a survey had never been done, which is incorrect. I have attached a very detailed survey that was completed in April 2005. The survey will be reviewed at the next Board meeting.

In 2016, there are no funds designated to have a survey available to our rate payers. At this point, it would be appropriate to discuss the many ways to complete a survey and also reach consensus on what type of information is trying to be culled from any survey results, if Staff is directed to do so.

Different types of surveys may consist of the following:

- Consultant / third party survey
- In-House created survey
- Phone calls
- Survey Monkey
- Service performed follow-up survey
- In person survey
- Mailed – separate, newsletter or bill stuffer
- Social media survey – Website or Facebook

REQUEST -

If the Commission would want to direct Staff on developing a survey, costs, schedules and methodologies would need to be defined. The Commission is asked to provide Staff direction.





Residential & Business Customer Assessment of Shakopee Utilities



April 18, 2005

R | K | S
**RESEARCH &
CONSULTING**

Presentation Overview

- Objectives & Methodology
- Executive Summary
- Customer Satisfaction
- Customer Service
- Water & Power Qualities
- Image & Communications
- Customer Loyalty
- Value-added services
- Billing and Pricing
- Customer Profile
- Statistical Analysis & Modeling
- Summary & Observations



Research Methodology

- 400 telephone interviews among a cross-section of residential customers
- 60 interviews among a cross-section of business customers

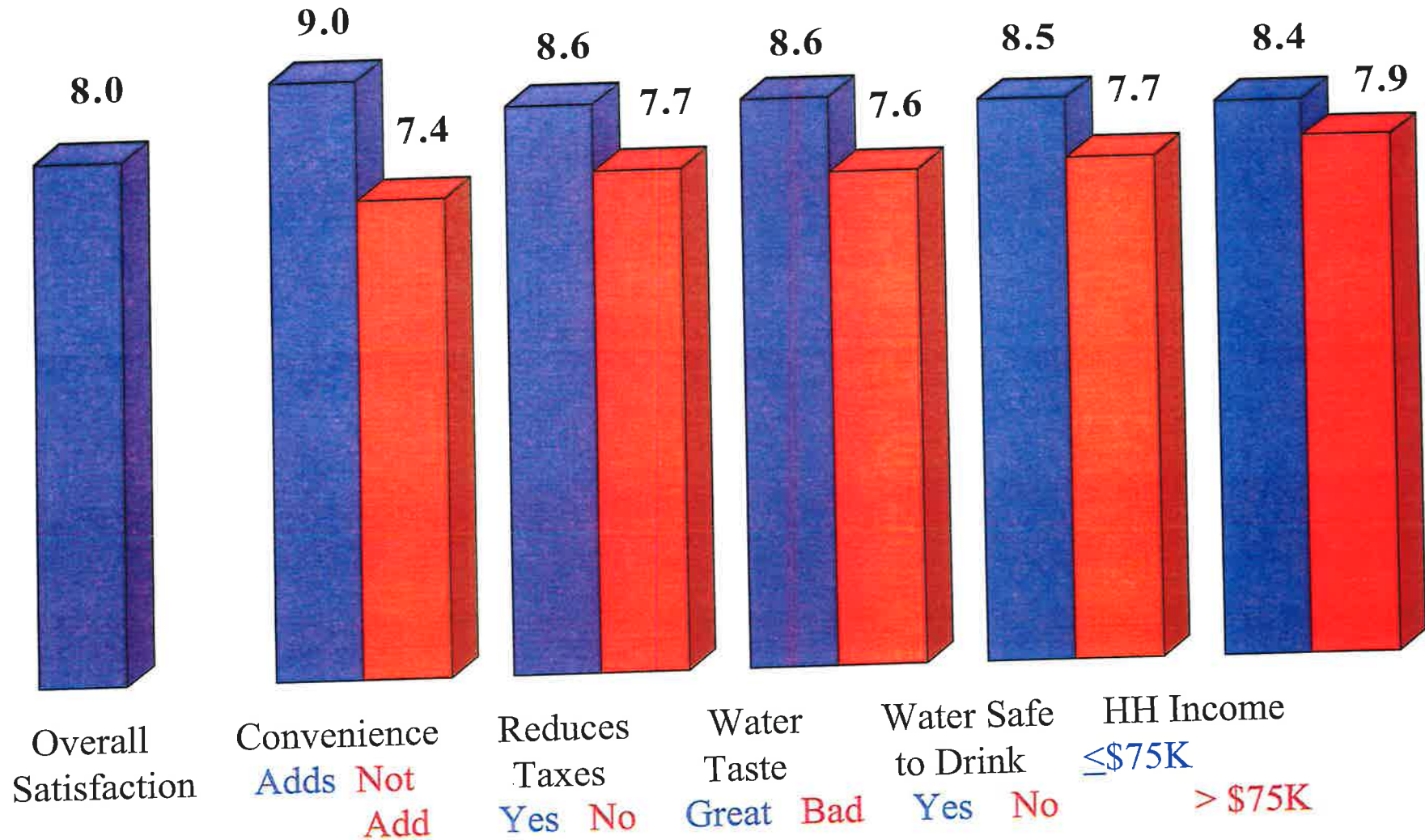


- » March 2005
- » 18 minutes average completion time
- » (Co-) Head of household

Executive Summary

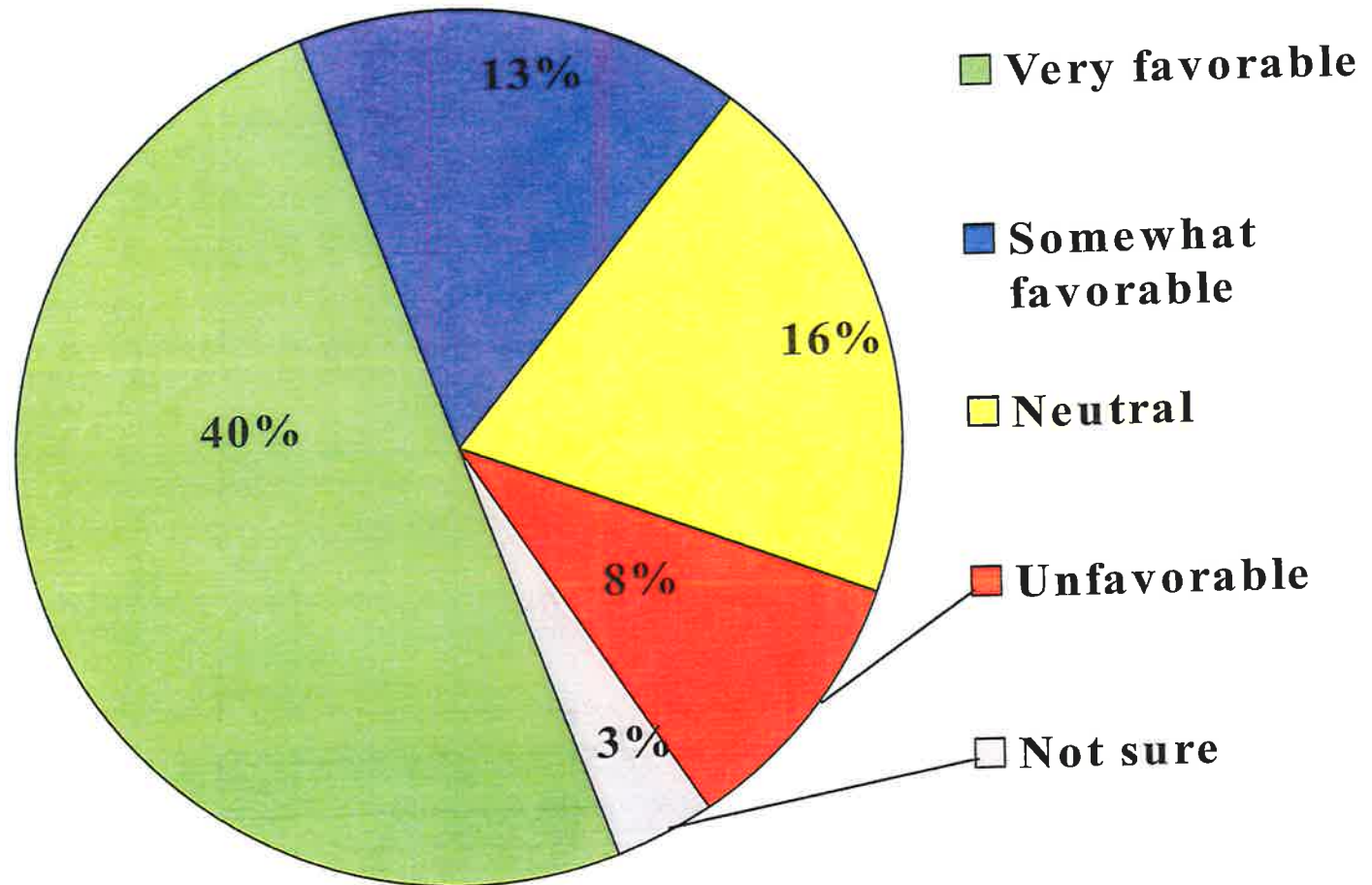
- SPU's performance ranking: 59th percentile-residential; 53rd percentile-business
- Customer satisfaction is higher among older, less educated and lower income
- Image: Honest ethical utility, involved in community and cares about environment
- Water qualities: Good, but room for improvement
- Power Delivery: Excellent
- Billing: A SPU strength
- Price: Not bad
- Loyalty: Questionable; Interest in deregulation
- Customer Service: Excellent performance
- Communications: Message awareness is low
- Tax impact awareness is moderate to low
- VAPS: Strong residential customer support; limited in business market

Residential Customer Satisfaction by Segment

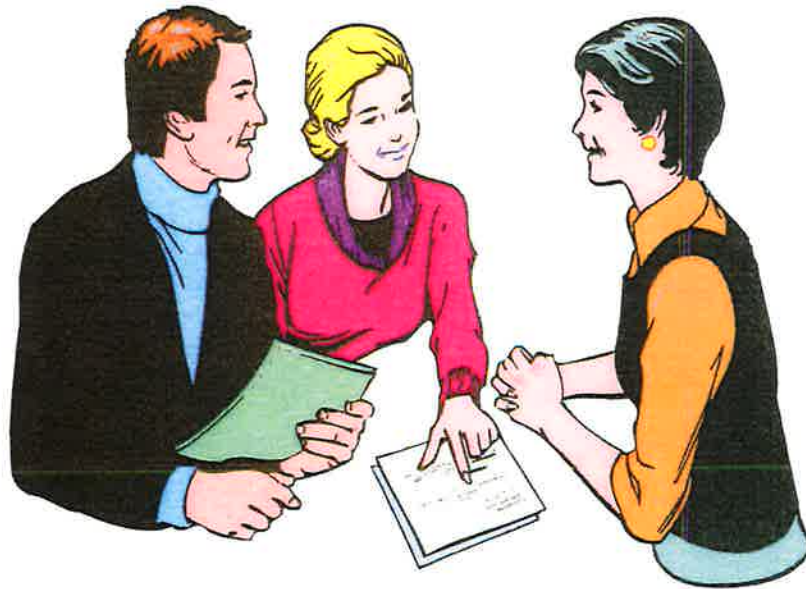


O-1. n = 400. Mean scores. Scale: 0 = 'very dissatisfied' to 10 = 'very satisfied'

