

OFFICIAL PROCEEDINGS
CITY COUNCIL
ELECTRIC ADVISORY BOARD
CITY OF ESCANABA, MICHIGAN
Special Joint Meeting
Wednesday, October 14, 2009

Pursuit to a special meeting posted September 11, 2009, the meeting was called to order by the Mayor Leo J. Evans at 6:00 p.m. in the Council Chambers of City Hall located at 410 Ludington Street.

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

Electric Advisory Board Members: Larry Arkens, Walter Baker, Ronald Beauchamp, Ann Bissell, Glendon Brown, Tim Wilson, and Don Racicot.

Absent: Electric Advisory Board Member John Mellinger

Also Present: City Manager James V. O'Toole, and Electric Superintendent Mike Furmanski, Consultant Tom Butz of Power Systems Engineering (PSE), members of the public, and media.

UNFINISHED BUSINESS - None

NEW BUSINESS

Update – Electric Department.

Electric Superintendent Mike Furmanski provided an overview and status report on activities and issues concerning the Electric Department, information which was provided in a memo to the Committee dated October 14, 2009, Issues and Answers.

Update – Power Plant.

Power Plant Manager Jerry Pirkola and Electric Superintendent Mike Furmanski provided a review and status report on activities and issues concerning the Escanaba Generating Power Plant, its power purchases, and operation budget.

Management Briefing – Request for Proposal – All Requirements Purchase Power.

Administration updated City Council, Electrical Advisory Committee and Citizens in attendance on the status of the All Requirements Purchase Power Request for Proposal(s). On September 28, 2009, seven (7) provider proposals were submitted to the City of

Escanaba for consideration. The City of Escanaba requested proposals from electric suppliers to provide both firm power and load following requirements commencing no later than July 1, 2011. PSE consultant Tom Butz presented a power point presentation entitled, Escanaba Plant Sale and Purchase Power Initial Evaluation. (See attachment – A)

Management Briefing – Request for Proposal – Sale of Steam and/or Combustion Turbine Generation Facilities.

Administration updated the City Council, Electrical Advisory Committee and Citizens in attendance on the status of the Sale of Steam and/or Combustion Turbine Generation Facilities Request for Proposal. The City of Escanaba requested proposals from entities with an interest in continuing the operation of the generation facilities and maintaining as much continuity of employment as possible. PSE consultant Tom Butz presented a power point presentation entitled, Escanaba Plant Sale and Purchase Power Initial Evaluation. (See attachment – A). The following items were discussed:

- Suggested an meeting in two weeks for an update on the analysis of the two RFP's;
- RFP's would be run through task committee's before an joint meeting was scheduled;
- Electric Superintendent Mike Furmanski was directed to schedule meetings of the task committee groups;
- Suggested bringing in another entity to also review the data besides PSE consultant Tom Butz due to the complexity and magnitude of the decision;
- Mr. Butz suggested Ventex, or other individuals from his firm, to provide marketing and analysis tools, but was concerned with the time frame;
- Suggested the item, to bring in another entity to also review the data, be a topic for discussion for the October 28th meeting;
- The evaluation process for choosing who to buy energy from should include a screening of the companies, long-term and short-term contract advantages, pricing, and the cost approach used to determine pricing;
- Mr. Butz recommended that the best scenario for the City was to purchase low-cost power in the first five years and then later buy biomass-fueled energy;
- It was suggested the Task subcommittees of the advisory committee meet with City Administration and PSE Consultant Butz to obtain more detailed information to analyze and narrow the proposals down;
- The Council directed Administration schedule and post a joint meeting of the Council and Electrical Advisory Committee for October 28, 2009, at 6:30 p.m. to continue to discuss both the power purchase proposals and the plant sale proposals.

Management Briefing – Termination of the UPPCO Buy-Back Agreement.

The Upper Peninsula Power Company terminated the UPPCO Buy-Back Agreement, effective December 1, 2009. This was the sister agreement to the Rate Schedule 59 Agreement that was terminated by UPPCO last month. The agreements were no longer

needed in that the City has filed an application with MISO to become a Market Participant. Administration updated City Council, Electrical Advisory Committee and those in attendance on the pending action. After discussion, it was determined no action needed to be taken by the members.

Management Briefing – MISO Market Participant Energy Services Agreement.

Administration updated City Council, Electrical Advisory Committee and those in attendance on the status of the Energy Services Agreement that was negotiated between the City of Escanaba and UPPCO. An Energy Services Agreement was needed so UPPCO could act as the City of Escanaba agent in the MISO market.

- As suggested by Council, services were sought. Administration recommended UPPCO act as the City of Escanaba agent in the MISO;
- UPPCO costs were \$10,000 start-up fee, \$5,300 per month for the service;
- City Attorney had reviewed the agreement.

