

OFFICIAL PROCEEDINGS
CITY COUNCIL
ELECTRIC ADVISORY BOARD
CITY OF ESCANABA, MICHIGAN
Special Joint Meeting
Wednesday, April 21, 2010

Pursuit to a special meeting posted April 5, 2010, the meeting was called to order by the Mayor Pro Tem Leo J. Evans at 6:00 p.m. in the Council Chambers of City Hall located at 410 Ludington Street.

Present: Mayor Pro Tem Leo J. Evans, Council Members Patricia A. Baribeau, Pete Baker, and Brady L. Nelson.

Absent: Mayor Gilbert X. Cheves.

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

Absent: Tim Wilson

Also Present: Electric Superintendent Mike Furmanski, City Controller Mike Dewar, City Attorney Ralph B.K. Peterson, Consultant Tom Butz of Power Systems Engineering (PSE), and members of the public, and media.

Manager O'Toole added Item 3e Fix for Float Block for May and June 2010 Power Purchase.

Baker moved, Nelson seconded, **CARRIED UNANIMOUSLY**, to approve the agenda as amended.

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. The following items were reviewed:

- Coal Cost Update;
- General Operations/Electrical Distribution Update;
- Substation Request for Proposal(s) Update, and possible locations;
- Coal/Dock Storage Lease Agreement Update.

No action was taken at this time.

Update-Power Generation.

Electric Superintendent Mike Furmanski provided an overview and status report on activities and issues concerning the Power Plant, discussions included:

- Power Plant Update, which included, generator refurbishing, and stack repairs;
- Peaking Generator (CT) Update, recent attempts to start, nozzle repair, and budget status.

Management Briefing and Discussion – Various Issues.

Administration updated the City Council, Electrical Advisory Committee and Citizens of Escanaba on the various issues being evaluated with respect to the power supply scenarios and related issues. Discussion topics include:

Plant Sale Negotiations/All Requirements Power Purchase Proposal(s)

Administration and PSE consultant Butz provided an update on the status of the short and long-term power supply options and an update on the status of the plant sale negotiations. (See Attachment – A pages 1-8)

Phase II, Environmental Site Assessment

On March 23, 2010, Administration sent Phase II Environmental Site Assessment RFPs to seven (7) firms. On April 6, 2010, twelve (12) proposals were received. After careful review and consideration by the City of Escanaba and Traxys North America, it was being recommended that the proposal from Weston Solutions of Houghton, MI, in the amount of \$28,675.21 be approved. The fee for this assessment would be equally split between the City and Traxys North America.

Arkens Moved, Bissell seconded, **CARRIED UNANIMOUSLY**, that the City Electric Advisory Committee recommend the Escanaba City Council approve a Phase II Environmental Site Assessment proposal from Weston Solutions of Houghton, MI, in the amount of \$28,675.21.

Nelson moved, Baker seconded, to approve a Phase II Environmental Site Assessment proposal on Power Plant Property, from Weston Solutions of Houghton, MI, in the amount of \$28,675.21, cost to be split between the City of Escanaba, and Traxys North America.

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

Ayes: Nelson, Baker, Baribeau, Evans

Nays: None

MOTION CARRIED.

Electric Utility Fund Review

City Controller Mike Dewar provided an update on the Electric Utility Fund. The following was discussed:

- Cash balance discussion;
- Change in plant operations from reliable to economical status;
- Decline in Utility Fund Balance;
- Electric Fund has subsidized electrical rates for several years;
- Critical to sell the plant this fall;
- Suggested the public should be brought up to date on the status of the Electrical Fund;
- The increase in the price of coal, and the drop in interest earnings ruined the economics of running a small electrical plant.

Fix For Float Contract Analysis April 2010

PSE Consultant Butz and Electric Superintendent Furmanski provided an update on the April 2010 Cargill Fix for Float Block Power Purchase. (See Attachment – A, pages 10 - 17). The following was discussed:

- Fix For Float was an insurance policy against large power purchases;
- For April to date, there was a savings of \$21,000 savings.

Fix For Float Contract - May and June 2010

PSE Consultant Butz and Electric Superintendent Furmanski provided an update on a possible Fix for Float Block for May and June 2010 Power Purchase. (See Attachment – A, pages 17 - 31). The following was discussed:

- Reviewed possible proposals;
- Administration reviewed and recommended a Fixed for Float agreement with Cargill Power Markets, LLC, at a not to exceed: ON PEAK-\$55.00, OFF PEAK \$34.00;

Arkens moved, Brown seconded, **CARRIED UNANIMOUSLY**, that the City Electric Advisory Committee recommended the Escanaba City Council authorize City Administration enter into a Fixed for Float Wholesale Purchase Power Pricing Contract with Cargill Power Markets, LLC for May and June 2010.

Baribeau moved, Nelson seconded, to authorize City Administration enter into a Fixed for Float Wholesale Purchase Power Pricing Contract with Cargill Power Markets, LLC with 14 megawatts on peak, 7 megawatts off peak energy for May and June 2010, at prices not to exceed: ON PEAK-\$55.00, OFF PEAK \$34.00.

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

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

MOTION CARRIED.

GENERAL PUBLIC COMMENT

Tim Derouin, UPPOC Power Plant worker, suggested there was too much lapse time on the decisions repairs of the CT. Mr. Derouin suggested the CT should be running if the unit could be making money for the Power Plant.

COUNCIL/COMMITTEE, STAFF REPORTS

The next joint meeting of City Council and Electrical Advisory Committee was scheduled for May 12, 2010.