Business Customer Opinion of SPU

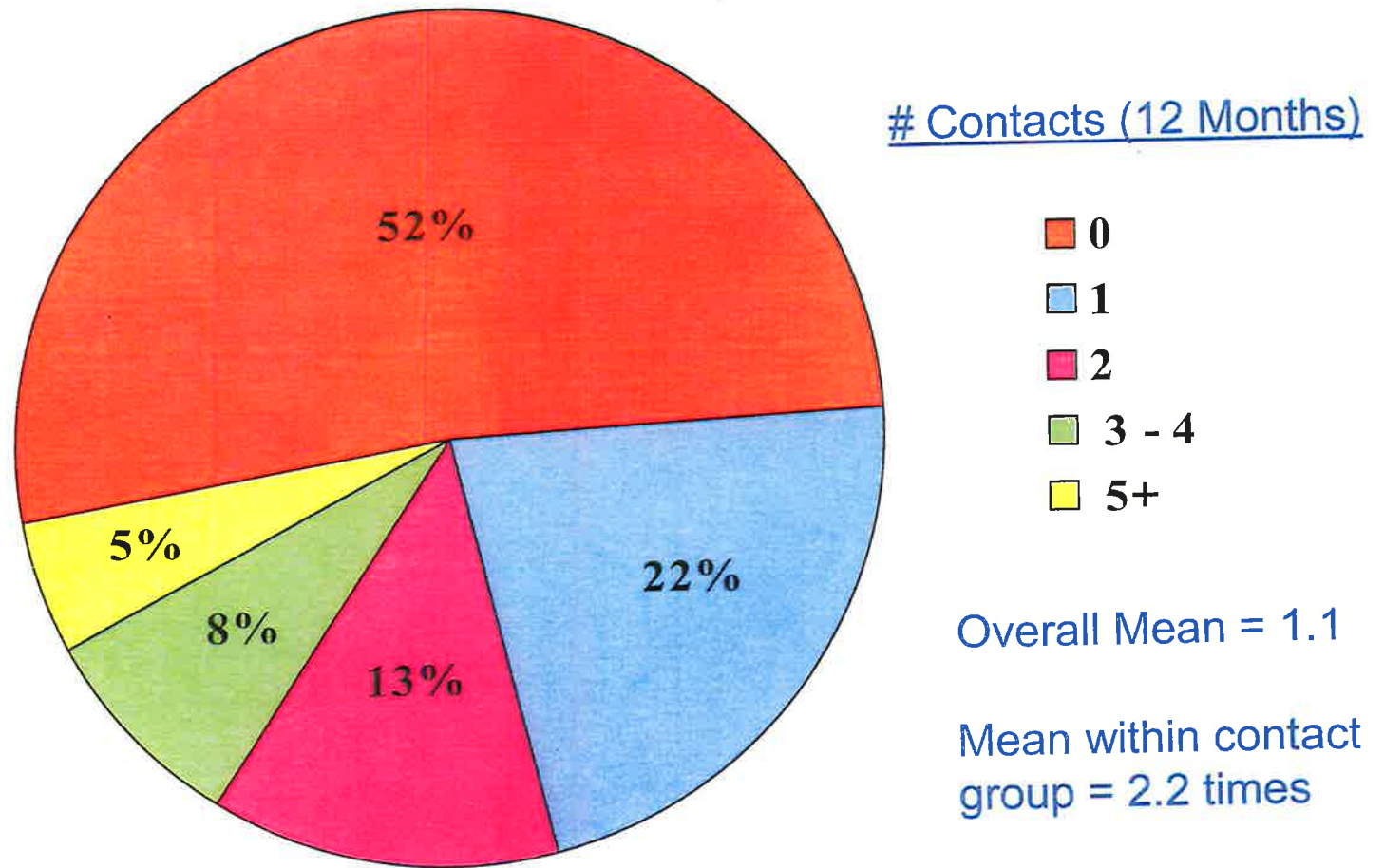


Q-1. $n = 60$. Scale: 0 = very unfavorable to 10 = very favorable.
'Very favorable = 9+10; Somewhat favorable = 7+8; Neutral = 4-6; Unfavorable = 0-4



*Shakopee Public
Utilities
Customer Service*

Frequency of Residential Customer Contact



CC-2. n = 400. Excludes 'not sure'.

Residential Customer Contact Performance Assessment



CC-1a,b: n = 400. CC-5a-f: n = 166 that spoke with CSR. Mean scores.

Scale: 0 = 'poor' to 10 = 'excellent' and

Scale: 0 = 'very dissatisfied' to 10 = 'very satisfied'.



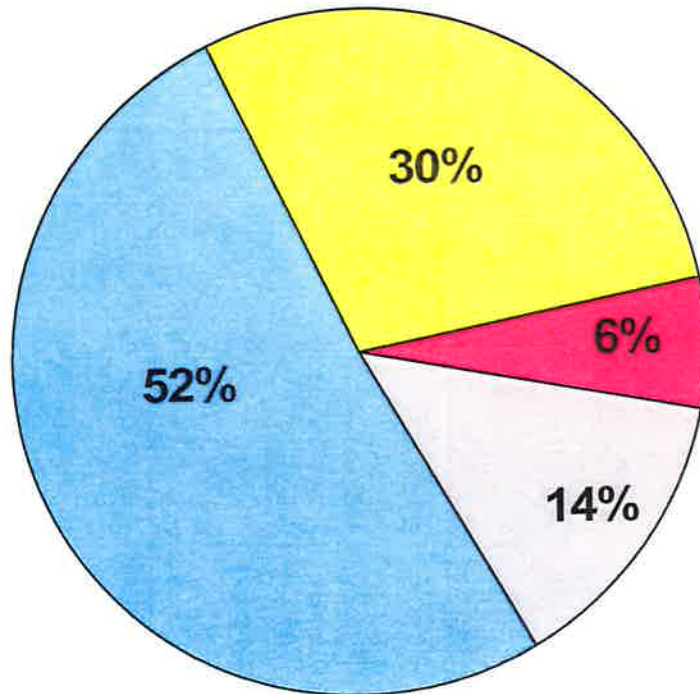
Quality of Water & Power Services

SPU Water: Safety to Drink and Taste

Safety: Mean Rating = 7.6 Taste: Mean Rating = 6.7

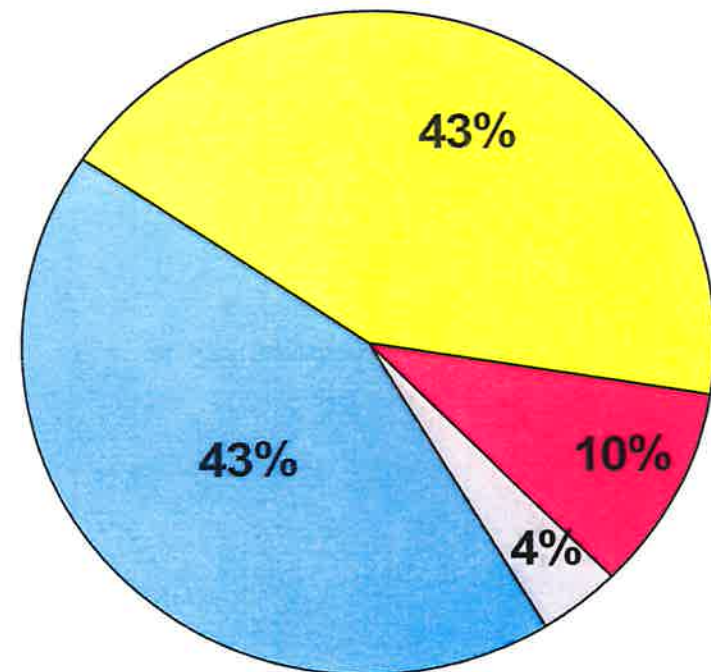
■ Excellent
■ Poor

■ Good/Fair
■ Not sure



■ Excellent
■ Poor

■ Good/Fair
■ Not sure

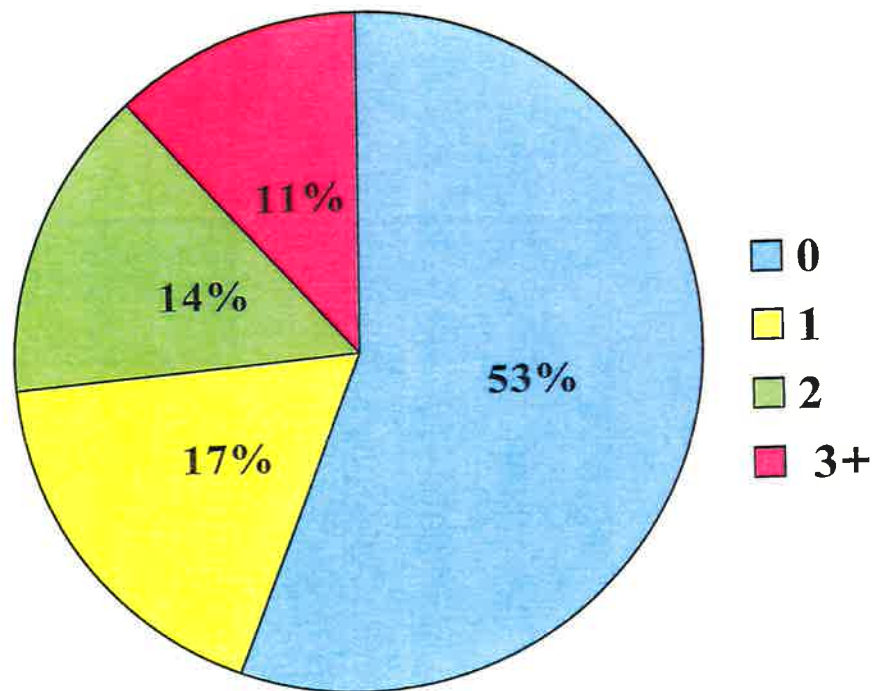


QS-1 (safety) n = 400; QS-2 (taste) n = 291.
Scale: Excellent = 8 – 10; Good/Fair = 4 – 7; Poor = 0 - 3

