Electric Advisory Committee

MEETING AGENDA

Meetings: 2nd Wednesday of Month
6:00pm

Ronald Beauchamp-Chairman
John Mellinger-Vice Chairman
Larry Arkens, Committee Member
W.A. "Pete" Baker, Committee Member
Ann Bissell, Committee Member

Glendon Brown, Committee Member
Tim Wilson, Committee Member
Michael Furmanski-Electric Superintendent
Gilbert X. Cheves- City Council Liaison
Don Racicot-Plant Employee

City Hall-410 Ludington Street-Room C101 - Escanaba, MI 49829

Electric Advisory Committee

Wednesday, June 10, 2009, 6:00pm

CALL TO ORDER
ROLL CALL
APPROVAL/CORRECTION(S) TO MINUTES
Minutes from 05/12/09 meeting
APPROVAL/ADJUSTMENTS TO THE AGENDA
CONFLICT OF INTEREST DECLARATION

UNFINISHED BUSINESS-NONE

NEW BUSINESS

1. **Election of Officers**
   In accordance to past practice of the Electric Advisory Committee election of officers takes place at the June meeting.

2. **Update-Electric Department**
   Administration will provide an overview and status report on activities and issues concerning the Electric Department including current coal issues.

3. **Update-Power Plant**
   The Escanaba Generating Plant operator will provide an overview and status report on activities and issues concerning the Power Plant.

4. **Plant Lay-up Procedure**
   Administration will lead discussion on factors to be considered for taking a plant off line.

5. **Update- P.A. 141**
   Administration will lead discussion on P.A. 141 which deals with the customer choice for electric energy provider

6. **Update-Short Term Power Proposal**
   Administration will provide an update on the short term power purchase options.

7. **Update-Baseline Environmental Assessment**
   Administration will provide an update of where the City is at with the Baseline Environmental Assessment (BEA).

8. **Update-Annual Electric Utility Report**
   Administration will lead discussion on the creation of an electric utility report to be provided to customers on a yearly basis.

GENERAL PUBLIC COMMENT
ANNOUNCEMENTS - COMMITTEE MEMBERS/ADMINISTRATION
ADJOURNMENT

The City of Escanaba will provide all necessary, reasonable aids and services, such as signers for the hearing impaired and audiotapes of printed materials being considered at the meeting to individuals with disabilities at the meeting/hearing upon five days notice to the City of Escanaba. Individuals with disabilities requiring auxiliary aids or services should contact the City of Escanaba by writing or calling at (906) 786-9402.

Respectfully Submitted,

Ron Beauchamp
Chairman, Electrical Advisory Committee

ELECTRIC ADVISORY COMMITTEE
05/12/2009

The regular meeting of the Electric Advisory Committee was called to order at 6:00pm by Chairman, Ron Beauchamp, in Room 102 of City Hall.

Present: Larry Arkens, Pete Baker, Ron Beauchamp, Ann Bissell, Glendon Brown, John Mellinger, Tim Wilson

Absent: None

Also Present: Mike Furmanski-Electric Superintendent, Jerry Pirkola-Power Plant Superintendent, Gil Cheves-Council Liaison

Approval/Corrections to the Minutes:

Pete Baker made a *Motion to accept the minutes of the 04/08/2009 regular meeting and the 04/15/2009 and 04/28/2009 Town Hall meetings as presented. Motion was seconded by Arkens and CARRIED UNANIMIOUSLY.*

Baker said he would like to comment that the minutes taken were outstanding and he would like to acknowledge Carol DeShambo on the job she does in taking them.

Approval/Adjustments to the Agenda:

Tim Wilson made a *Motion approve tonights agenda as presented. The motion was seconded by Arkens and CARRIED UNANIMOUSLY.*

Conflict of Interest Declarations:

None

OLD BUSINESS:

Power Purchase History

Furmanski went over handouts that were presented to committee members at the April meeting regarding the summary of power purchases, comparison of KWH production to sales, and the history of KWH purchases and sales. Handouts are **ATTACHMENT A** to minutes-4 pages.

NEW BUSINESS:

Update-Electric Department

Furmanski offered the following departmental update to the Electrical Advisory Committee.

1. New Development. The following work has been started and/or completed:
   a. New meter tester
   b. Removed temporary service at U.P. State Bank
   c. Temporary service at Taco Bell

2. Distribution System Upgrades/Maintenance. The following upgrades or maintenance needs have been completed on the electrical distribution system:
   a. Tree Trimming
   b. Pole changeouts

Furmanski also went over the NYMEX Look-Alike index for coal prices which members received in their packets. Prices are down considerably from a year ago at this time, but recently there has been a little bit of an increase. Brown commented that an article he had just recently read pointed out that China is now the world's largest consumer of coal, accounting for approximately 1/3 of the amount of coal used.