Electrical Advisory Board Members Bissell and Arkens reported on April 14, 2010, Great Lakes Wind Council Meeting

ADJOURNMENT

Hearing no further public comment, or further reports from the Electrical Advisory Committee and Council, the meeting adjourned at 8:19 p.m.

Respectfully submitted,

Robert S. Richards, CMC
City Clerk

Approved: _____
Gilbert X. Cheves, Mayor

**City of Escanaba
Joint City Council / Electric Advisory
Committee**



Agenda Items

- Agenda 3a
 - Update on Plant Sale
 - Update on Purchase Power
- Agenda 3d
 - Reporting of April Fix for Float
- Agenda 3e
 - Discussions on May and June Fix for Float

Update on Plant Sale

- Discussions Continue on Term Sheet
- Key Issues
 - Coal Price
 - Environmental Cost Sharing
 - Outcome of the Phase II Study

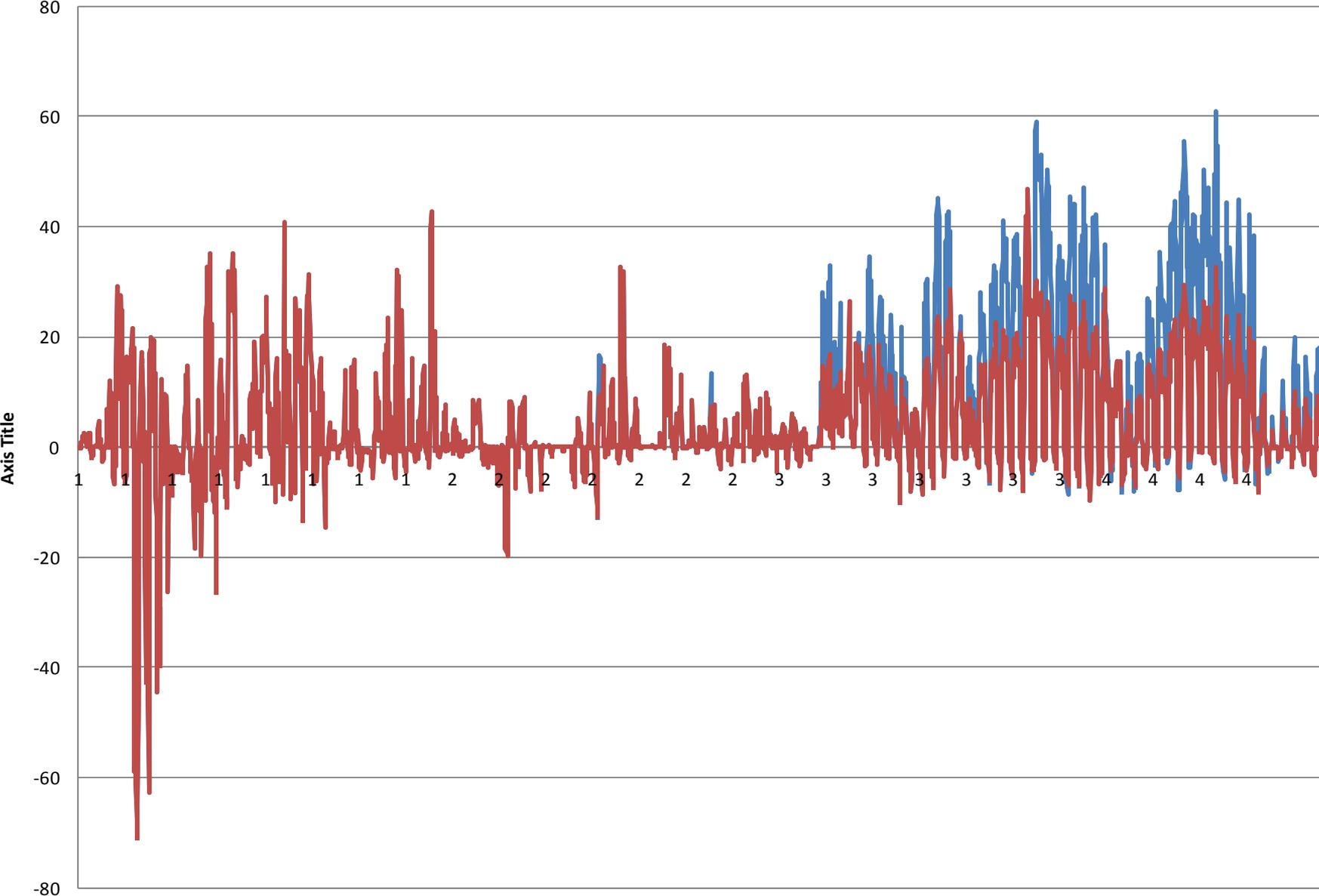
Plant Sale Next Steps

- Internal Discussion
 - April 29, 2010
- Meeting with Traxys
 - May 5, 2010

Update on All Requirements Purchase

- Concerns Raising About Congestion
- Mid March through Mid April
 - Much Higher Congestion
 - Lower in Last Few Days

UPPC. Esc and UPPC Gladstone MCC



Congestion Issue

- Raised Question with MISO
- Discussions with Other Power Suppliers
- No Resolution at This Time

Next Steps

- Shadow Billing of WE Energies
 - Show impact of Demand Charges
- Updated Quotes from AEP