Residential Power Delivery

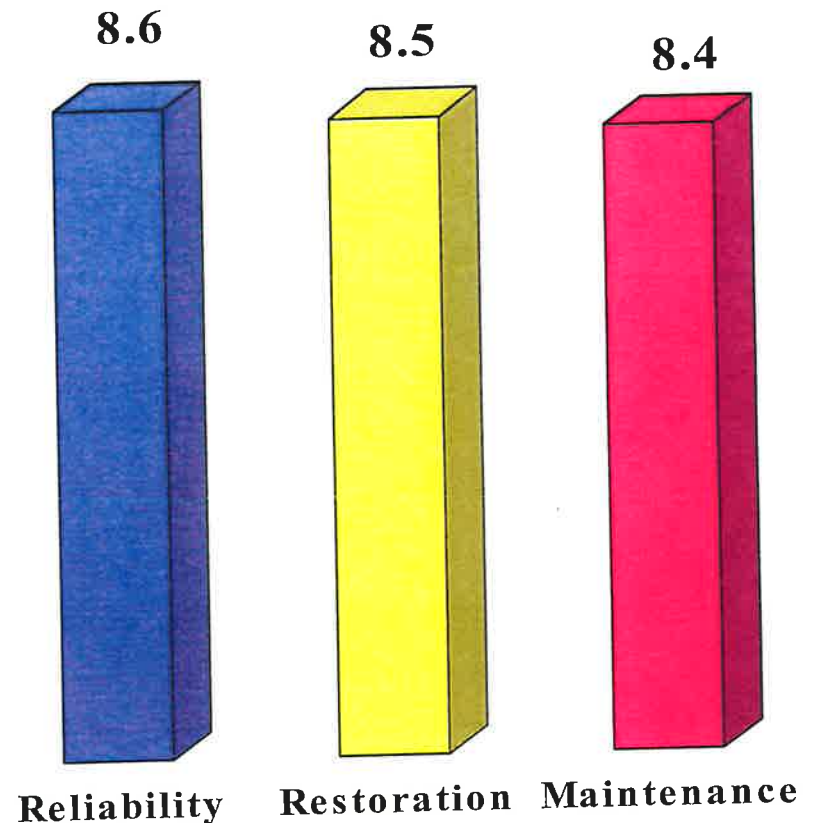
Frequency of Outages

Mean = 1



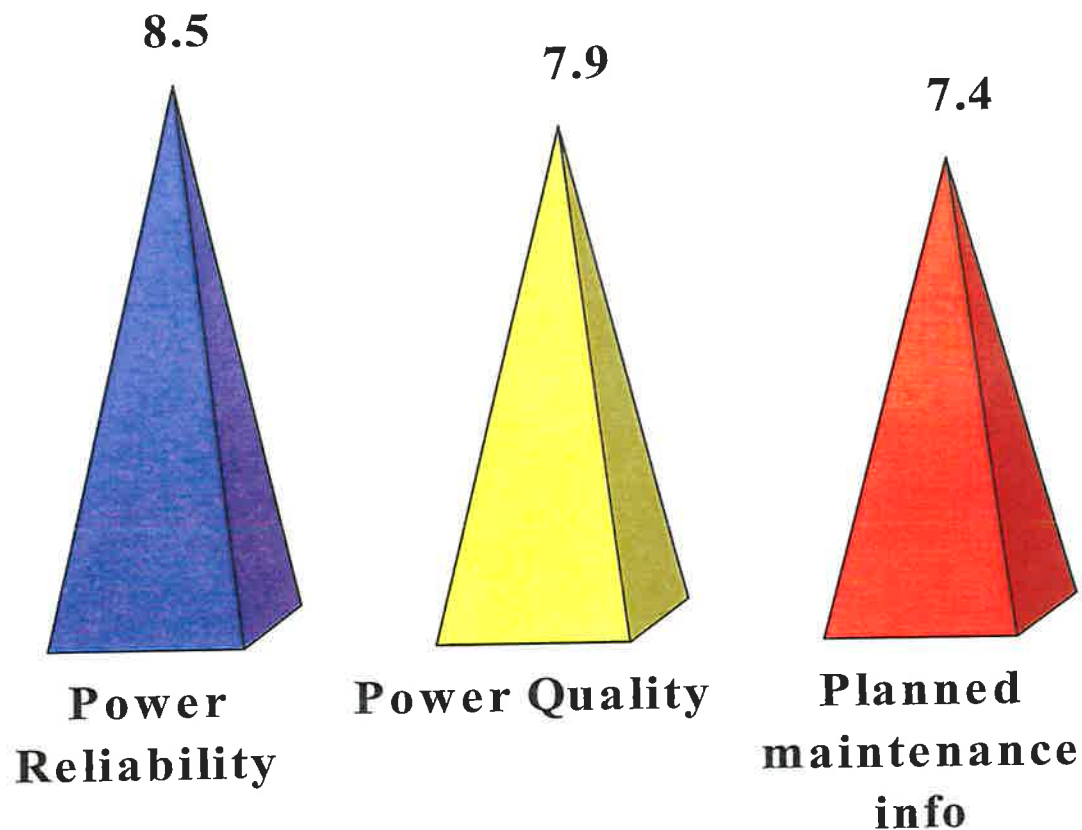
QS-4. n = 400.
Excludes 'not sure'.

Performance Assessment



QS-5a-c. n = 400. Mean scores.
Scale: 0 = 'poor' to 10 = 'excellent'.

Business Power Delivery



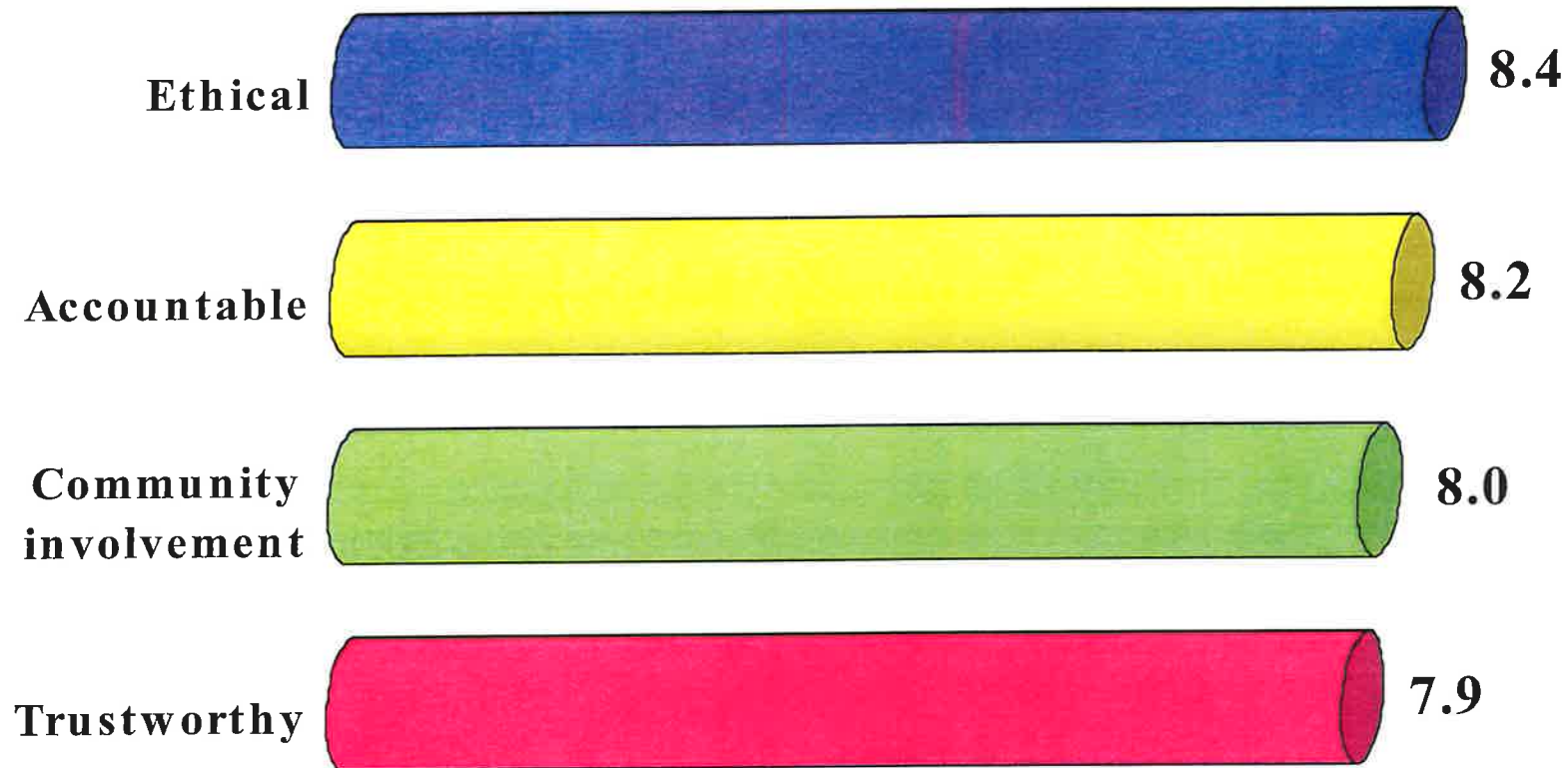
Q14a-c. n = 60

Mean scores on scale where 0 = 'poor' to 10 = 'excellent'