Update-Power Plant

Jerry Pirkola present the following report to committee members:

The Unit 2 major overhaul is continuing through May. Upon discovery of the additional stack repairs, reassembly of the turbine is being done on straight time. It is estimated the overhaul will be complete by the end of May. Turbine rotor is in place and generator rotor was received today and will completed this week.

Unit 2 Stack update: The stack was UT tested after the old gunite was removed and sandblasting completed. There is significant metal loss from the 70 foot level to the top (150 foot level). The structural engineering report recommends replacing or repairing the upper 80 feet of the stack. Bid requests were solicited and are due today.

We continued to purchase peak time power through April in the MISO Day Ahead market. The Day Ahead purchases averaged $41.64/MWhr and the Real Time purchases averaged $24.34/MWhr.

2550 tons of coal were burned in April leaving approximately 29,000 tons of compacted West Ridge coal on the dock. Since Unit 2 will most likely be down through June, the West Ridge coal will last through September. The first 2009 coal cargo was received on April 16 totaling 19,700 tons. The second coal cargo is due next week. As of today, there is approximately 48,000 tons of coal on the dock.

Operating and Maintenance costs for March are close to that estimated. Fuel costs continue to be lower than expected because we purchased more economical power than the estimate. The year to date Plant overall operating costs are below budget mainly due to lower A&G costs and lower fuel costs.

The Combustion Turbine has not operated yet in 2009, last operated in December 2008 for emissions testing.

Baker requested a clarification of energy purchased and cost/Mwh with the March numbers as well as the production costs.

Baker then asked if the plant kept a daily record of the purchases. Pirkola said a spreadsheet was kept of the purchases on both the scheduled and unscheduled power and the prices that averaged on the previous hour on the real time market. It is updated every 5 minutes and averaged for the previous hour.

Bissell questioned why the large difference on production costs going from $61 back in July of 2008 to $120 now in March. Pirkola said production costs in March are higher due to the maintenance outage and also because of less Mw produced.

Brown suggested that we have been using this report for some time now and maybe Jerry could look at how this report could be modified some to reflect the fact that we are now purchasing more power than we are producing.

Brown questioned that with Unit 2 down at this time, where are we at in our environmental reporting. Pirkola said that we are continuing to do the reports. With the opacity we are continuing to do the reporting but we are reporting the down time on the unit, and nothing has changed with the water permits.

Brown commented that he has talked with a past EAC member, Sonja Skerbeck, who has done work with permitting, and she commented that we need to be sure we do the proper reporting so that the regulatory people look at it as being temporarily down or when the time comes to start it up again they may make us look at filing new permits. She also commented that we need to use the right language such as temporarily off line not shut down or mothballed because with the proper language, it indicates to the regulatory people that we will be bringing it back up again.

Brown asked what was being done for maintenance with the steam turbine or some of the major fans such as hand rotations to preventing sagging. Pirkola responded that as far as the turbine goes, the rotor was installed late last week, and during down time, they have the unit on turning gear. He was unsure if the fans have been rotated, however this would be done on a monthly basis, not weekly. He said the fans are also not overly large as in larger plants so they are not as susceptible to warping a shaft. Pirkola said he would check into this with the maintenance people. Brown requested that he do further checking into it as he said there are people in the UPPCO organization with the expertise in this matter from the time they operated the Warden Station and with the down time now at

this plant, we want to make sure we aren't damaging anything by not hand rotating the fans.

Brown commented that he had seen some of the April data from the plant and wanted to compliment Pirkola and the operators. He said City load averaged 15.3MW and that the average generation at the plant has been about 5.4MW. This means that we have purchased 9.9MW on the average which means 65% of the City load was purchased. This shows that they have taken great care in purchasing low cost power for the City.

Baker commented that we are now looking at March data and we are into the month of May. He questioned if it would be possible with the meeting being the 2nd Wednesday of the month that the April data would be available, thus making it a little more current. Pirkola responded that he has some data available by the meeting time, however not all would be available. He said he could compile the information when it becomes available and forward it on. Baker felt it would be helpful so everyone is aware of the important information such as Glendon has just passed on.

Brown asked if the daily log was a spreadsheet and then commented that there are software tools out there and available that would possibly help in the decision making process for the operator and provide them a spreadsheet of how things are moving along hour by hour.

Bissell asked if there had been an issue yet with the landfill in receiving less ash due to a unit being down. Pirkola said he has not heard anything as of yet from them, however it may become an issue.

Brown requested Furmanski or Pirkola to let the group know where we are at with the coal and what we are committed to. Furmanski reported that we now have 49,000 tons on the dock with 20,000 more coming next week for a total of 69,000 tons. The 2009 coal obligation is 60,000 tons for a total then of 129,000 tons. This amount would be good through next summer and into the fall.