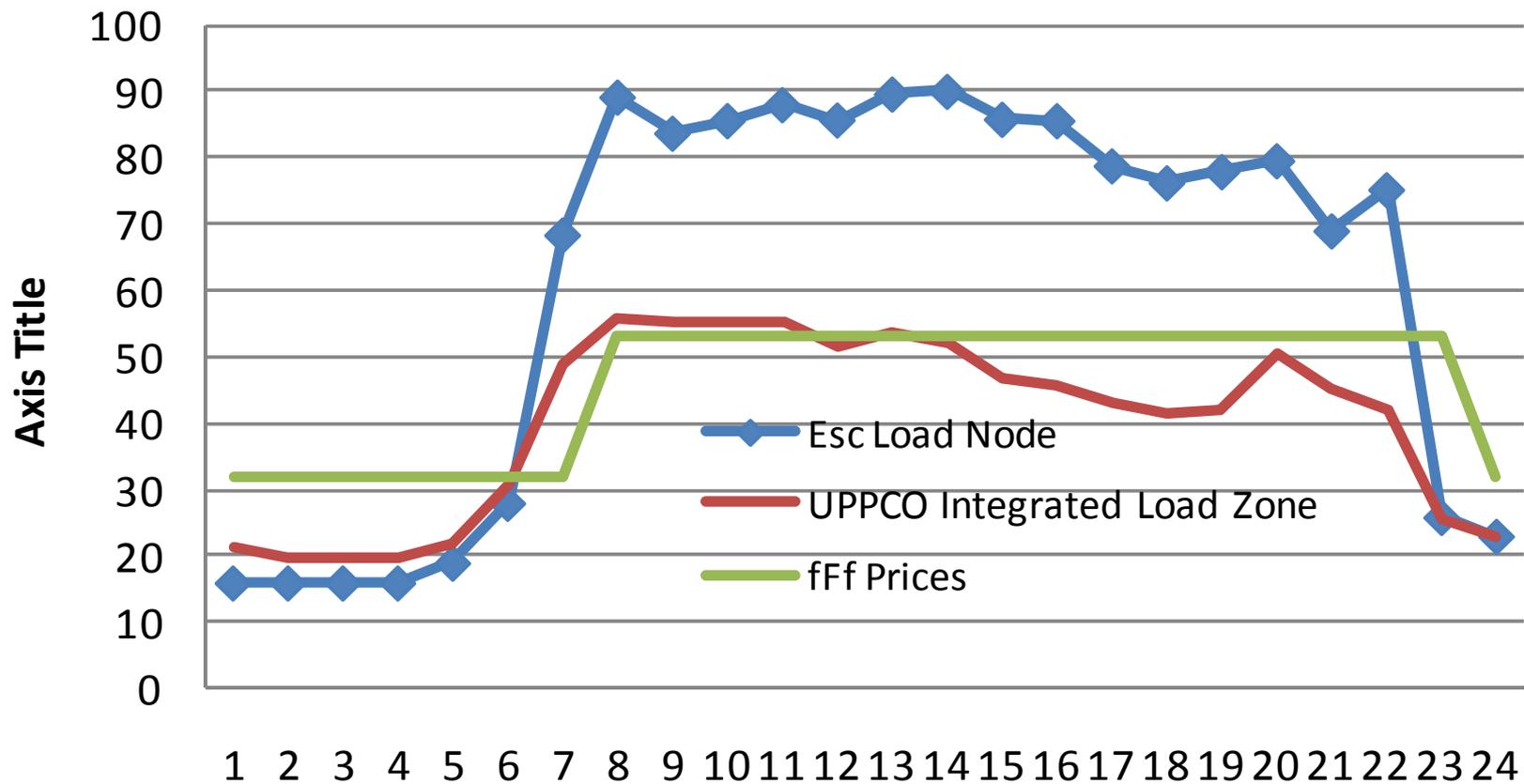
Agenda Item 3d – What is Fix for Float?

- Financial Transaction
 - MISO LMP Changes – “Float”
 - Another Entity Offers A Fixed Price – “Fix”
- Payout
 - Escanaba Pays
 - Actual prices are lower than Fixed price
 - Counter-party Pays
 - Actual Prices Higher Than Fixed Price
- Determine Desired MW Amount (On and Off Peak) & Evaluate Proposed Pricing

April Fix for Float Analysis

- Cargill Power Marketing
- On Peak
 - 14 MW \$53/MWh
- Off Peak
 - 7 MW \$32/MWh
- Monitoring of Pricing Through April 21, 2010