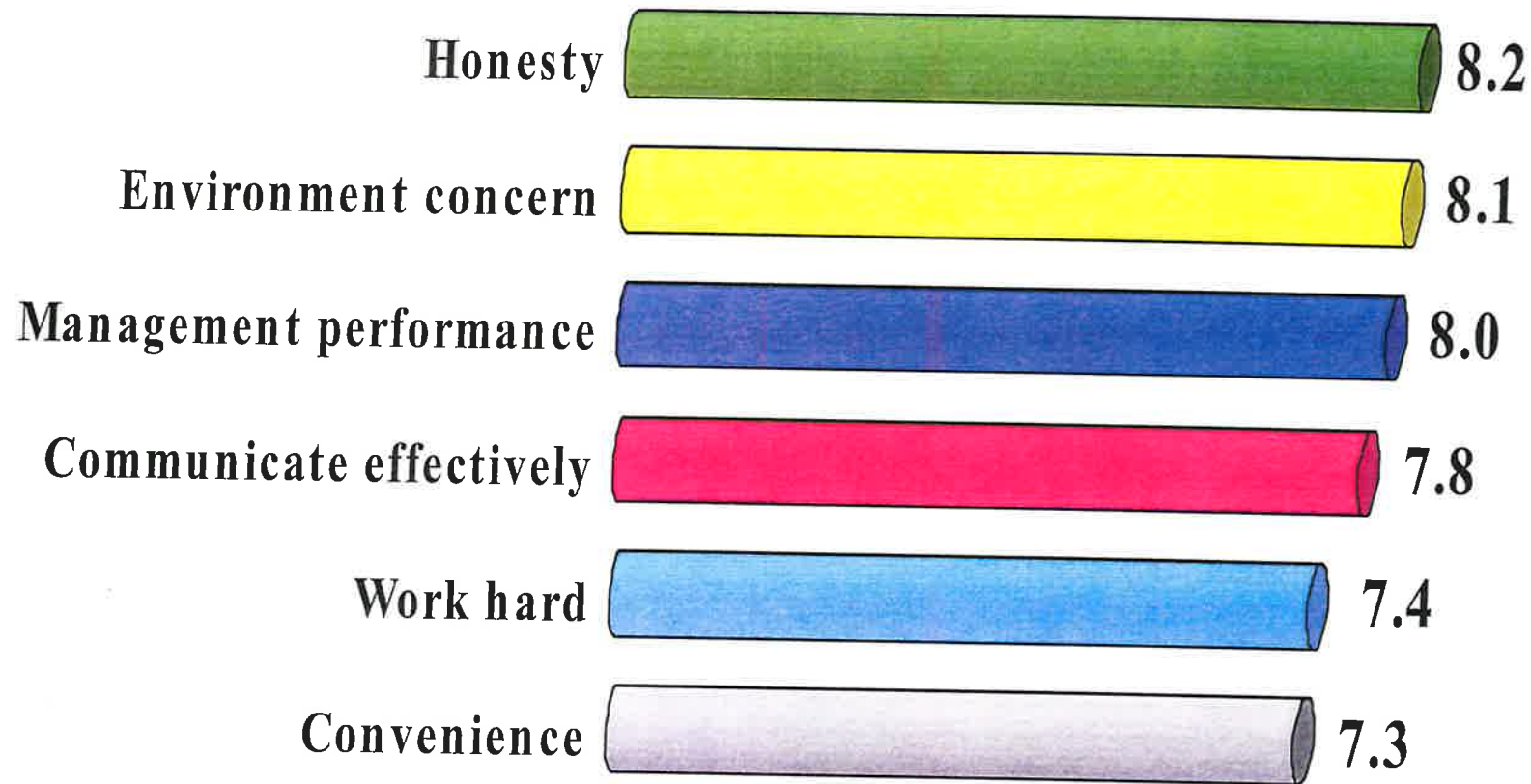
Image and Communications

SPU's Residential Image Attributes



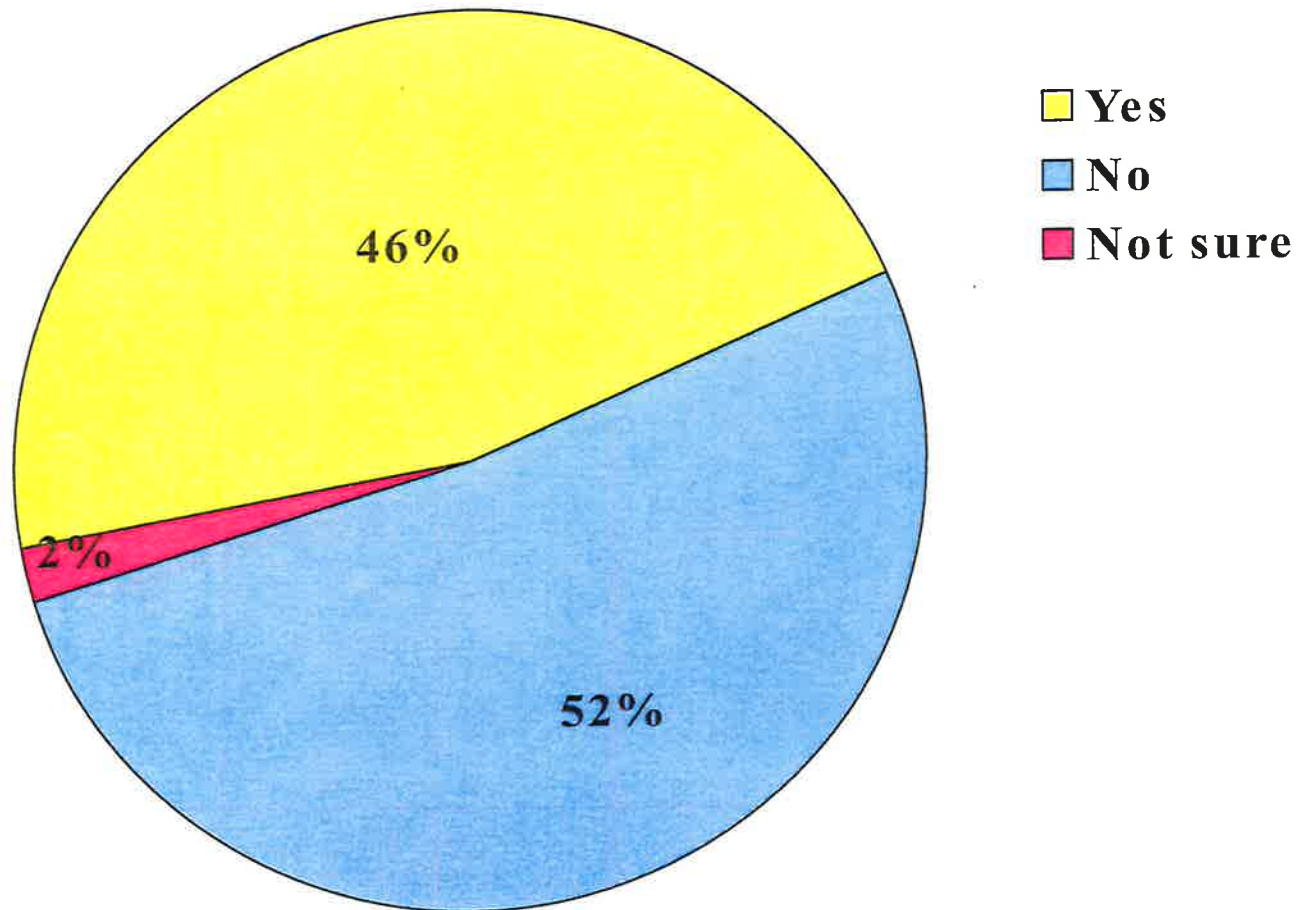
CC-7b-d, IM-3. n = 400. Excludes 'not sure'.
Mean scores. Scales: 0 = 'poor' to 10 = 'excellent'
and 0 = 'no trust' to 'complete trust'

SPU's Image Attributes (cont'd)



IM-1a-f. n = 400. Excludes 'not sure'.
Mean scores. Scales: 0 = 'poor' to 10 = 'excellent'.

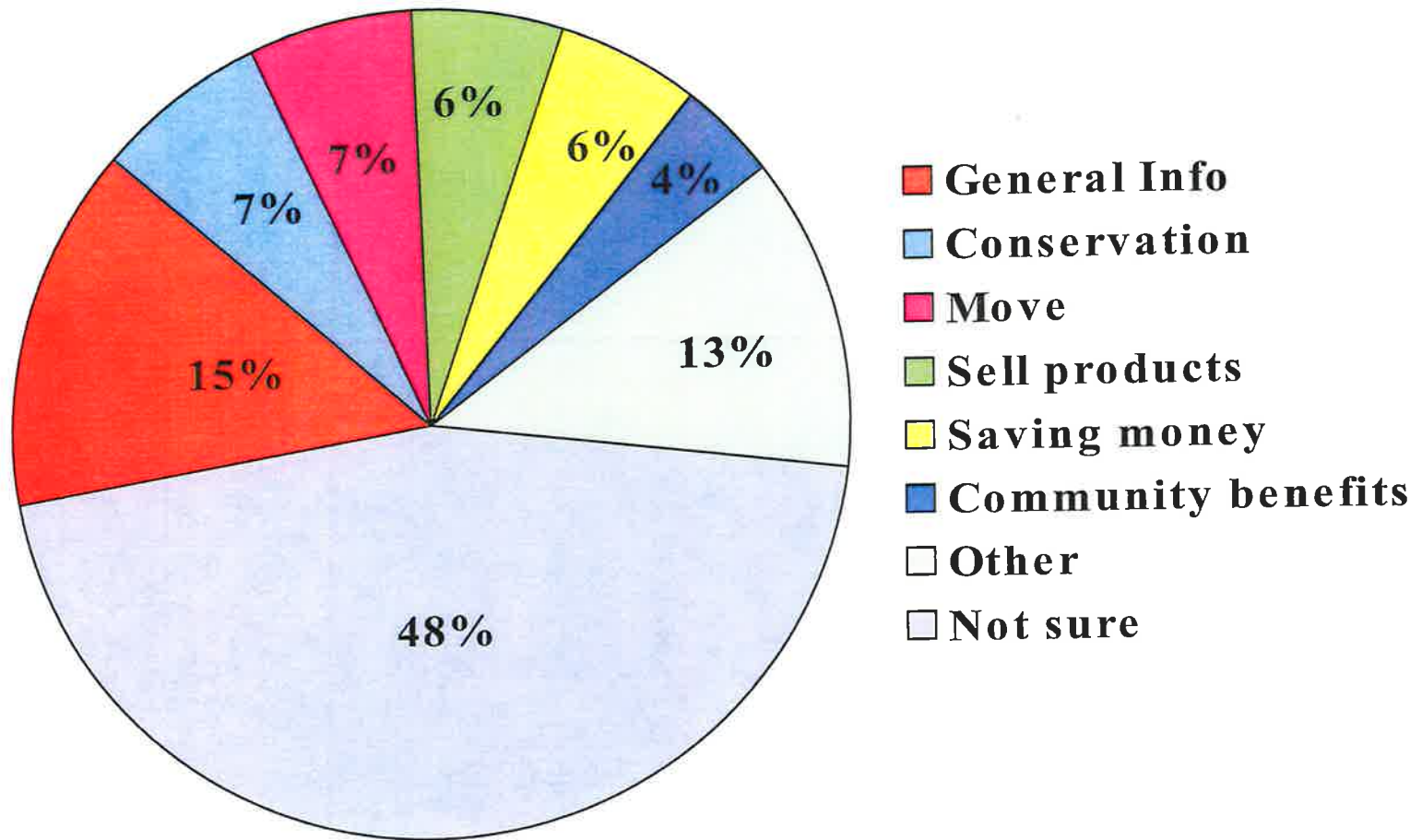
Advertising Awareness



COM-1. n = 400.

'Seen, read or heard advertising by Shakopee Public Utilities

Main Subject of Ad



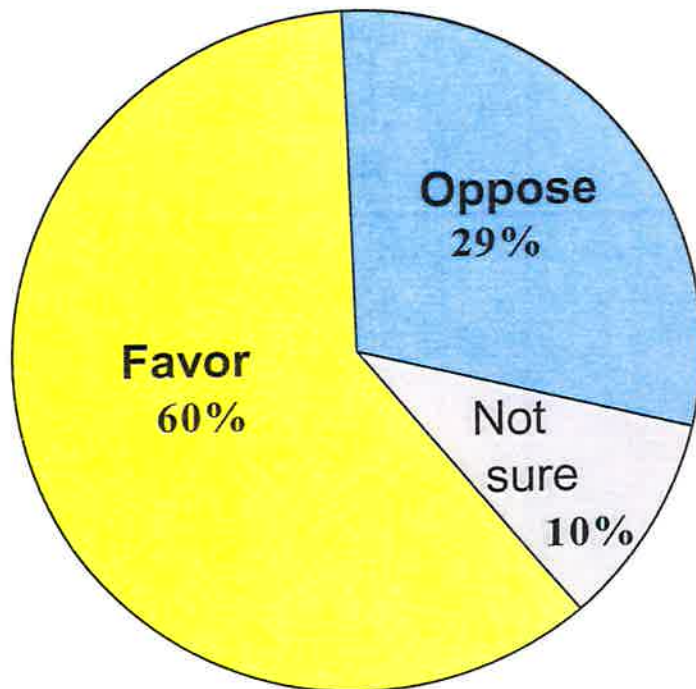
COM-3. n = 183 that recalled an ad.
Multiple responses permitted.



