

OFFICIAL PROCEEDINGS
CITY COUNCIL
ELECTRIC ADVISORY BOARD
CITY OF ESCANABA, MICHIGAN
Special Joint Meeting
Wednesday, February 10, 2010

Pursuit to a special meeting posted February 5, 2009, the meeting was called to order by the Mayor Gilbert X. Cheves at 6:00 p.m. in the Council Chambers of City Hall located at 410 Ludington Street.

Present: Mayor Gilbert X. Cheves, Council Members Pete Baker, Patricia A. Baribeau, Leo J. Evans, and Brady L. Nelson.

Absent: None

Present: Electrical Advisory Board Members: Chairman Ronald Beauchamp, Larry Arkens, Tim Wilson, John Anthony, Glendon Brown, John Mellinger, and Don Racicot

Absent: Ann Bissell

Also Present: City Manager James V. O'Toole, Electric Superintendent Mike Furmanski, Power Plant Manager Jerry Pirkola, Consultant Tom Butz of Power Systems Engineering (PSE), City Controller Michael Dewar, Peter VanSteen of CUPPAD, and members of the public, and media.

UNFINISHED BUSINESS – None

CONFLICT OF INTEREST - None

NEW BUSINESS

Update-Electric Department.

Administration provided an overview and status report on activities and issues concerning the Electric Department including current coal issues.

Electric Superintendent Mike Furmanski reviewed the following items:

- Energy Optimization Program;
- Power Purchase Proposals;
- Plant Purchase Proposals;
- Power Plant Property Phase 1 Environmental Site Assessment;
- Combustion Turbine (CT) issues;
- Power costs graph;
- MISO market participate update and review of costs.

Update-Power Generation.

The Escanaba Generating Plant Manager Jerry Pirkola provided an overview and status report on activities and issues concerning the Power Plant. The following was reviewed:

- Reviewed budget. Mr. Pirkola advised January figures were not verified. The January report would be submitted to all Board Members when all budget items were verified;
- Plant Turbine overall delayed due to CT not being available;
- Reported on problems with CT, and attempts to solve the problem;
- Reviewed past and present outage scheduling.

Management Briefing and Discussion - All Requirements Purchase Power and Sale of Steam and/or Combustion Turbine Generation Facilities.

Administration updated City Council, Electrical Advisory Committee and Citizens of Escanaba on the various issues being evaluated with respect to the All Requirements Power Purchase and the Sale of the Steam and/or Combustion Turbine Generation Facilities. Discussion topics include:

All Requirements Power Purchase Proposal(s) - Short and Long Term options and possibilities:

- Consultant Tom Butz of Power Systems Engineering (PSE) made the following Power Point presentation. (See Appendix – A)
 - Discussed if City residents should be more informed regarding terms of the sale, when obtained, and then public meetings and hearings held. Manager O'Toole and Mayor Cheves stated the City was staying within the parameters of the RFP. Once a schedule and timeline was obtained, the citizen's would definitely be informed;
 - Manager O'Toole and Board Member Brown reviewed Milwaukee meeting with Wisconsin Energy.
 - Discussed the value of, and when a rate study should be accomplished;
 - Briefly reviewed initial meeting with Traxys and UPPCO Plant Employees.

Environmental Assessment Update.

- Peter VanSteen, from the Delta County Brownfield Redevelopment Authority reviewed the following County Brownfield information;
 - Advised still waiting to see if funding would be available for a Phase II Environmental Assessment;
 - Phase II could cost as low as \$20,000, or run in the amount of \$50,000-\$60,000. It all depended on what was targeted;

- If Grant funds were approved, County Brownfield funds may not be available until August 2010 because of the timing on the grant funds availability;
- Phase II could take up to two months, and the Baseline Environmental Assessment would be done after the Phase II.
- Phase I had a shelf life of a few months, but a Phase II was valid for a much longer time frame;
- The proposed sale of the Power Plant was November 2010. That may be a conflict when County Brownfield funds become available. Mr. VanSteen advised Phase II expenditures may be refundable;
- Mr. VanSteen advised the City may need to use the City of Escanaba Brownfield Redevelopment Authority, and then City would ultimately be reimbursed;
- The Proposals for a Phase II could be started now, so the City could be ready to proceed;
- County Brownfield funds for the Phase II would only pay for the assessments. Actual work cost and cleanup would be negotiated with Traxys and City.