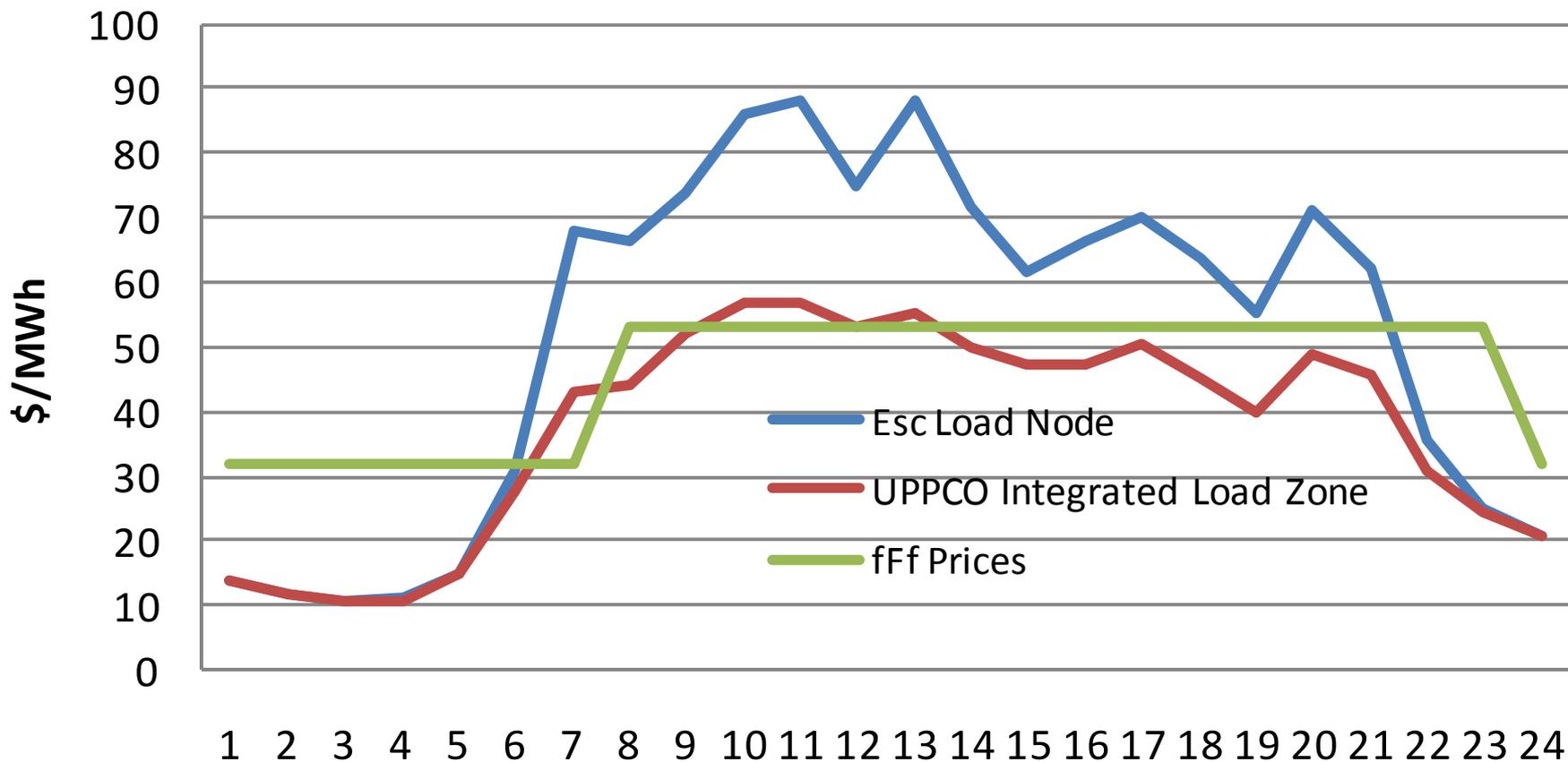
Hourly Price Summary April 9, 2010



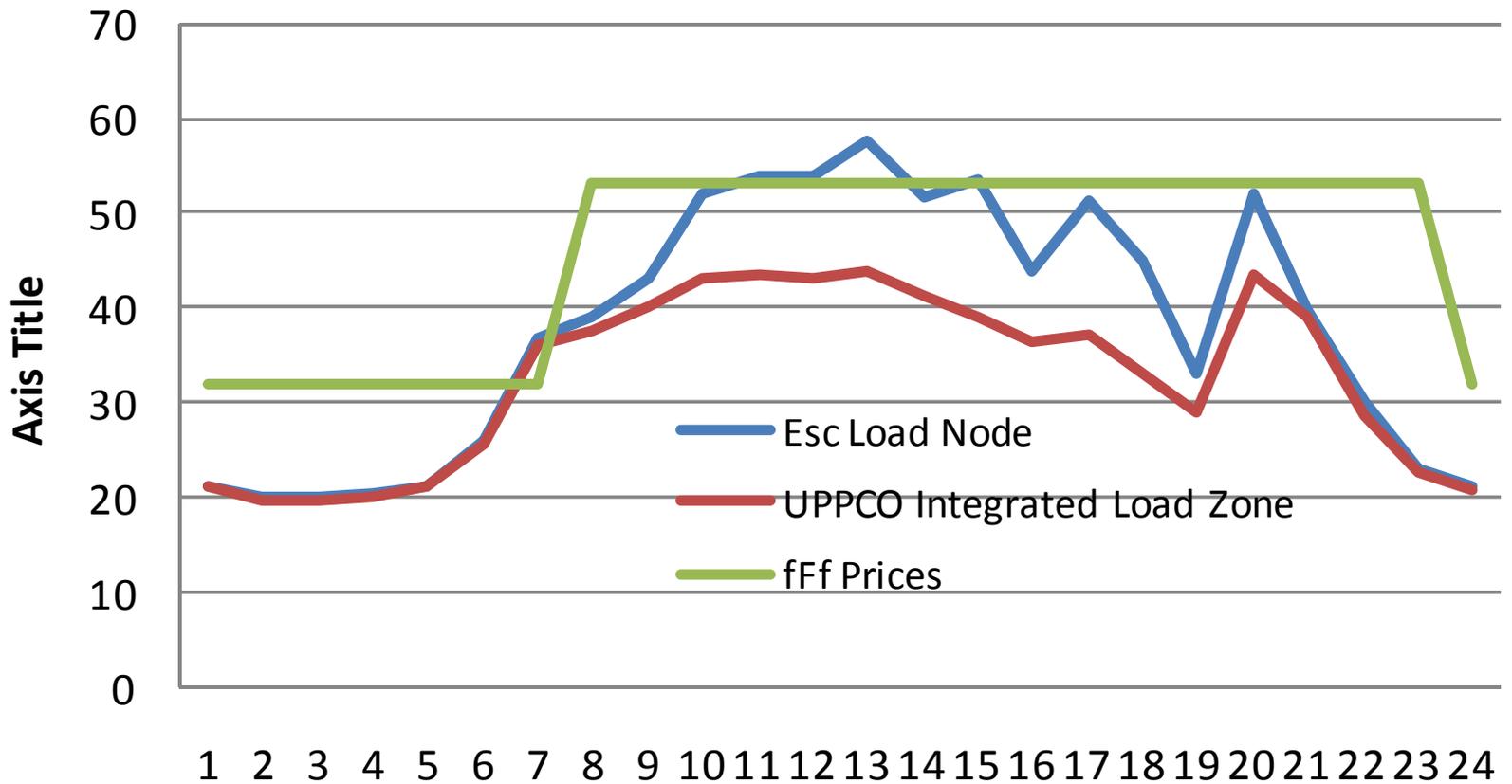
Results Summary

- Off Peak Hours
 - FfF Price is higher than DA LMP
 - Escanaba Typically “Pays”
- On Peak Hours
 - FfF Price Lower Than DA LMP
 - Cargill Pays
 - FfF Price Same as DA LMP
 - Roughly Break Even

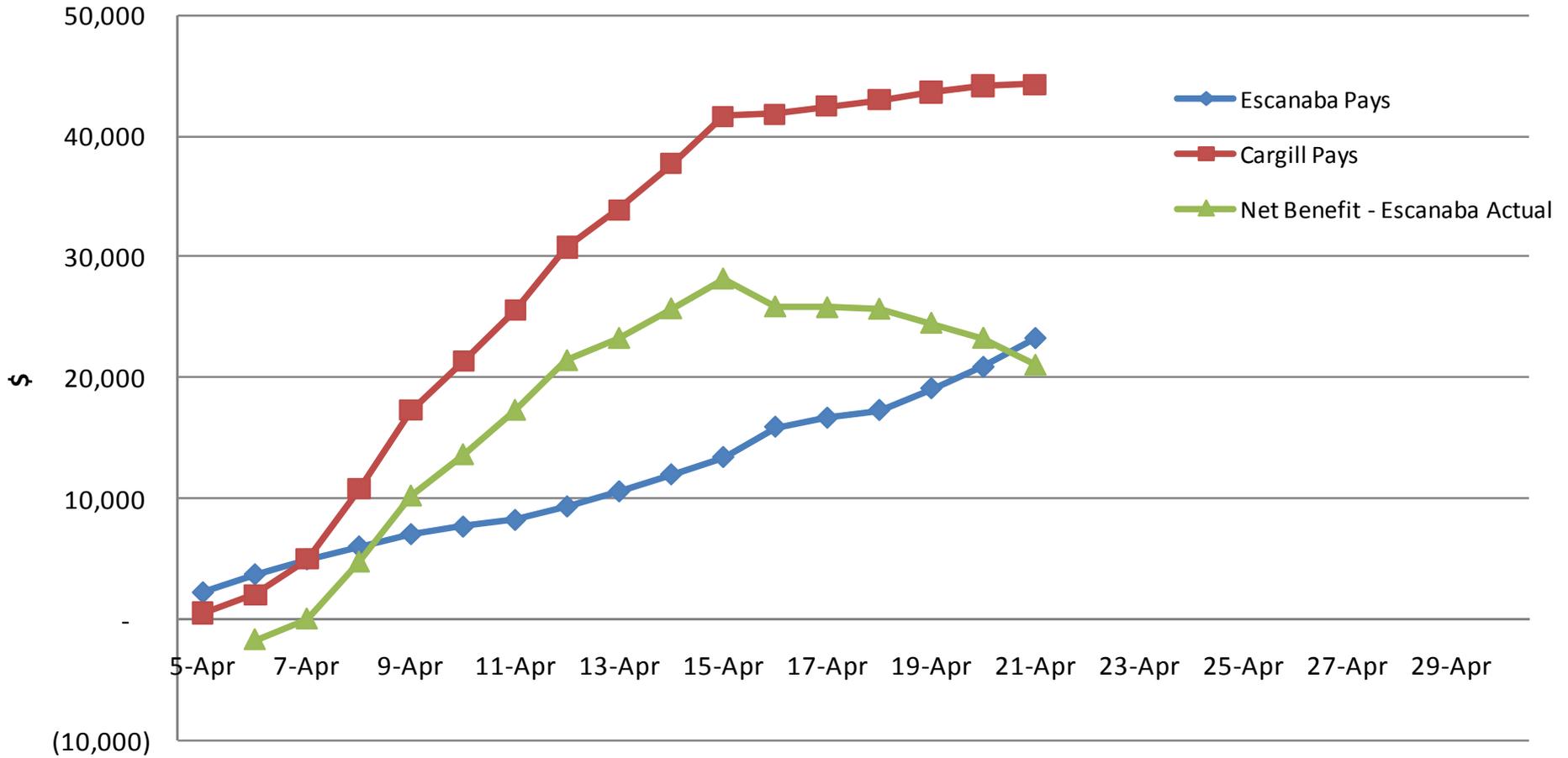
Hourly Price Summary April 14, 2010



Hourly Price Summary April 21, 2010



Fix for Float Summary



April Fix for Float

- Net Position – \$21 K Ahead
 - Off Peak \$6.7 Behind – About \$4.80/MWh
 - Pressing for Lower Off Peak Fix for May and June
 - On Peak \$27.7 K Ahead – \$10.80/MWh
- Daily Change
 - Highest Gains – \$4,000/day
 - Losses \$2,000-\$4,000/day
- End of April
 - If Recent Losses Continue – Should at Least Break Even