Baker questioned if there wasn't any reason that we shouldn't maybe execute a 2010 coal contract with the prices the way they are and start the bidding process right now. He commented when the economy starts to come back up, so will coal prices rise. Furmanski reported that a concern he would have is a problem with storage, however he said we could talk with C. Reiss about more storage space. Another possible concern is with bids out this early, they may add an amount on to possibly cover themselves should there be a rise in price. Baker said he was just interested in possibly putting the bid but not taking delivery until 2010. Brown commented that he felt it really costs us nothing to check into the price through the bidding process.

Energy Option Discussion-Path Forward

Furmanski presented a white paper of **Escanaba Energy Supply Plan Update** which is **ATTACHMENT B** to the minutes.

Beauchamp asked Furmanski if his immediate recommendation was to run the plant as is with 1 unit down. Furmanski said at this time yes, because taking both units would be leaving ourselves wide open with possibly one month's savings being lost in a day. With one unit, we can still buy some in the Real Time Market. Pirkola commented on the vulnerability also and said with even 1 unit on line and only generating at 5.4 megawatts that makes us vulnerable if a storm should come through and we lose transmission, the City would most likely go black. He commented with both units on line and a storm comes throught, the operators can balance City load and if you lose transmission, we would not even notice, the plant would take over. Brown asked how long it would take to get the peaking unit online and Pirkola responded it would be about 10-15 minutes. Pirkola said he thought it could, but was unsure, if the plant could be started up with the peaking unit. Furmanski said that was the plan at one time, but was unsure if it was ever actually tested.

Baker commented on the great job Furmanski had done on the white paper presentation and wondered about the possibility of both units being mothballed and having a wholesale purchase agreement for 5-7MW. He said we still have the the peaking unit should it be needed as well as still being able to purchase in the Day Ahead market and Real Time market. Brown agreed with what Baker was referring to by going out and getting the information on cost to get a wholesale purchase agreement in place for the 5-7MW at which the 1 unit running now is at and then mothballing that unit also. He felt it would be good to get that information and then make a decision.

Mellinger commented on the job Furmanski had done also and asked what he exactly meant by a "state of readiness?" Furmanski said that this meant it could be brought on line in less than 24 hours.

Brown commended the job Furmanski put forth also and said while we explore Baker's request for a wholesale agreement for 5-7MW of power, with the options available at this time, it is clear what we will be doing at least through July. He said with information received then, we can look at it further on a month to month basis. Brown also commented that he would like to know a little more information on if we declare more load to ATC, how does it affect our transmission costs. He also felt we should look more into the network transmission arrangement with ATC and find out costs on this matter. One thing we would have to look at also, he said, is what kind of peak are we going to declare.

Beauchamp questioned if we are going to be looking at the costs on a month to month basis if it is possible to re-evaluate the rates maybe quarterly. City Attorney Peterson said that the City charter provides for the rates to be set only 1 time per year.

Wilson asked if any of the fixed costs are affected by mothballing both units. Furmanski reported that the costs are there no matter what. Brown questioned maintenance costs and Pirkola responded if the units are not running, you will have less maintenance costs.

Furmanski then went over a graph, **ATTACHMENT C**, prepared by member Brown showing the decrease in City load over the last 4 years, and most notably the 10% drop in the first 4 months of 2009 as comparted to the first 4 months of 2008. Baker questioned what contributed to the drop in City load. Dewar advised he would drill a little deeper into the information and provide Furmanski further information that could help answer some questions.

Discussion-Ballot Language-August 4, 2009, Special Election

O'Toole commented that at last week's City Council meeting, Council had directed Administration to come up with ballot language for the August 4, 2009 Special Election and have it ready for the May 21 Council meeting for approval and then filed with the County Clerk by May 26th.

The proposed ballot language reads:

"Shall the Escanaba City Council have the authority to sell the electric utility plant, equipment, and assets including up to 40 acres of real property where said assets are located to another entity for continued plant operations."

Baker made a *Motion to accept the proposed ballot language as recommended and move forward. The motion was seconded by Brown.*

Beauchamp asked if there was any discussion on the matter. Bissell wanted to comment that from the last election, she had heard comments from people that the ballot language was a problem for them. She questioned O'Toole if this language had been shown to any passerbys to get their opinion. O'Toole said yes they had, and there were probably a couple here this evening that could attest to this. She commented that she liked the simplicity of it but was just curious how others had viewed it. O'Toole felt it was clear and concise. Beauchamp asked if anyone would like to hear from the public. Bissell said she would. Baker said he took exception to that as there is a motion on the table and it had been seconded. If the public wanted to comment to the language, they could do so in the public comment portion of the meeting. Beauchamp asked if Bissell would like to make a motion to hear public comment on the issue before we vote. Baker said the original motion is already on the table and seconded to accept the language as recommended. This motion needs to be voted on before another motion can be made. Beauchamp said the committee would go forward with the Motion.

Motion to accept the proposed ballot language as recommended and move forward was made by Baker. Motion seconded by Brown.