Approval - Professional Services - Power System Engineering, Inc.

Administration sought Council approval to extend the professional services contract with Power System Engineering, Inc. of Madison, WI through December 31, 2010. Additional assistance was needed for the continued Plant Sale Negotiations, Bridge Purchase Evaluation, Power Purchase Evaluation and MISO Market Data review. Electric Superintendent Furmanski advised the proposed contract was \$100,000.00, with monthly updates and review.

Anthony moved, Arkens seconded, **CARRIED UNANIMOUSLY**, to recommend City Council extend the professional services contract with Power System Engineering, Inc. of Madison, WI through December 31, 2010, for the continued Plant Sale Negotiations, Bridge Purchase Evaluation, Power Purchase Evaluation and MISO Market Data review, for a fee not to exceed \$100,000, with monthly updates.

After discussion, Baker moved, Baribeau seconded, to approve the Electric Advisory Committee recommendation to extend the professional services contract with Power System Engineering, Inc. of Madison, WI through December 31, 2010, for the continued assistance of the Plant Sale Negotiations, Bridge Purchase Evaluation, Power Purchase Evaluation and MISO Market Data review, for a fee not to exceed \$100,000.00, with monthly updates.

Upon a call of the roll, the vote was as follows:

Ayes: Baker, Baribeau, Evans, Nelson, Cheves
Nays: None

MOTION CARRIED.

GENERAL PUBLIC COMMENT - None

COUNCIL/COMMITTEE, STAFF REPORTS

The next joint meeting of City Council and Electrical Advisory Committee was scheduled for March 10, 2010.

ADJOURNMENT

Hearing no further public comment, or further reports from the Electrical Advisory Committee and Council, the meeting adjourned at 8:02 p.m.

Respectfully submitted,

Robert S. Richards, CMC
City Clerk

Approved: _____
Gilbert X. Cheves

Purchased Power and Generation Sale Updates

Presented to City of Escanaba City Council and Electric
Advisory Committee in Open Session

February 10, 2010

Purchase Power Actions

- WE Energies
 - Face to Face Meeting In Milwaukee
 - Feb 3, 2010
 - Update on Issues
 - Discussion on Bridge Purchase Pricing Approach
- AEP
 - Received updated contract
 - Currently Under Review
 - Clarified What's Included in Price

WE Energies Meeting

- Update on Escanaba Current MISO Status
 - MISO Operation Starting Dec 1, Network Service
- WE Expressed Concerns About Timing on Biomass Conversion and Impact on Purchase Power Costs
- No Option of Putting Escanaba in WEC.N for 3 year Deal
 - Spawns Cost Concerns About Forecasting Separate Load Zone

WE Energy Purchase Issues

- Impact of Generation Conversion on MLC/MCC Costs
 - Ability to Continue with \$3/MWh cap of MLC/MCC from WEC.S to Escanaba?
- Cost of Providing MISO Load Services
 - Cost of Providing Forecast to UPPC.ESC load node
 - Other WE Energies loads are in the WEC Zones

WE Energies – Next Steps

- Discussions from Meeting
 - Costs for MISO Load Forecasting
 - Ability to Continue to Lock Into \$3/MWh Basis for MLC/MCC
- Get Price for Bridge Purchase
 - Proposed Interruptible Pricing Using Generation As Backstop
 - Removing High Prices from Price Distribution

AEP Purchase

- Verified Costs Include
 - MISO Services
 - Delivery to UPPC.ESC Load Node
- Contract Review In Process
 - Not Highlighting Major Issues

MISO Operations

- Energy Market
 - DA – Day Ahead Market
 - Established 1 Day Before Actual Operations
 - Price for Each Node Established Hourly
 - RT – Real Time Market
 - Based on Actual Operations
 - Price for Each Node 5 Min – Averaged Hourly
 - Exposure to Market Only If MW Values are different Than DA Market
 - Load Forecast Error
 - Change in Generation from DA

MISO Example – One Hour

- Generation - DA
 - Steam 1 – 10 MW
 - Steam 2 – 0 MW
 - LMP Clears at \$30/MWh
- Load - DA
 - Load – 15 MW
 - LMP Clears at \$30/MWh

MISO Example (Continued)