Agenda Item 3e

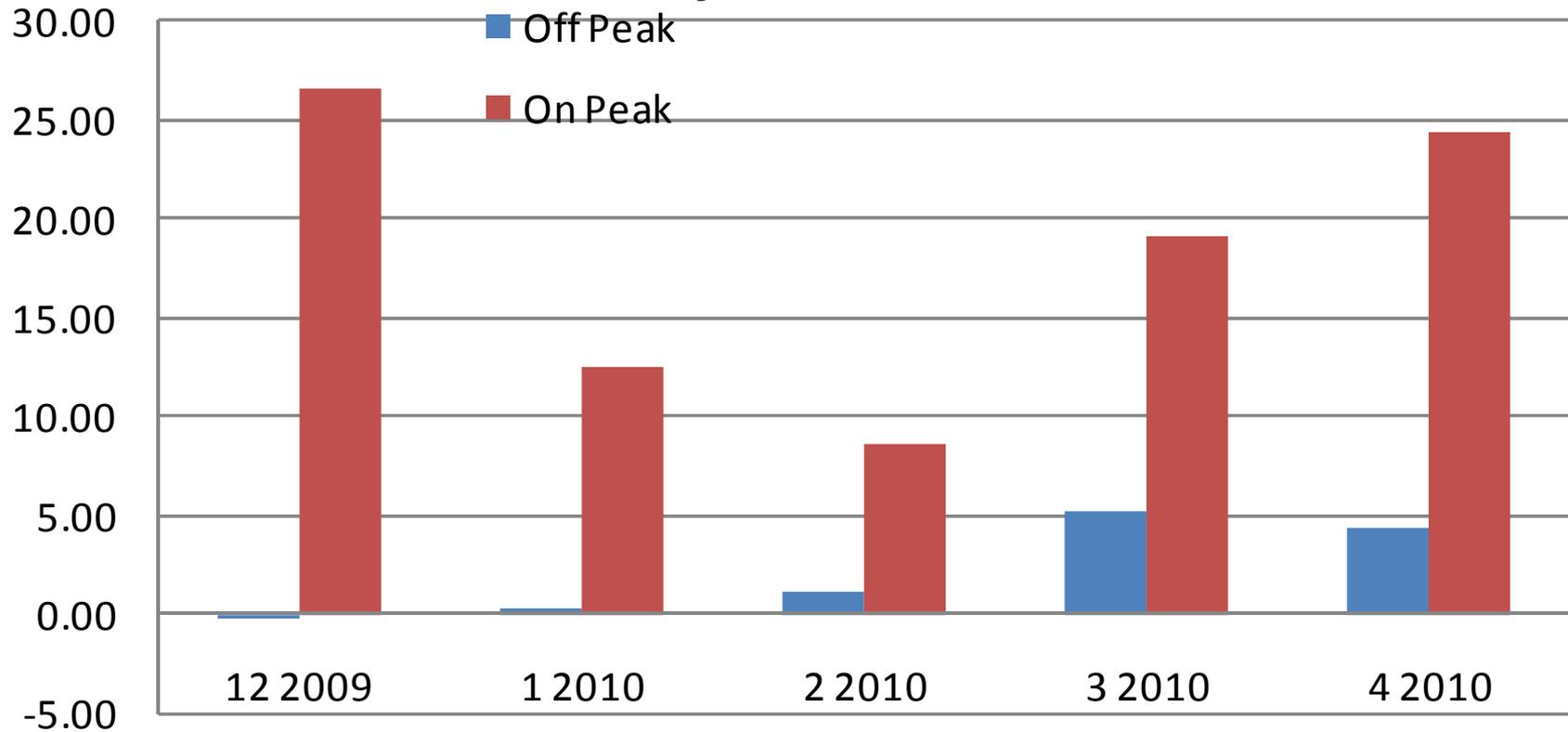
May and June Fix for Float

- Two Bids
 - Cargill
 - Fixed Price to Escanaba Node
 - AEP
 - Priced at Michigan Hub