*Customer
Loyalty*

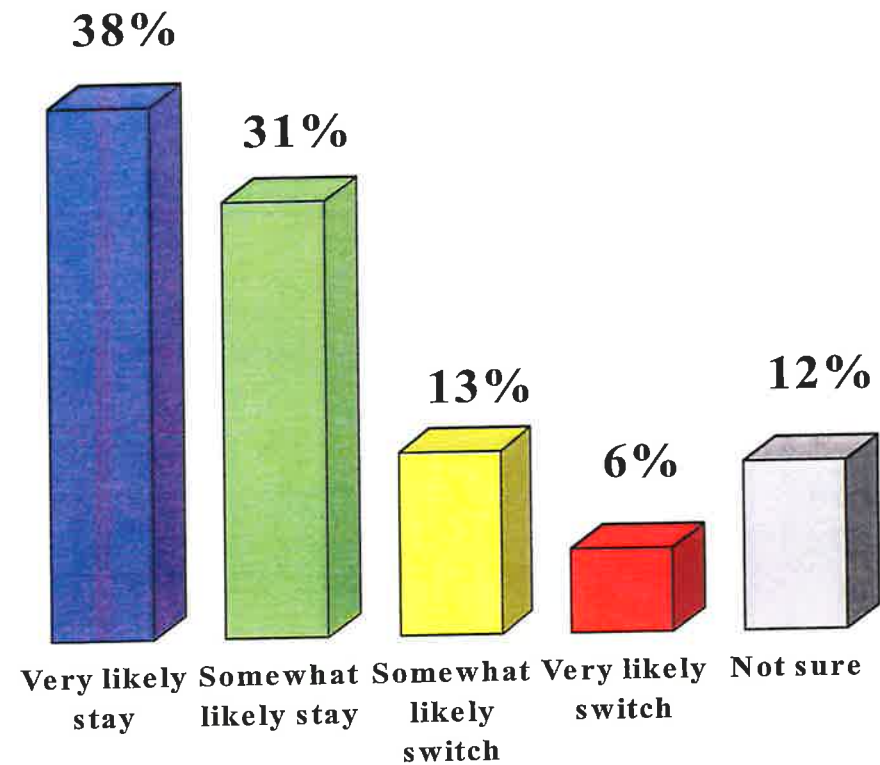
Deregulation & Customer Loyalty

Electric Deregulation

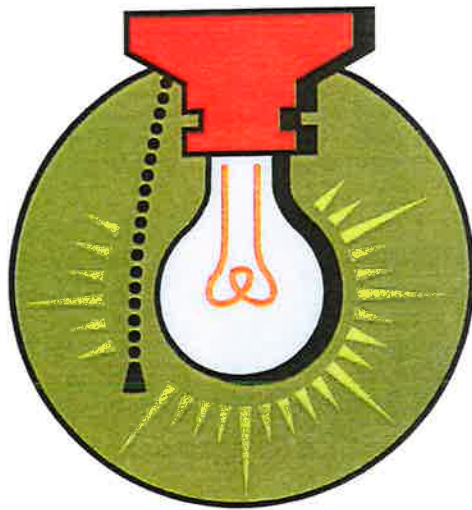


L-1. n = 400.

Loyalty

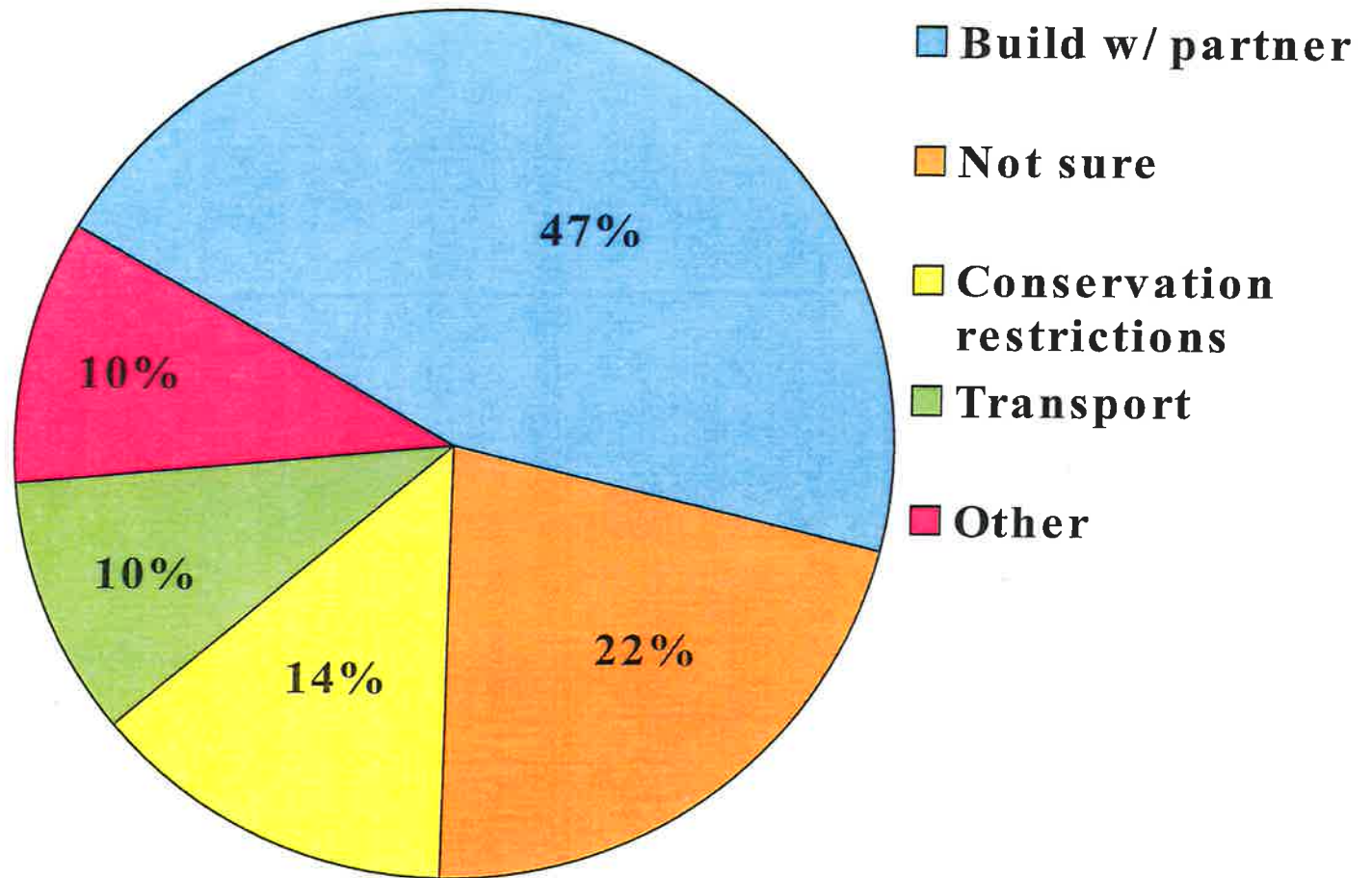


L-2. n = 400.



*Value-Added Products &
Services + Power
Generation*

New Power Generation Options

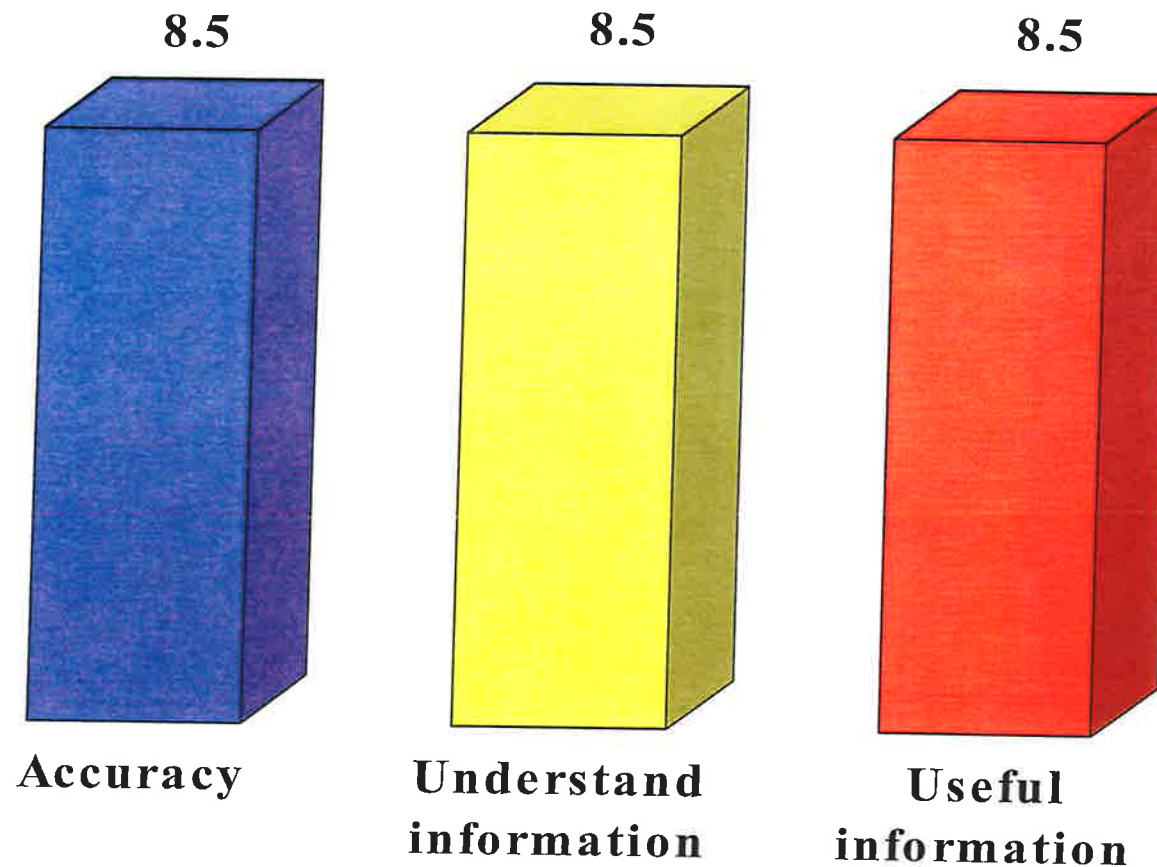


G-1. n = 400. Multiple responses permitted



Billing, Pricing and Value

Billing Service Assessment



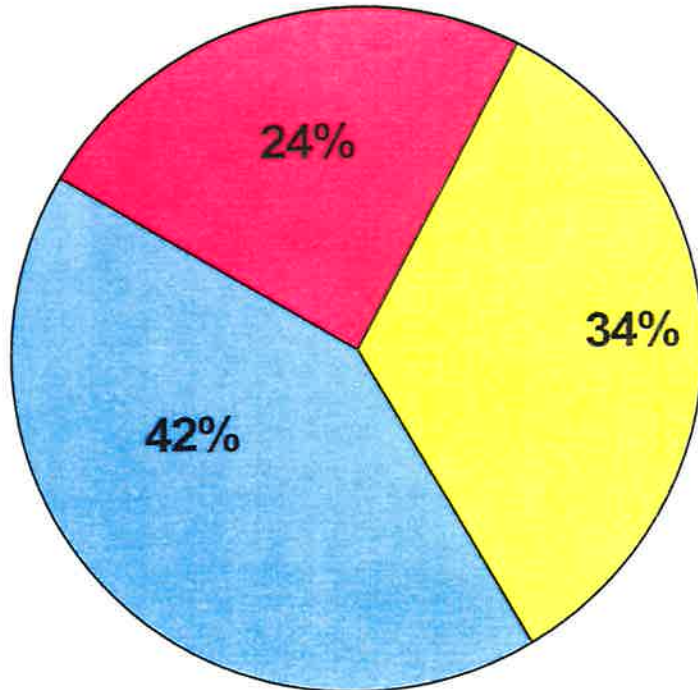
B-2a-c. n = 400

Mean scores on scale where 0 = 'poor' to 10 = 'excellent'

Does Portion of Bill Given to City...?