Ayes: Baker, Brown Wilson, Mellinger, Beauchamp, Arkens

Nayes: Bissell

Motion Carried

Public Comment

Don Racicot, power plant employee and spokesperson for the Save Your Power Plant Committee came to the podium and said he and others were involved in the wording of the ballot language for the August 4th election. He said the language is endorsed whole heartedly and addresses almost all the aspects opposed to in the language from the May 5th election.

John Anthony, representative of the Energize Escanaba committee, came to the podium and said they represent the move to find reliable and low cost power and felt a 20% increase would be an economic hardship for many. He expressed that he felt the current ballot language is positive and lets us move forward.

Brad Mantela, vote yes committee member and business owner, thanked the EAC for moving forward on the matter. He questioned Manager O'Toole that once the rates were set for July, could anything be done to adjust those rates later in how they were billed or charged, if power should become less like with a short term agreement. O'Toole commented that between now and June1st, Administration would be coming up with a strategy and be looking at those issues.

Brian Hart, plant employee, came to the podium and asked if you mothball the plant, can Mr. Anthony and his business or any other business people, needing reliable power, can they afford the amount of time, 15-20 minutes, it takes for the peaking unit to come back on line.

Don Racicot said he was under the impression that in order to purchase in the day ahead and real time purchaser, you had to be a power producer at the time.

Racicot commented that the CT is MISO dispatched. He asked if a review has been done of the MISO agreement that this board approved 4-5 years ago. At that time, the CT could run only if MISO dispatched. He wondered if things had changed where it could be taken out of MISO and run when needed for the City.

Racicot also commented on Furmanski's comments of running 1 unit and said for reliability that UPPCO's current practice during severe weather either summer or winter has been to run within 4-5MW of City load should a problem occur on the transmission system. These things need to be considered.

Brown commented that we should not overplay the reliability issue. There are several cities in the area served by transmission and what businesses are affected by most is the cost of power, not reliability.

Mellinger commented that he sent a memo around last week concerning his position of the City taking on the responsibility of signing the DEQ reports.

O'Toole said they are looking into the situation. The state law says the responsibility is to the owner of the plant. He said we are checking to see if that can be transferred on to someone else, ie-plant operator.

Baker requested Furmanski look into the matter of purchasing power even if we are not producing power. Aren'nt we still a power producer even though we may be mothballing it for a time. He commented that we would not want to do anything that would jeopardize our businesses or citizens.

Announcements-Committee Members/Administration

Bissell wanted to comment that she wanted to clarify that her no vote was not because of her disapproval of the ballot language, but that she was unhappy that public comment was not allowed before voting on it.

O'Toole announced a joint EAC/City Council meeting on Monday, May 18th at City Hall at 6:00pm for a round table discussion of these issues

Meeting adjourned: 7:30pm

APPROVED:

_____ _____

RON BEAUCHAMP, CHAIRMAN MIKE FURMANSKI, ELEC. SUPT.

ATT A

CITY OF ESCANABA

Comparison of KWH Production to Sales

2006/07	July	August	September	October	November	December	January	February	March	April	May	June	TOTAL
Production-Plant	13,471,150	12,436,420	12,848,250	12,890,840	12,391,940	12,117,228	13,961,260	13,204,820	8,072,920	12,172,720	8,146,870	5,856,760	137,570,178
Production-CT	719,671	195,551	544,909	1,983	(36,584)	93,174	(25,979)	93,664	64,740	167,619	866,461	106,598	2,789,807
Purchases	1,530,200	1,229,586	984,220	902,200	896,800	1,520,700	1,186,900	457,500	5,350,300	453,300	4,314,300	6,893,400	25,719,506
Total Available	15,721,021	13,861,557	14,377,379	13,795,023	13,250,256	13,731,102	15,122,181	13,755,984	13,487,960	12,793,639	13,327,631	12,856,758	166,079,491
Utility Sales	13,185,131	14,016,479	14,087,823	12,900,847	12,183,388	12,878,103	13,568,470	14,170,619	12,566,221	12,954,068	11,165,318	11,460,953	155,137,420
Dusk to Dawn													551,206
Economy Sales	938,350	267,300	610,000	333,300	326,600	266,810	90,300	389,250	172,100	373,500	993,550	114,100	4,875,160
Total Sold	14,123,481	14,283,779	14,697,823	13,234,147	12,509,988	13,144,913	13,658,770	14,559,869	12,738,321	13,327,568	12,158,868	11,575,053	160,563,786
Overage(Shortage)	(1,597,540)	422,222	320,444	(560,876)	(740,268)	(586,189)	(1,463,411)	803,885	(749,639)	533,929	(1,168,763)	(1,280,705)	(5,515,705)
CUMULATIVE	(1,597,540)	(1,175,318)	(854,874)	(1,415,750)	(2,156,018)	(2,742,207)	(4,205,618)	(3,401,733)	(4,151,372)	(3,617,443)	(4,786,206)	(6,066,911)	