- Generation - RT
 - Steam 1 – 12 MW
 - Steam 2 – 0 MW
 - LMP Clears at \$35/MWh
- Load - RT
 - Load – 17 MW
 - LMP Clears at \$35/MWh

MISO Example Settlement

- Generation
 - DA Generation Higher or Lower Than RT
 - Differences Due to Operating Constraints
 - MISO Could Ask for Changes in Operation
 - DA LMP Higher or Lower than RT
- Load
 - DA Load Higher or Lower than RT
 - Differences Due to Forecast Error
 - DA LMP Higher or Lower than RT

MISO Example Settlement

- Generation
 - DA – Revenue of $\$30/\text{MWh} * 10 \text{ MW} = \300
 - RT – Revenue of $\$35/\text{MWh} * 2 \text{ MW} = \70
 - Total Revenue = $\$370$
- Load
 - DA – Cost = $\$30/\text{MWh} * 15 \text{ MW} = \450
 - RT – Additional Cost = $\$35/\text{MWh} * 2 \text{ MW} = 70$
 - Total Cost = $\$520$
 - If load was same as Forecast, no exposure to RT Market

MISO Settlement

- Load Balance
 - DA
 - Generate 10 MW
 - Load 15 MW
 - Purchase 5 MW
 - RT
 - Generate 12 MW
 - Load 17 MW
 - Purchase of 5 MW

Update on Generation Sale

- Continued Discussion With Traxys
- Traxys Meeting with Plant Employees
- Phase II Environmental Assessment
 - Include in County Brownfield Funding?
 - Options Depend on Timing and Availability
- More Detailed Schedule Update

Update on MISO/ATC Questions

- Questions Focused on Two Areas
 - Does the City Have Right to Purchase All Requirements Energy?
 - Can the Generation Output be Sold to Third Party?
- Resolution Since Last Meeting
 - Network Transmission Service Provides Means of Purchasing All Requirements Power – DONE
 - Remaining Questions Focused on Possible Need for Generation Deliverability Study

Generation Deliverable Study

- Part of MISO Large Generation Interconnection Study
- Typical Timeframe - 9 months to Complete
- MISO Found Escanaba Study From 2005
 - Study Shows Full Deliverability of System
 - This is REALLY GOOD NEWS, as it doesn't introduce Delays in Closing The Transaction
 - Study only required for Substantial Change to System

Escanaba Costs

- Current Costs
 - Fixed Costs
 - Plant Labor Costs
 - Distribution Costs
 - Transmission
 - Variable Costs
 - Purchase Power
 - Fuel
 - Ash

Escanaba Rate

- Current Rate Signal
 - ATC Transmission Costs
 - Coincident with ATC Customers – Escanaba Load/ Total Load – Billing Units Established One Year Ahead of Time
 - Limited Demand Charge Costs
 - Rates Have Demand Charge Billing for large power customers

Purchase Power Rate Signal

- WE Energies Costs
 - HUGE Demand Charge
 - Coincident with WE Energy Peak Date/Time
 - Low Energy Charge
 - Likely to Require Rate Design
- AEP Costs
 - No Demand Charge
 - All Costs in Energy Costs
 - Rate Design not as Critical

Value of a Rate Study

- Costs by Class Review
 - Residential, Commercial, Large Power
- Cost Structure
 - Demand Charges
 - Energy Charges
- May Include
 - Time of Use Rate Class
 - Net Metering

Schedule Discussion

- Paths Defined
 - Contract Negotiation
 - Estimate of Agreement Development
 - Plant Sale Critical Path
 - Environmental Assessment
 - Phase II and Baseline Environmental Assessment
 - Discussion of Options -----
 - MISO Interconnection Study
 - Removing Feeders Substantive Change Requiring Interconnection Study?

Schedule Discussion – Closing Estimates

- Agreement Development/Due Diligence
 - End of October 2010
- Environmental Assessment
 - Early November to Mid December 2010
- MISO Interconnection Study – If Required
 - End of October 2010
 - Request must be Submitted by Feb 16, 2010

Project Management

- Teams
 - Power Purchase Contract Negotiation
 - Contact Development
 - Evaluate Purchase Power Economics
 - Plant Sale Contract Negotiation
 - Agreement Development
 - Evaluate Sale Economics
 - Plant Sale Transition – Discussed Not Formed
 - Includes UPPCO, Traxys, Escanaba
 - Example Issues Include Plant Inventory, Employee Transition

Questions