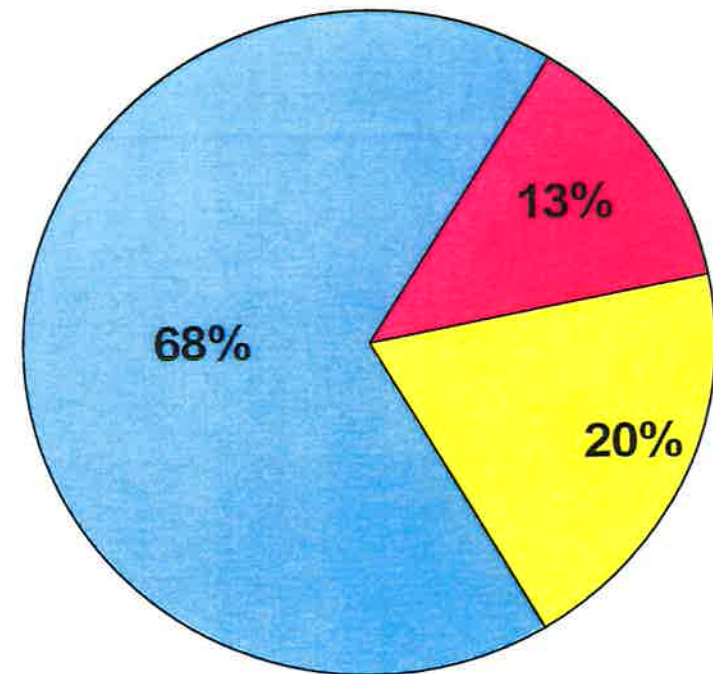
Reduce Taxes

■ Yes ■ No ■ Not sure



Support Community

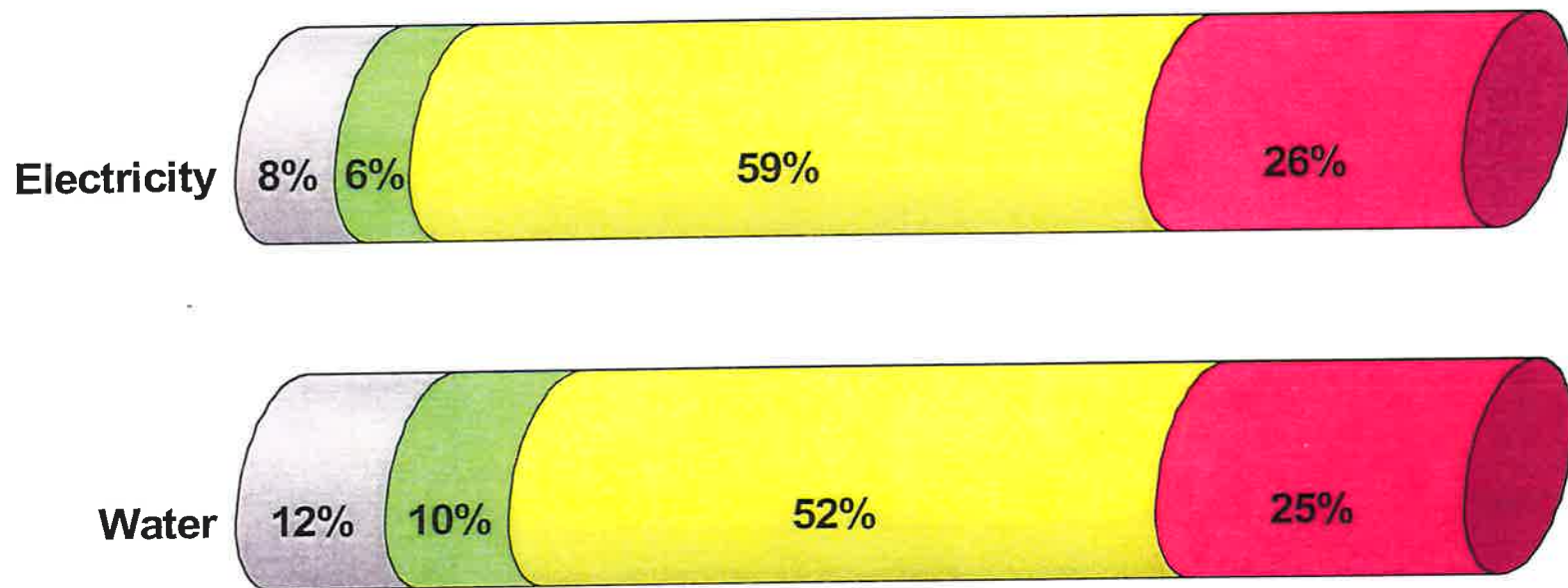
■ Yes ■ No ■ Not sure



B-3a,b. n = 400.

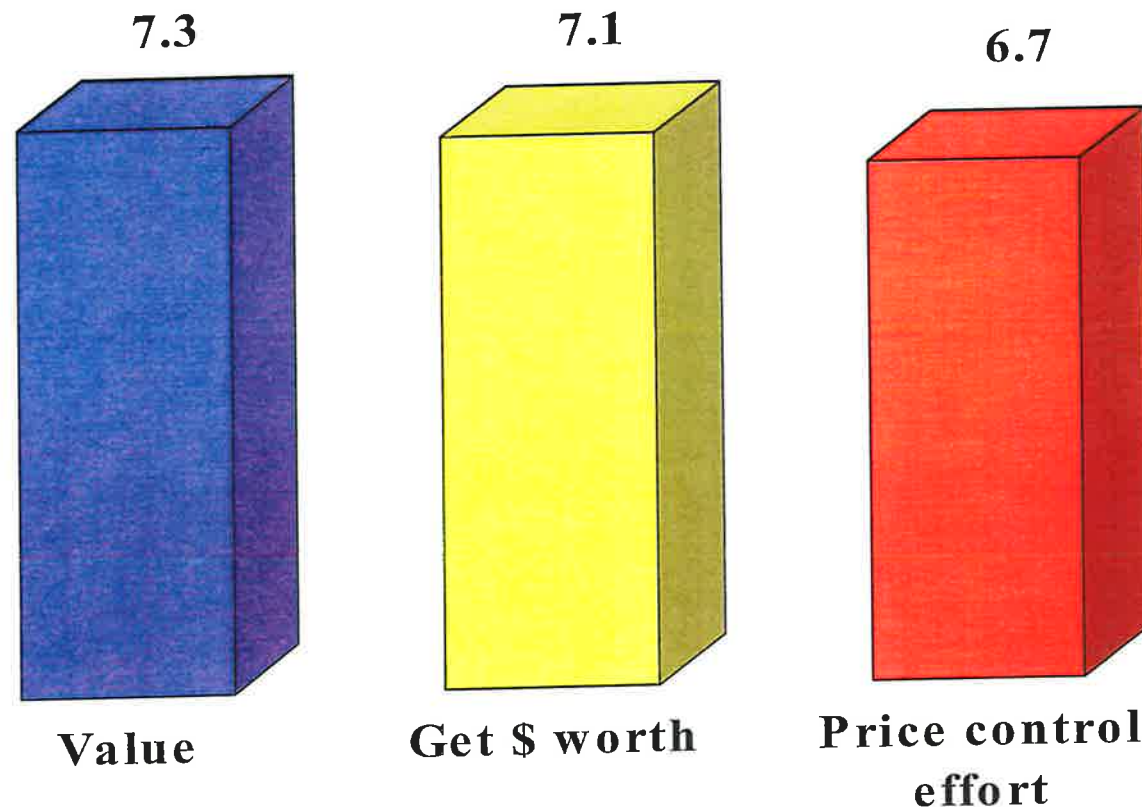
SPU Price Perceptions

□ Not sure ■ Low ■ Moderate ■ High



PV-1a (water) n = 291. PV-1b (electricity) n = 395.
Scale: 0 (low price) to 10 (high price)

Value Assessment



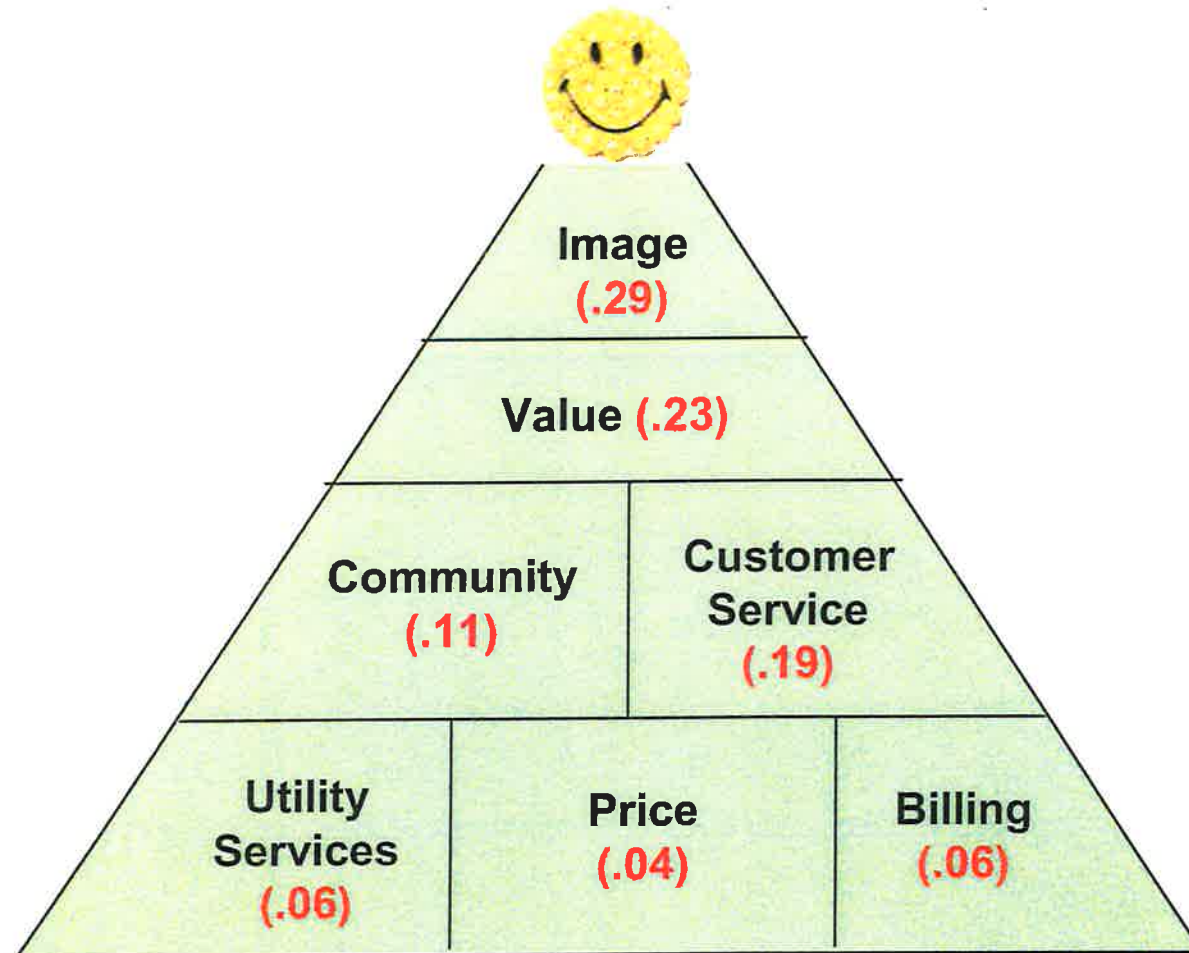
PV-2, 3, 4. n = 400. Mean scores.