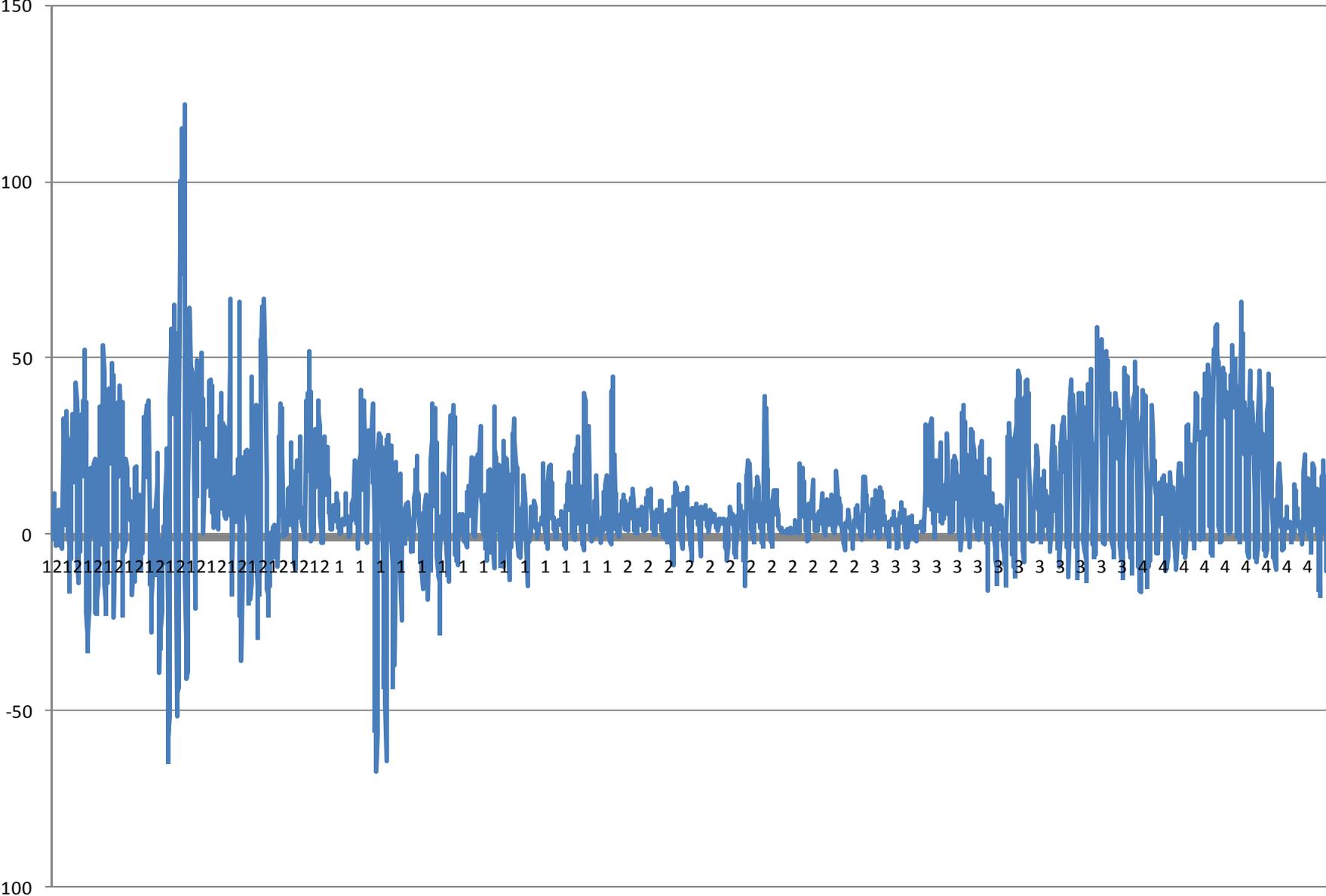
What is Michigan Hub Basis?

- Cost to Deliver from Michigan Hub-Escanaba
 - Michigan Hub is Combined Node for Trading
- Varies Hourly with DA LMP

Michigan Hub - Escanaba - Delivery Cost \$/MWh



Mich Hub - Escanaba Basis Hourly \$/MWh



Pricing to Escanaba Node

- Concern over high delivery costs
- Mid March to Mid April – very high
- Most recent costs are more settled down
- Object of Fix for Float is to reduce exposure to variable pricing
- AEP 2 Month Offer Doesn't Provide Price Certainty
 - Three Year Deal is Priced to Escanaba Node

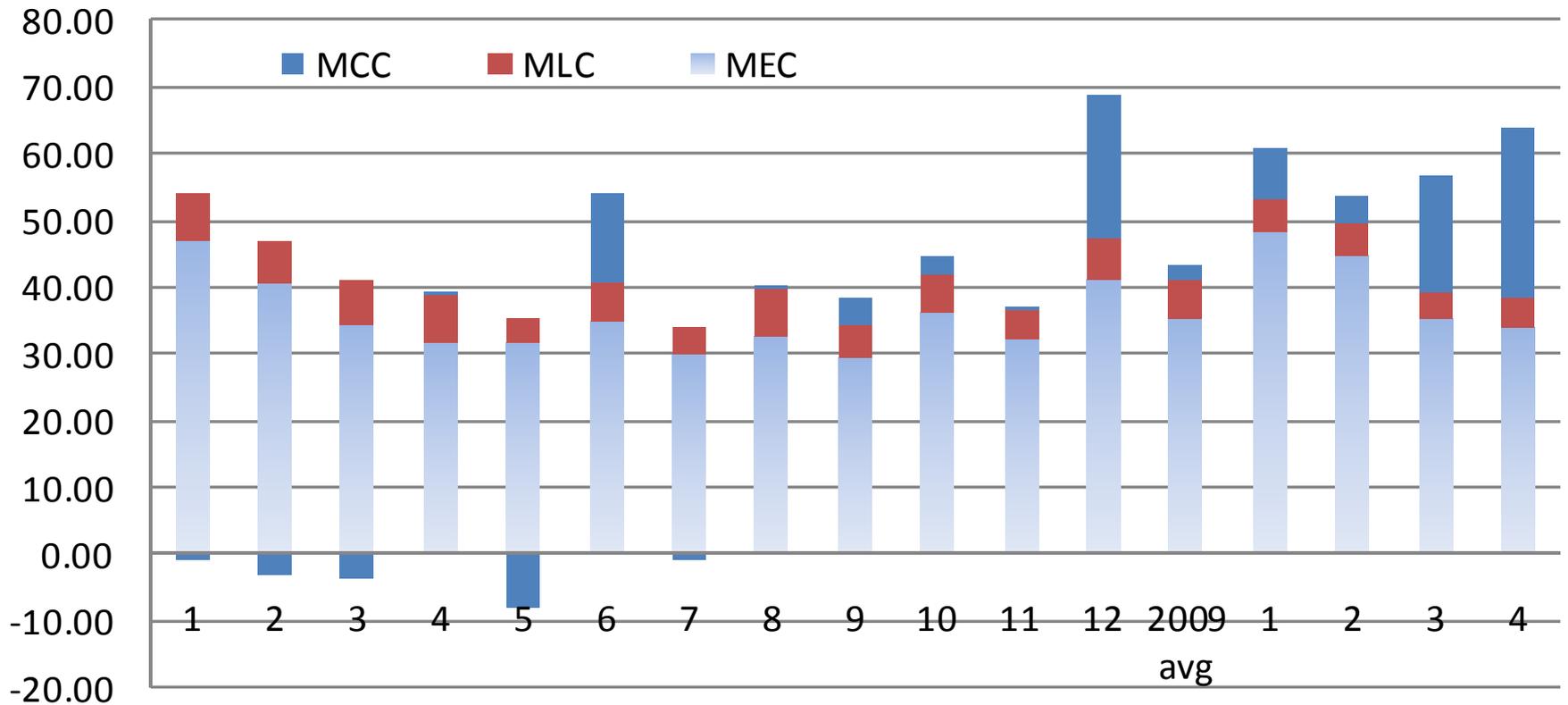
Cargill Bid

- Fixed Prices
- May and June
- Fairly Attractive Pricing
 - \$2 Higher than April Pricing