15.5%

2007/08													
Production-Plant	6,300,950	8,833,970	11,095,820	13,515,550	12,105,870	12,749,670	15,606,200	13,461,570	9,051,530	11,685,720	11,269,050	11,936,480	137,612,380
Production-CT	654,414	688,292	23,912	33,642	81,478	131,475	196,090	38,763	123,725	47,498	580,976	319,987	2,920,254
Purchases	7,388,100	5,551,600	1,039,300	732,700	815,200	731,100	510,400	680,000	3,856,917	1,151,700	1,134,000	1,426,100	25,017,117
Total Available	14,343,464	15,073,862	12,159,032	14,281,892	13,002,548	13,612,245	16,312,690	14,180,333	13,032,172	12,884,918	12,984,028	13,682,567	165,549,751
Utility Sales	12,290,750	13,577,369	12,928,646	12,556,281	12,590,135	12,602,048	13,617,945	13,584,338	12,853,634	11,835,607	12,037,182	11,873,417	152,347,352
Dusk to Dawn													537,120
Economy Sales	660,300	738,250	160,500	580,700	439,800	725,900	863,900	639,500	162,300	126,000	1,127,900	331,400	6,556,450
Total Sold	12,951,050	14,315,619	13,089,146	13,136,981	13,029,935	13,327,948	14,481,845	14,223,838	13,015,934	11,961,607	13,165,082	12,204,817	159,440,922
Overage(Shortage)	(1,392,414)	(758,243)	930,114	(1,144,911)	27,387	(284,297)	(1,830,845)	43,505	(16,238)	(923,311)	181,054	(1,477,750)	(6,108,829)
CUMULATIVE	(1,392,414)	(2,150,657)	(1,220,543)	(2,365,454)	(2,338,067)	(2,622,364)	(4,453,209)	(4,409,704)	(4,425,942)	(5,349,253)	(5,168,199)	(6,645,949)	

15.1%

2008/09													
Production-Plant	12,686,590	11,929,230	11,995,480	11,209,800	9,746,770	11,890,200	10,960,550	9,024,710	0	0	0	0	89,443,330
Production-CT	335,475	343,216	3,608	(8,233)	53,627	475,864	(55,294)	(40,150)	0	0	0	0	1,108,113
Purchases	1,699,400	1,742,300	1,582,500	1,548,100	2,118,200	2,645,520	2,891,000	2,982,220	0	0	0	0	17,209,240
Total Available	14,721,465	14,014,746	13,581,588	12,749,667	11,918,597	15,011,584	13,796,256	11,966,780	0	0	0	0	107,760,683
Utility Sales	11,977,540	13,251,649	12,331,390	13,015,770	10,319,808	13,220,256	14,496,282	11,826,814	0	0	0	0	100,439,509
Dusk to Dawn													0
Economy Sales	628,900	439,500	95,600	64,300	89,500	544,420	9,700	300	0	0	0	0	1,872,220
Total Sold	12,606,440	13,691,149	12,426,990	13,080,070	10,409,308	13,764,676	14,505,982	11,827,114	0	0	0	0	102,311,729
Overage(Shortage)	(2,115,025)	(323,597)	(1,154,598)	330,403	(1,509,289)	(1,246,908)	709,726	(139,666)	0	0	0	0	(5,448,954)
CUMULATIVE	(2,115,025)	(2,438,622)	(3,593,220)	(3,262,817)	(4,772,106)	(6,019,014)	(5,309,288)	(5,448,954)	(5,448,954)	(5,448,954)	(5,448,954)	(5,448,954)	

16.1% Does not include March.