Value scale: 0 = 'poor' to 10 = 'excellent'

Get \$ Worth scale: 0 = 'strongly disagree' to 10 = 'strongly agree'

Price control scale: 0 = 'not work hard' to 10 = 'works very hard'

Residential Happy Customer Model



SPU Residential Performance Summary Index

Utility Image	8.1
Value	7.2
Customer Service	8.0
Community	8.0
Utility Service Qualities	7.9
Billing	8.5
Price	3.8
Performance Index	7.6

Mean scores. Scale: 0 = 'poor performance' to 10 = 'excellent performance'.

***SPU Business Performance
Summary Index***

Image	8.0
Effort	6.8
Relationship	6.7
Trust	7.9
Communication	7.6
Power Delivery	7.8
Billing	7.8
<i>Summary Index</i>	<i>7.4</i>

Recommendation 1: Improve Communications

High ratings in key performance areas indicate that SPU is hitting the mark most of the time.

However, many customers are unaware of SPU's activities.

- Utility initiated communications, and any contact with business customers should...
 - Highlight the Utility-Customer commitment to enhance the appreciation for the Relationship (*value customers*)
 - Explain SPU's Efforts (*control costs, environment commitment, community involvement*)
 - Help customers save money & energy (*energy efficiency*)

Recommendations (cont'd)

- Improve / expand the business center
- Create pricing options *Rate based on Business Demand charge*
- Target communications about economic development efforts, including business incubators
- Focusing value-added service offers on tactics to save money/boost revenue and simplify customers' lives (budget plan, EFT, deposits)
- Institute a Customer Advisory Panel
- Address water quality issues
- Capitalize on customer service advantage
- Benchmark against market leaders

Scripted answers

Business Problems Solved Priority

Customer CCIM IC Analysis formula



Thank You





SHAKOPEE PUBLIC UTILITIES COMMISSION

"Lighting the Way - Yesterday, Today and Beyond"

March 15, 2016

Propose as Consent

TO: John Crooks

CC: Joe Adams
 Sherri Anderson
 Marv Athmann
 Lon Schemel
 Sharon Walsh

FROM: Renee Schmid, Director of Finance and Administration

SUBJECT: Financial Results for February, 2016

The following Financial Statements are attached for your review and approval.

Month to Date & Year to Date Financial Results – February, 2016

- Combined Statement of Revenue & Expense and Net Assets – Electric, Water and Total Utility
- Electric Operating Revenue & Expense Detail
- Water Operating Revenue & Expense Detail

Key items to note:

Month to Date Results – February, 2016

- Total Utility Operating Revenues for the month of February totaled \$3.6 million and were favorable to budget by \$0.2 million or 6.3%. Electric revenues were favorable to budget by \$0.2 million or 6.4% driven by higher than plan sales. Water revenues were also favorable to budget by \$11k or 4.9% driven by higher than plan water sales in the residential and industrial revenue groups.
- Total operating expenses were \$3.1 million and were favorable to budget by \$0.2 million or 7.0%. Total purchased power expense in February was \$2.2 million and was \$10k or 0.4% lower than budget for the month. Total Operating Expense for electric including purchased power was favorable to budget by \$166k or 5.6% primarily due to lower than planned expenditures in administrative and general expenses, energy conservation, operation and maintenance expenses, and depreciation expense. Total Operating Expense for Water was favorable to budget by \$67k or 18.3% due to lower than planned expenditures in operations and maintenance expense, administrative and general expenses, and depreciation expense.
- Total Utility Operating Income was \$0.5 million and was \$0.4 million favorable to budget due to higher than plan operating revenues and lower than plan expenditures.





SHAKOPEE PUBLIC UTILITIES COMMISSION

"Lighting the Way - Yesterday, Today and Beyond"

- Total Utility Non-Operating Expense was \$28k and was favorable to budget by \$24 due to higher than plan investment income of \$4k, higher than plan rental and miscellaneous income of \$13k, and a \$7k net gain on the sale of one water vehicle and disposition of electric transformers.
- Capital Contributions for February totaled \$116k and were unfavorable to budget by \$70k due to lower than planned trunk fees of \$39k and Water Connection fees of \$31k.
- Transfers to the City of Shakopee totaled \$181k and were lower than budget for the month by \$4k.
- Change in Net Position was \$0.4 million and was favorable to budget by \$0.4 million driven by higher than plan operating income and lower than plan operating expenses.
- Electric usage billed to customers in February was 30,772,601 KWH, a decrease from January usage billed at 35,330,494 KWH.
- Water usage billed to customers in February was 76.2 million gallons, a decrease from January usage billed at 85.8 million gallons.

Year to Date Financial Results – February, 2016

- Total Utility Operating Revenue year to date February was \$7.3 million and was favorable to budget by \$0.3 million or 4.4%. Electric revenues were favorable to budget by \$0.3 million or 4.1% and water revenues were also favorable to budget by \$0.04 million or 8.3%.
- Total Utility Operating Expenses year to date February were \$6.3 million and were favorable to budget by \$0.8 million or 12.1% primarily due to lower than plan purchased power costs of \$0.1 million, timing of expenditures in energy conservation of \$0.5 million, outside services \$0.1 million, employee benefits \$0.1 million, and depreciation of \$0.3 million. Total Operating Expense for electric including purchased power was favorable to budget by \$0.8 million or 12.0%. Total Operating Expense for Water was also favorable to budget by \$0.1 million or 12.5%.
- Total Utility Operating Income was \$1.0 million and was favorable to budget by \$1.1 million driven by lower operating expenses of \$0.9 million and higher than planned operating revenues \$0.3 million.
- Total Utility Non-Operating Income was \$189k and was favorable to budget by \$95k due to higher than planned rental and miscellaneous income of \$20k, investment income of \$68k and a \$7k net gain on the sale of one water vehicle and disposition of electric transformers.
- YTD Capital Contributions were \$132k and are unfavorable to budget by \$240k due to lower than planned collection of water connection fees of \$164k and lower than planned trunk fees of 79k.
- YTD Transfer to the City of Shakopee is \$360k and is lower than plan by \$10k or 2.7%. The actual estimated payment throughout the year is based on prior year results and will be trued up at the end of the year.
- YTD Change in Net Position is \$1.0 million and is favorable to budget by \$1.0 million reflecting higher than plan operating revenues, lower than operating expense, higher than plan non-operating revenues, and partially offset by lower than plan capital contributions.

SHAKOPEE PUBLIC UTILITIES
MONTH TO DATE FINANCIAL RESULTS
FEBRUARY 2016



SHAKOPEE PUBLIC UTILITIES
“Lighting the Way – Yesterday, Today and Beyond”

SHAKOPEE PUBLIC UTILITIES
COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION

	Month to Date Actual - February 2016			Month to Date Budget - February 2016			Electric		Water		Total Utility	
	Electric	Water	Total Utility	Electric	Water	Total Utility	MTD Actual v. Budget B/(W)		MTD Actual v. Budget B/(W)		MTD Actual v. Budget B/(W)	
	\$						\$	%	\$	%	\$	%
OPERATING REVENUES	\$ 3,332,869	232,874	3,565,742	3,131,706	222,090	3,353,796	201,162	6.4%	10,784	4.9%	211,946	6.3%
OPERATING EXPENSES												
Operation, Customer and Administrative	2,638,463	189,460	2,827,924	2,792,605	251,098	3,043,703	154,142	5.5%	61,637	24.5%	215,780	7.1%
Depreciation	175,432	111,170	286,602	186,946	116,655	303,601	11,514	6.2%	5,485	4.7%	17,000	5.6%
Amortization of Plant Acquisition	-	-	-	-	-	-	-	0.0%	-	-	-	0.0%
Total Operating Expenses	2,813,895	300,630	3,114,525	2,979,552	367,753	3,347,305	165,657	5.6%	67,123	18.3%	232,779	7.0%
Operating Income	518,974	(67,757)	451,217	152,154	(145,663)	6,491	366,819	241.1%	77,906	53.5%	444,726	6851.1%
NON-OPERATING REVENUE (EXPENSE)												
Rental and Miscellaneous	27,378	2,275	29,653	16,069	647	16,716	11,309	70.4%	1,628	251.4%	12,937	77.4%
Interdepartment Rent from Water	7,500	-	7,500	7,500	-	7,500	-	0.0%	-	-	-	0.0%
Investment Income	11,415	2,958	14,374	9,700	753	10,453	1,715	17.7%	2,205	292.6%	3,920	37.5%
Interest Expense	(29,038)	(4)	(29,041)	(29,048)	(4)	(29,052)	10	0.0%	(0)	-1.1%	10	0.0%
Amortization of Debt Issuance Costs and Loss on Refunding	(1,484)	-	(1,484)	(1,484)	-	(1,484)	-	0.0%	-	-	-	0.0%
Gain/(Loss) on the Disposition of Property	(1,248)	7,770	6,522	-	-	-	(1,248)	-	7,770	-	6,522	0.0%
Total Non-Operating Revenue (Expense)	14,524	13,000	27,524	2,737	1,397	4,134	11,787	430.6%	11,602	830.5%	23,390	565.8%
Income Before Contributions and Transfers	533,498	(54,757)	478,741	154,892	(144,266)	10,626	378,606	244.4%	89,509	62.0%	468,115	4405.6%
CAPITAL CONTRIBUTIONS	-	116,213	116,213	-	185,846	185,846	-	-	(69,633)	-37.5%	(69,633)	-37.5%
TRANSFER TO MUNICIPALITY	(112,014)	(68,665)	(180,679)	(112,146)	(72,912)	(185,058)	132	0.1%	4,247	5.8%	4,379	2.4%
CHANGE IN NET POSITION	\$ 421,484	(7,209)	414,275	42,745	(31,331)	11,414	378,739	886.0%	24,123	77.0%	402,861	3529.5%

SHAKOPEE PUBLIC UTILITIES
ELECTRIC OPERATING REVENUE AND EXPENSE

	MTD Actual February 2016	MTD Budget February 2016	MTD Actual v. Budget Better/(Worse)	
			\$	%
OPERATING REVENUES				
Sales of Electricity				
Residential	\$ 1,266,410	1,203,055	63,355	5.3%
Commercial and Industrial	1,989,184	1,849,690	139,494	7.5%
Uncollectible accounts	-	-	-	-
Total Sales of Electricity	3,255,594	3,052,746	202,849	6.6%
Forfeited Discounts	14,153	18,640	(4,487)	-24.1%
Free service to the City of Shakopee	14,592	14,157	435	3.1%
Conservation program	48,529	46,164	2,366	5.1%
Total Operating Revenues	3,332,869	3,131,706	201,162	6.4%
OPERATING EXPENSES				
Operations and Maintenance				
Purchased power	2,235,522	2,245,075	9,553	0.4%
Distribution operation expenses	31,804	33,551	1,747	5.2%
Distribution system maintenance	56,208	67,673	11,466	16.9%
Maintenance of general plant	21,247	24,118	2,871	11.9%
Total Operation and Maintenance	2,344,781	2,370,418	25,637	1.1%
Customer Accounts				
Meter Reading	9,089	10,433	1,344	12.9%
Customer records and collection	47,724	44,789	(2,935)	-6.6%
Energy conservation	8,709	54,150	45,441	83.9%
Total Customer Accounts	65,522	109,372	43,850	40.1%
Administrative and General				
Administrative and general salaries	38,996	48,129	9,133	19.0%
Office supplies and expense	6,603	15,967	9,364	58.6%
Outside services employed	33,345	46,093	12,748	27.7%
Insurance	13,996	14,057	61	0.4%
Employee Benefits	117,705	147,637	29,931	20.3%
Miscellaneous general	17,514	40,933	23,418	57.2%
Total Administrative and General	228,160	312,816	84,656	27.1%
Total Operation, Customer, & Admin Expenses	2,638,463	2,792,605	154,142	5.5%
Depreciation	175,432	186,946	11,514	6.2%
Amortization of plant acquisition	-	-	-	0.0%
Total Operating Expenses	\$ 2,813,895	2,979,552	165,657	5.6%
OPERATING INCOME	\$ 518,974	152,154	366,819	241.1%