May and June Pricing Projection

- Start with Historical Data
- Add Congestion Component
- Evaluate on and off Peak

UPPC Esc On Peak Avg By Component



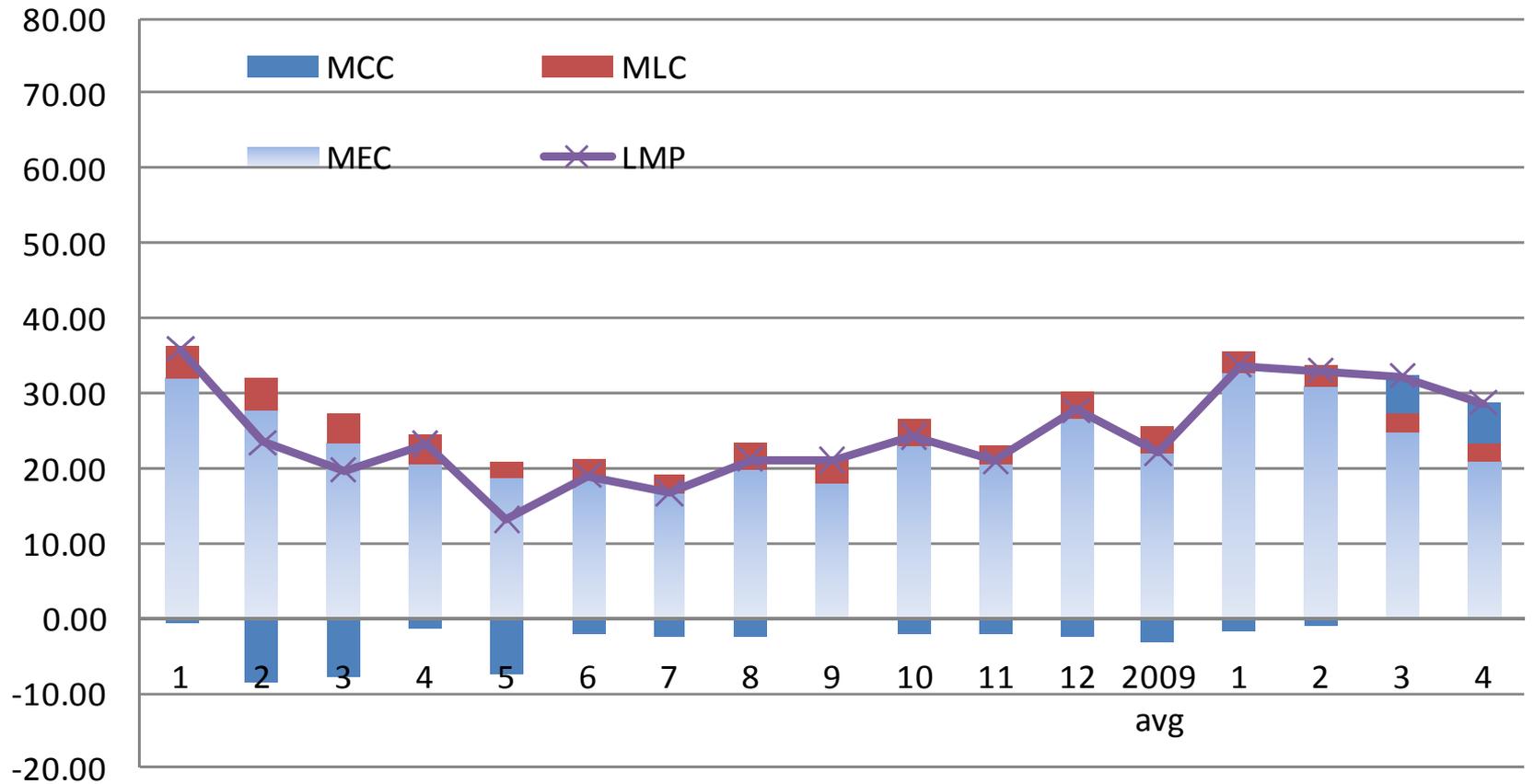
May June LMP Estimate

- $LMP = MEC + MLC + MCC$
- MEC
 - Fairly Stable Pricing
 - \$31-33/MWh
- MLC
 - \$3.5-5.0/MWh
- MCC
 - Much More Uncertain
 - \$20-25/MWh

LMP Total (On Peak)

- LMP Total
 - \$31-33 (MEC) + \$3.5-5 (MLC) + \$20-25 (MCC) = \$54.50-63.00/MWh
 - Current Bid \$55.00/MWh

UPPC Esc Off Peak Avg By Component



LMP Total (Off Peak)

- LMP Total
 - \$20 (MEC) + \$2.40 (MLC) + \$5 (MCC)
=\$27.40/MWh
 - Current Bid \$34/MWh

May and June FfF Decision

- Agree to Prices to Reduce On Peak Uncertainty?
- Live with higher off-peak Price?