After further discussion, the motions were made;

Wilson moved, Baker seconded, **CARRIED UNANIMOUSLY**, to recommend to the Escanaba City Council approval of the MISO Market Participant Energy Services Agreement negotiated between the City of Escanaba and UPPCO.

Cheves moved, Nelson seconded, to approve a recommendation from the Electric Advisory Committee a MISO Market Participant Energy Services Agreement negotiated between the City of Escanaba and UPPCO, so UPPCO could act as the City of Escanaba agent in the MISO market.

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

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

MOTION CARRIED.

Management Briefing – Phase I Environmental Site Assessment – Power Plant Property.

Administration updated the City Council, Electrical Advisory Committee and those in attendance on the status of the Phase I Environmental Site Assessment on property located at or around the Escanaba Power Plant (40 acres +/-). City Manager O'Toole advised the Phase I Environmental Site Assessment would be funded through the Delta County Brownfield Redevelopment Authority.

Discussion/Approval – Professional Services – Power System Engineering – Power Option Analysis.

Administration sought Council approval to extend the professional services agreement with Power System Engineering, Inc. of Madison, Wisconsin, in an amount not to exceed \$35,000 for the continuation of PSE's assistance in moving the Escanaba Energy Plan forward. Additional services were needed for the continued analysis of the recently submitted All-Requirements Power Purchase Proposals, Sale of Steam and/or Combustion Turbine Generation Facilities Proposals, and the Midwest System Operator Market Participation Membership Process.

Baker moved, Arkens seconded, **CARRIED UNANIMOUSLY**, to recommend to the Escanaba City Council approve an extension of the professional services agreement with Power System Engineering, Inc. of Madison, Wisconsin, in an amount not to exceed \$35,000 for the continuation of PSE's assistance in moving the Escanaba Energy Plan forward, term to end December 31, 2009.

Cheves moved, Nelson seconded, to grant an extension of the professional services agreement with Power System Engineering, Inc. of Madison, Wisconsin, in an amount not to exceed \$35,000 for the continuation of PSE's assistance for the continued analysis of the recently submitted All-Requirements Power Purchase Proposals, Sale of Steam and/or Combustion Turbine Generation Facilities Proposals, and the Midwest System Operator Market Participation Membership Process, term to end December 31, 2009.

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

Ayes: Cheves, Nelson, Warstler, Baribeau, Evans

Nays: None

MOTION CARRIED.

Hearing no public comments or further reports from the Electrical Advisory Committee and Council, the meeting adjourned at 7:46 p.m.

Respectfully submitted,

Robert S. Richards, CMC
City Clerk

Approved: _____
Leo J. Evans, Mayor

Escanaba Plant Sale and Purchase Power Initial Evaluation

Tom Butz

Power System Engineering

October 14, 2009

Areas to Discuss

- Generation Sale Proposals
- Energy Purchase Proposals
- Initial Characterizations of Proposals
- Leanings at This Point
- Detailed Evaluation Needed
- Conclusions

Generation Sales Proposals

- Parties Providing Notice of Intent to Bid
 - Traxys (White Pine)
 - DTE Energy Services
 - Avant Energy
 - Rockland Capital
- Proposals Received
 - Traxys (White Pine)
 - DTE Energy Services
 - Rockland Capital

Party 1 Plant Purchase

- Formed Escanaba Electric Company, LLC
- Desire Purchase of Steam and CT Units
- Willing to Purchase Plant w/out Selling Power to Escanaba
- Goal of Converting to Closed Loop Biomass
 - 30 Acre Test Plot Near Skandia
 - Seek Minimum Impact on Paper Mill Wood Source
- Require Time to Conduct Phase 1 and 2 Baseline Environmental Assessment

Party 1 Plant Purchase (Continued)

- First Right of Refusal for EED to buy if intent to sell plant within 20 years
- Coordinate with EED on the Phase 1 and Phase 2 cleanups
 - If results are shared, it removes time requirement
- Party will consider being responsible for costs for site clean up, permitting
- Requires 203 and 205 filings with FERC

Party 1 Plant Purchase (Continued)

- Combustion Turbine
 - Low Market Value for Capacity
 - Consider conversion to biodiesel
- Staffing
 - Hourly - Option of Reverting to UPPCO or join union workforce
 - Management – Absorbed if meet Requirements
- Fuel
 - Mix of Green Chips, Wood Waste, Tire Derived Fuel

Party 1 Plant Purchase (Continued)

- Qualifications
 - Developed other Plants
 - White Pine, L'Anse, K.I. Sawyer(developing)
 - Commitment to Continued Operation
 - Shown by 2 current Plants, and 1 New Plant
- Requirements of EED
 - Assignment of permits, Riess Dock Contract, and Interconnection
 - Continued Maintenance
 - Share BEA