SHAKOPEE PUBLIC UTILITIES

WATER OPERATING REVENUE AND EXPENSE

	MTD Actual February 2016	MTD Budget February 2016	MTD Actual v. Budget Better/(Worse)	
			\$	%
OPERATING REVENUES				
Sales of Water	\$ 231,909	220,680	11,228	5.1%
Forfeited Discounts	965	1,410	(445)	-31.5%
Uncollectible accounts	-	-	-	-
Total Operating Revenues	<u>232,874</u>	<u>222,090</u>	<u>10,784</u>	<u>4.9%</u>
OPERATING EXPENSES				
Operations and Maintenance				
Pumping and distribution operation	33,947	41,949	8,002	19.1%
Pumping and distribution maintenance	18,466	36,203	17,737	49.0%
Power for pumping	22,091	22,629	538	2.4%
Maintenance of general plant	1,504	1,990	486	24.4%
Total Operation and Maintenance	<u>76,008</u>	<u>102,771</u>	<u>26,763</u>	<u>26.0%</u>
Customer Accounts				
Meter Reading	6,050	5,789	(262)	-4.5%
Customer records and collection	12,868	12,159	(709)	-5.8%
Energy conservation	-	-	-	-
Total Customer Accounts	<u>18,918</u>	<u>17,948</u>	<u>(971)</u>	<u>-5.4%</u>
Administrative and General				
Administrative and general salaries	26,211	31,479	5,268	16.7%
Office supplies and expense	3,376	6,391	3,015	47.2%
Outside services employed	5,547	12,948	7,401	57.2%
Insurance	4,665	4,686	20	0.4%
Employee Benefits	43,121	55,266	12,145	22.0%
Miscellaneous general	11,615	19,610	7,995	40.8%
Total Administrative and General	<u>94,534</u>	<u>130,380</u>	<u>35,845</u>	<u>27.5%</u>
Total Operation, Customer, & Admin Expenses	<u>189,460</u>	<u>251,098</u>	<u>61,637</u>	<u>24.5%</u>
Depreciation	111,170	116,655	5,485	4.7%
Amortization of plant acquisition	-	-	-	-
Total Operating Expenses	<u>300,630</u>	<u>367,753</u>	<u>67,123</u>	<u>18.3%</u>
OPERATING INCOME	<u>\$ (67,757)</u>	<u>(145,663)</u>	<u>77,906</u>	<u>53.5%</u>

SHAKOPEE PUBLIC UTILITIES
YEAR TO DATE FINANCIAL RESULTS
FEBRUARY 2016



SHAKOPEE PUBLIC UTILITIES
"Lighting the Way – Yesterday, Today and Beyond"

SHAKOPEE PUBLIC UTILITIES
COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION

	Year to Date Actual - February 2016			Year to Date Budget - February 2016			Electric		Water		Total Utility	
	Electric	Water	Total Utility	Electric	Water	Total Utility	YTD Actual v. Budget B/(W)	%	YTD Actual v. Budget B/(W)	%	YTD Actual v. Budget B/(W)	%
	\$						\$	%	\$	%	\$	%
OPERATING REVENUES	\$ 6,814,187	482,390	7,296,577	6,545,585	445,226	6,990,812	268,602	4.1%	37,164	8.3%	305,765	4.4%
OPERATING EXPENSES												
Operation, Customer and Administrative	5,232,667	454,531	5,687,198	5,974,371	540,196	6,514,567	741,704	12.4%	85,665	15.9%	827,369	12.7%
Depreciation	350,864	222,340	573,203	373,893	233,310	607,203	23,029	6.2%	10,970	4.7%	33,999	5.6%
Amortization of Plant Acquisition	-	-	-	-	-	-	-	0.0%	-	-	-	0.0%
Total Operating Expenses	5,583,531	676,870	6,260,401	6,348,264	773,506	7,121,770	764,733	12.0%	96,635	12.5%	861,368	12.1%
Operating Income	1,230,656	(194,480)	1,036,175	197,321	(328,279)	(130,958)	1,033,334	523.7%	133,799	40.8%	1,167,134	891.2%
NON-OPERATING REVENUE (EXPENSE)												
Rental and Miscellaneous	50,579	90,710	141,289	32,137	88,768	120,905	18,442	57.4%	1,942	2.2%	20,384	16.9%
Interdepartment Rent from Water	15,000	-	15,000	15,000	-	15,000	-	0.0%	-	-	-	0.0%
Investment Income	72,052	16,693	88,745	19,400	1,507	20,907	52,652	271.4%	15,186	1007.7%	67,838	324.5%
Interest Expense	(59,501)	(7)	(59,508)	(59,505)	(7)	(59,513)	4	0.0%	0	2.2%	4	0.0%
Amortization of Debt Issuance Costs and Loss on Refunding	(2,967)	-	(2,967)	(2,967)	-	(2,967)	-	0.0%	-	0.0%	-	0.0%
Gain/(Loss) on the Disposition of Property	(1,248)	7,770	6,522	-	-	-	(1,248)	-	7,770	-	6,522	-
Total Non-Operating Revenue (Expense)	73,916	115,166	189,082	4,065	90,267	94,332	69,851	1718.4%	24,898	27.6%	94,750	100.4%
Income Before Contributions and Transfers	1,304,572	(79,315)	1,225,257	201,386	(238,012)	(36,626)	1,103,186	547.8%	158,697	66.7%	1,261,883	3445.3%
CAPITAL CONTRIBUTIONS	-	131,708	131,708	-	371,693	371,693	-	-	(239,985)	-64.6%	(239,985)	-64.6%
TRANSFER TO MUNICIPALITY	(219,606)	(140,665)	(360,271)	(224,292)	(145,824)	(370,116)	4,686	2.1%	5,159	3.5%	9,845	2.7%
CHANGE IN NET POSITION	\$ 1,084,966	(88,271)	996,695	(22,906)	(12,143)	(35,049)	1,107,872	4836.6%	(76,129)	-626.9%	1,031,744	2943.7%

SHAKOPEE PUBLIC UTILITIES
ELECTRIC OPERATING REVENUE AND EXPENSE

	YTD Actual February 2016	YTD Budget February 2016	YTD Actual v. Budget Better/(Worse)	
			\$	%
OPERATING REVENUES				
Sales of Electricity				
Residential	\$ 2,635,639	2,555,646	79,993	3.1%
Commercial and Industrial	4,012,007	3,826,132	185,875	4.9%
Uncollectible accounts	-	-	-	-
Total Sales of Electricity	6,647,646	6,381,778	265,868	4.2%
Forfeited Discounts	38,250	37,279	971	2.6%
Free service to the City of Shakopee	29,184	28,314	870	3.1%
Conservation program	99,107	98,214	892	0.9%
Total Operating Revenues	6,814,187	6,545,585	268,602	4.1%
OPERATING EXPENSES				
Operations and Maintenance				
Purchased power	4,676,041	4,765,311	89,270	1.9%
Distribution operation expenses	62,664	67,102	4,439	6.6%
Distribution system maintenance	121,049	135,347	14,298	10.6%
Maintenance of general plant	49,291	48,235	(1,056)	-2.2%
Total Operation and Maintenance	4,909,045	5,015,996	106,951	2.1%
Customer Accounts				
Meter Reading	18,528	20,866	2,338	11.2%
Customer records and collection	91,044	89,577	(1,466)	-1.6%
Energy conservation	(364,987)	108,301	473,287	437.0%
Total Customer Accounts	(255,415)	218,744	474,159	216.8%
Administrative and General				
Administrative and general salaries	90,997	96,258	5,261	5.5%
Office supplies and expense	42,022	31,935	(10,087)	-31.6%
Outside services employed	44,951	92,186	47,235	51.2%
Insurance	27,993	28,115	122	0.4%
Employee Benefits	328,844	409,273	80,430	19.7%
Miscellaneous general	44,230	81,865	37,635	46.0%
Total Administrative and General	579,037	739,632	160,595	21.7%
Total Operation, Customer, & Admin Expenses	5,232,667	5,974,371	741,704	12.4%
Depreciation	350,864	373,893	23,029	6.2%
Amortization of plant acquisition	-	-	-	0.0%
Total Operating Expenses	\$ 5,583,531	6,348,264	764,733	12.0%
OPERATING INCOME	\$ 1,230,656	197,321	1,033,334	523.7%

SHAKOPEE PUBLIC UTILITIES

WATER OPERATING REVENUE AND EXPENSE

	YTD Actual February 2016	YTD Budget February 2016	YTD Actual v. Budget Better/(Worse)	
			\$	%
OPERATING REVENUES				
Sales of Water	\$ 480,233	442,407	37,826	8.5%
Forfeited Discounts	2,156	2,819	(663)	-23.5%
Uncollectible accounts	1	-	1	-
Total Operating Revenues	<u>482,390</u>	<u>445,226</u>	<u>37,164</u>	<u>8.3%</u>
OPERATING EXPENSES				
Operations and Maintenance				
Pumping and distribution operation	70,538	83,898	13,360	15.9%
Pumping and distribution maintenance	36,127	72,405	36,278	50.1%
Power for pumping	42,302	45,258	2,956	6.5%
Maintenance of general plant	9,296	3,980	(5,316)	-133.6%
Total Operation and Maintenance	<u>158,263</u>	<u>205,541</u>	<u>47,278</u>	<u>23.0%</u>
Customer Accounts				
Meter Reading	12,777	11,577	(1,199)	-10.4%
Customer records and collection	24,564	24,318	(247)	-1.0%
Energy conservation	-	-	-	-
Total Customer Accounts	<u>37,341</u>	<u>35,895</u>	<u>(1,446)</u>	<u>-4.0%</u>
Administrative and General				
Administrative and general salaries	53,731	62,957	9,226	14.7%
Office supplies and expense	16,770	12,782	(3,988)	-31.2%
Outside services employed	9,646	25,895	16,250	62.8%
Insurance	9,331	9,372	41	0.4%
Employee Benefits	120,049	148,532	28,483	19.2%
Miscellaneous general	49,400	39,220	(10,179)	-26.0%
Total Administrative and General	<u>258,927</u>	<u>298,759</u>	<u>39,833</u>	<u>13.3%</u>
Total Operation, Customer, & Admin Expenses	<u>454,531</u>	<u>540,196</u>	<u>85,665</u>	<u>15.9%</u>
Depreciation	222,340	233,310	10,970	4.7%
Amortization of plant acquisition	-	-	-	-
Total Operating Expenses	<u>\$ 676,870</u>	<u>773,506</u>	<u>96,635</u>	<u>12.5%</u>
OPERATING INCOME	<u>\$ (194,480)</u>	<u>(328,279)</u>	<u>133,799</u>	<u>40.8%</u>