CITY OF ESCANABA

Detailed Summary of Power Purchases

July, 2006 to June, 2009

U:\123R3\ELECTRIC\PowerCosts\200809\CostOfPurchasedKWh

		KWh	Power Cost	Capacity Charge	True-Up	Customer Charge	Transmission Charge	Ancilliary Charge	Total Cost	Power Cost per KWH	NET Cost per KWH
2007/08											
July	Negotiated	7,388,100	$621,128.13	$36,000.00	($14,904.91)				$642,223.22	0.084071	0.086927
August	Negotiated	4,349,500	377,268.64	31,292.90	0.00				408,561.54	0.086738	0.093933
September		1,202,100	72,451.99		(5,045.69)	1,000.00			68,406.30	0.060271	0.056906
October		1,039,300	30,302.25		7,402.49	1,000.00			38,704.74	0.029156	0.037241
November		732,700	21,074.83		(4,120.18)	1,000.00	3,793.90		21,748.55	0.028763	0.029683
December		815,200	21,272.28		(10,256.62)	1,000.00			12,015.66	0.026095	0.014740
January		731,100	27,379.83		(3,519.62)	1,000.00			24,860.21	0.037450	0.034004
February		510,400	19,451.56		5,656.12	1,000.00	1,415.20	51.42	27,574.30	0.038110	0.054025
March		680,000	26,736.20		(282.26)	1,000.00		7,114.53	34,568.47	0.039318	0.050836
April		3,856,917	281,374.11			1,000.00		7,199.54	289,573.65	0.072953	0.075079
May		1,151,700	43,936.19		(194.92)	1,000.00	1,193.70	7,456.50	53,391.47	0.038149	0.046359
June		1,134,000	39,370.32		(122.35)	1,000.00	3,957.00	7,085.34	51,290.31	0.034718	0.045230
		1,426,100	26,217.40		(108.13)	1,000.00		6,216.97	33,326.24	0.018384	0.023369
Year To Date		25,017,117	$1,607,963.73	$67,292.90	($25,496.07)	$11,000.00	$10,359.80	$35,124.30	$1,706,244.66	0.064275	0.068203
2008/09											
July		1,699,400	$65,835.21		($857.06)	$1,000.00	$1,468.80	$7,069.94	$74,516.89	0.038740	0.043849
August		1,742,300	64,965.06		(138.60)	1,000.00	13,387.50	7,703.50	86,917.46	0.037287	0.049887
September		1,582,500	44,067.85		(1.02)	1,000.00	13,447.00	8,633.14	67,146.97	0.027847	0.042431
October		1,548,100	45,476.81		(280.08)	1,000.00	14,459.00	5,716.21	66,371.94	0.029376	0.042873
November		2,118,200	62,658.66		(362.61)	1,000.00	0.00	5,868.26	69,164.31	0.029581	0.032652
December		2,645,520	121,896.02		(476.92)	1,000.00	0.00	6,978.19	129,397.29	0.046076	0.048912
January		2,891,000	102,651.55		(843.68)	1,000.00	80,911.80	8,076.48	191,796.15	0.035507	0.066342
February		2,982,220	73,601.28		(45.31)	1,000.00	8,962.80	1,618.70	85,137.47	0.024680	0.028548
March		0	0.00		0.00	0.00		0.00	0.00	ERR	ERR
April		0	0.00		0.00	0.00		0.00	0.00	ERR	ERR
May		0	0.00		0.00	0.00		0.00	0.00	ERR	ERR
June		0	0.00		0.00	0.00		0.00	0.00	ERR	ERR
Year To Date		17,209,240	$581,152.44	$0.00	($3,005.28)	$8,000.00	$132,636.90	$51,664.42	$770,448.48	0.033770	0.044769

Escanaba Generating Station Actual versus Budget 2008& 2009

OPERATION		JUL	AUG	SEP	OCT 2008	NOV	DEC	JAN	FEB	MAR 2009	APR	MAY	JUN	YTD Total	TOTAL	YTD Diff
City Load	Prev.	13,548	14,134	11,749	13,404	12,268	12,425	15,077	13,029	13,053	12,265	11,574	12,461	118,688	154,987	
(mwhrs)	Est.	13,800	13,800	12,200	12,700	12,700	13,300	14,600	13,100	13,400	12,500	12,500	13,600	119,600	158,200	
	Actual	13,565	12,887	12,994	12,028	11,032	14,078	12,974	11,461	12,590	0	0	0	113,609	113,609	-5,991
Net Generation Stm	Prev.	6,301	8,834	11,096	13,516	12,106	12,750	15,606	13,462	9,052	11,686	11,269	11,936	102,721	137,612	
(mwhrs)	Est.	12,325	12,325	11,125	11,625	11,625	12,225	13,525	12,025	8,525	11,425	11,425	12,125	105,325	140,300	
	Actual	12,687	11,929	11,995	11,210	9,747	11,890	10,961	9,025	6,116	0	0	0	95,559	95,559	-9,766
Energy - Purch $$		64,978	64,826	44,067	45,197	62,296	121,419	102,485	73,486	201,113				779,867	(+) = above budget	
MwHrs		1,699	1,742	1,583	1,548	2,118	2,646	2,891	2,982	6,536				23,746	(-) = below budget	
Cost $/MWhr		38.24	37.21	27.85	29.19	29.41	45.90	35.45	24.64	30.77				32.84		
Energy - Sales $$ STM		28394	7896	5974	3276	794	584	431	16	2067				49432		
MwHrs		286	90	85	64	14	10	10	0	59				618		
Cost $/MWhr		99.25	88.23	70.53	50.95	55.92	59.86	44.41	53.13	34.98				80.03		
Production Costs $/MWhr		61.61	65.63	71.17	85.72	94.73	86.47	79.51	96.94	120.80				81.79		
Total Cost in $/MWhr		60.32	65.17	68.64	83.37	89.27	81.61	75.03	82.75	74.49				75.22		

ATT B

Escanaba Energy Supply Plan Update – May 12, 2009

Michael Furmanski
City of Escanaba
Electric Department Superintendent

Table of Contents

Acknowledgments

All of the information contained in this document related to market pricing, engineering costs, fuel costs and other outsourced services or estimates were solicited from electric industry experts, other utilities, and vendors and suppliers of the Escanaba Electric Department. All the information in this document is presented as the best available information at the time of development of this document.