Party 2 Plant Purchase

- Vision of Plant Conversion to Biomass
- Experience in Similar Sized Plant Conversion
- No Interest in Combustion Turbine
- Long-term commitment to plant operation
- Once Decision is Made -
 - Sign Letter of Intent
 - Seek Sale of Plant Energy
 - Fuel Due Diligence

Party 3 Plant Purchase

- Interested in both steam units and Combustion Turbine
- Required Purchase Power Agreement
 - Sell to City at Cost for Energy, 90% of Fixed Costs, and a return on Capital Investment

Criteria of Generation Evaluation

- Price
 - Not a major Criteria – 10 points
- Sale of Power (if required) is secured
 - Very Important - 50 Points
- Financial viability of organization
 - Very Important – 50 Points
- Environmental Cleanup, Cost Sharing, and Future Liability
 - Very Important 50 points
- Expected Public acceptance of plant usage
 - Extremely Important – 80 Points
- Viability of Business Plan
 - Good deal, but will Party go Broke? – 40 Points
- Experience in Plant Development and Operations
 - Shows Ability to Develop Projects – 50 Points

Generation Decision Approach

- Generation Sale
 - Decide to Screen Any Out at This time?
- Chose Preferred Party Based on Information known?

Purchase Power Evaluation

- Initial Phase of Screening Information
- Pricing Based on Annual Load Factor
- Decision of Long-term vs. Short-term
- Decision of Market vs. Formula Approach

Purchase Power Proposals

- American Electric Power
- Great Lakes Utilities
- Minnesota Power
- Traxys
- UPPCO
- WPS
- WPPI
- WE Energies

Party 1

- Five Year Transaction
- Purchase as Same Rate as other Members
- EED shares in congestion up to 5% of cost from source node to Escanaba Node
- EED pays marginal losses to Escanaba Node
- Credit for Combustion Turbine Capacity
- No Information Yet on Prices

Party 2

- Group of Wisconsin Municipal Utilities
- Flexible Membership Options
 - Full Requirements, Partial Requirements
- Bring into combined load zone
- Up to 10 Year Transaction
- Projection of Costs Based on Contracts and Member Generation
- Credit for Combustion Turbine Capacity
- Very Competitive Cost Projection – Pricing Set by Board
- Delivered to Escanaba Node – MISO Agent to EED

Party 3

- Short Term Proposal
 - Discounted Formula Based Rate
 - 40% reduction in Demand Charge
 - Must be unbundled from any long-term obligation
- Longer Term Proposal
 - Formula Based Rate
- Capped Basis Risk from Supplier Load Nodes
- Middle of the road on pricing
- Peak Coincident with supplier

Party 4

- Formula Rate
- 10 Year Cost Projections
- High Demand Charges, Lower Energy Charges
- Loss and Congestion Costs to Escanaba Node
- Prices Similar to Previous Proposals

Party 5

- Formula Rate
- 10 Year Cost Projections
- High Demand Charges, Lower Energy Charges
- Loss and Congestion Costs to Escanaba Node
- Prices Similar to Previous Proposals

Party 6

- Formula Based Rate
- Decreasing Load Increased Fixed Costs
- Marginal Loss and Congestion to EED Node
- Rate is not as attractive as previous analysis

Party 7

- Proposed a 3 year Transaction
- Fixed price to the Escanaba Node
- Pricing is Fairly Attractive

Party 8

- Fixed Price Proposal for 10 yrs
- Lower Carbon Emissions – assume no carbon risk
- Offer dependent on sale of plant to this party.

Purchase Power Proposals – Future CO₂ Cost Risk (\$/MWh)

CO ₂ Cost \$/ton					Self- Generate
15	13.65	7.58	10.95	12.94	20.17
30	27.30	15.15	21.90	25.87	40.34
45	40.95	22.73	32.85	38.81	60.51
60	54.59	30.31	43.80	51.75	80.68
80	72.80	40.43	58.40	69.01	107.57
100	91.00	50.50	73.00	86.23	134.47

Decision Approach

- Proposals allow for Separation of Generation and Purchase Power
- Open Opportunities
 - Formula Based Purchases
 - WE Energies
 - UPPCO and WPS
 - Minnesota Power
- Immediate Opportunities
 - WPPI AEP
 - GLU Traxys

Purchase Power Decision

- Pricing
 - Fixed vs. Formula
 - Reliance and comparing Projections
- Decision Timeframe
 - Limited Availability vs. Open offer
- Carbon Issue
 - All but one purchase power proposal has fairly high carbon emissions
 - Low Carbon emission proposal has higher prices, but not high if cap and trade is implemented.

Next Steps

- Plant Sale
 - Find out More Information
- Purchase Power
 - More Detailed Analysis
- Consider Phased Approach
 - Lowest Price for 5 years
 - Switch to very low Carbon Emissions in year 6