STATEMENT: The City of Escanaba has been evaluating various power supply options for many years. Concerns about dramatically increasing coal costs have put the issue of power supply options in center stage. The City strives to supply its electrical customers with competitive, economical, reliable power. A ballot referendum which would have granted the Escanaba City Council the authority to sell, lease, and/or dispose of the Escanaba generating station failed recently. The City now needs to consider and evaluate all immediate, short term, and long term options available to meet the electric power needs of the City. This paper will attempt to outline some of the various options available today and in the future.

BACKGROUND: The City purchases power on a daily basis, though it is not through a long term agreement but rather through the Short Term Agreement the City has with UPPCo. This energy is normally purchased under 3 different scenarios:

1) When it is cheaper to buy off the Midwest Independent System Operator (MISO) Real Time (RT) market than to generate power ourselves,

2) Off the MISO Day Ahead (DA) market when we are in a scheduled maintenance shutdown as we typically do each spring, or to control and lock in purchase prices during peak demand periods of the day,

3) When City load exceeds the output capacity of the steam plant, which is 25MW.

All 3 of these scenarios are for energy only, with no capacity attached to it. This is significant as we would be paying more if there was capacity tied to it. The capacity is required by regulatory reporting agencies and is a measure that an electric provider has adequate electricity generation capability. Energy is sold in the wholesale market without capacity, and this is energy that is from another entity that has its own electric capability. This is not a major concern in the current 2009 regional electric market, but is explained here for clarification. A long term full service electric supply contract includes both energy and the capacity guarantees.

HISTORY: Unit #1 was taken down on March 9th, 2009 for its annual maintenance outage. Since that time, we have had 1 or both of the generators down at the plant. The #2 generator was taken down for a major overhaul on March 20th and is still down today. During the time that the plant has been operating 1 generator, we have been able to purchase energy from the MISO market at very reasonable prices.

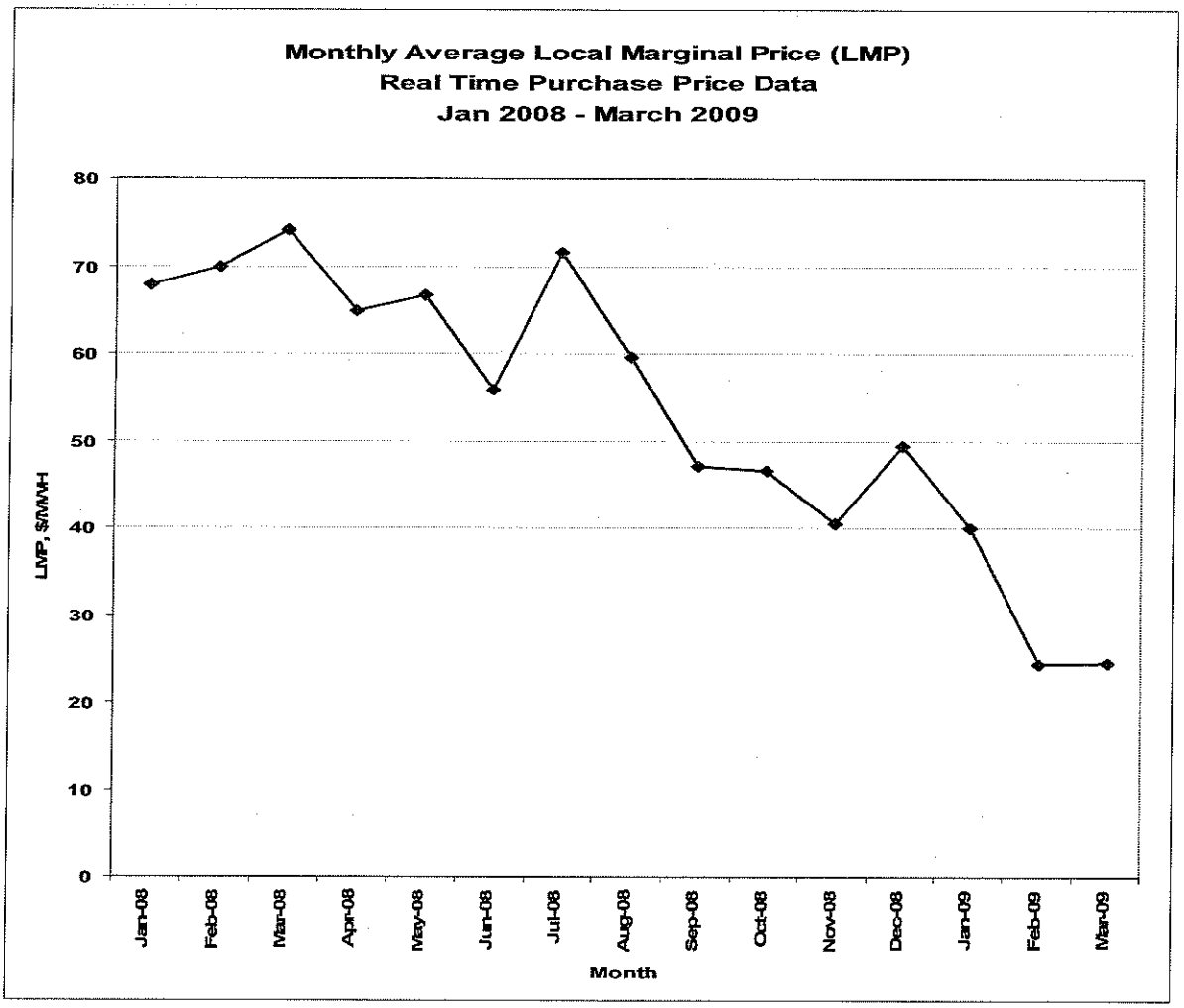
March data:

- Real Time = 4,114.22 MWh for $100,661.21 = $24.47/MWh
- Day Ahead = 2,422 MWh for $101,964.51 = $42.10/MWh
- Total power purchased = 6,536.22 MWh for $202,625.72 = $31.00/MWh
- Transmission charge (peak March 3rd at 17:00, Escanaba load was 4.9MW) = $21,364.70 over 6,536.22 MWh = $3.27/MWh

April data:

- Real Time = 3,773.80 MWh for $91,862.97 = $24.34/MWh
- Day Ahead = 3,388 MWh for $141,092.41 = $41.64
- Total power purchased = 7161.80 MWh for $232,955.38 = $32.53/MWh
- Transmission charge = unknown at this time, estimated to be $60,000 = $8.38/MWh

The following chart shows the average Local Marginal Price (LMP) for energy at the Escanaba Combustion Turbine (CT) node. The prices experienced in February and March 2009 are much lower than the same time period of 2008. They are also much lower than the 15 month average.



The energy prices have trended downward recently due to a variety of factors. Some of the reasons for these historic lows may include:

- Reduced usage at the Cliff's iron mines. The 2 mines have a peak load of approximately 300 MW, while the U.P. as a whole has a peak load of approximately 1100 MW. The reduction in energy consumption at these mines has a large impact on the entire U.P.

- The economic slowdown in the area. Many large manufacturers have slowed their production down, which has reduced the demand for electrical energy, which makes more economical power available more often.
- Increased supply. Wisconsin Public Service brought their Weston 4 power plant on line in 2008. This added 500 MW to the local system.
- Transmission system upgrades. As ATC continues with their Northern Umbrella Plan, we are seeing reduced prices as a result of these system improvements.

IMMEDIATE OPTIONS:

1) Continue to dispatch the plant as we have done through March and April, with 1 unit online. We have been buying in the Day Ahead market on weekdays during peak demand periods starting with 5 MW at 7:00, ramping up to 10 MW for the mid-day period, and ramping back down to 4 MW at 23:00. From 23:00 to 7:00 overnight on weekdays we have been buying from the Real Time market. We have also been buying from the Real Time market over the weekend. The recent historic lows may or may not continue in the future. However, we have the ability to adjust our DA numbers on a daily basis with 1 or 2 day's notice.

2) Take both units off line to maximize our purchasing opportunities. While this would maximize our purchasing opportunities, it also leaves us more exposed to sudden market price increases. With 1 unit online, we are able to vary our generation from 5 to 12.5 MW. This range allows us to lessen our exposure to sudden price increases, while still allowing us to take advantage of opportunity purchases.

To illustrate this operating strategy with 1 unit online, the City electric load averaged 15.3 MW in April. The generation with 1 unit averaged 5.4 MW – near the minimum production rate. On average, 9.9 MW's were purchased, which was 65% of City load.

For both of these options, purchasing more power will increase our ATC transmission costs. These costs are determined by how much power the City is importing at the time of the American Transmission Company's (ATC's) monthly system peak. The system peak is the single hour of each month with the greatest energy usage for that month on the ATC system. The City could pay a large fee for importing a large amount of energy for a short time, if that short time period included the system peak for the month. Conversely, the City could pay little to no transmission fee in a month where a large amount of energy was purchased, but was importing little to no energy at the time of the system peak.

Under these options, the annual plant fixed costs would remain at $4,895,278. The transmission charges would increase substantially. Assume that City load averages 25MW/mo at the time of the ATC system peak and we are generating 5 MW. This would leave us with a transmission charge based on 20MW/mo. Transmission charges on a $/kW/mo basis vary each month based on the total load at the time of the ATC system peak. For the months of January, February, and March, the transmission fee averaged $4.22/kW/mo. This figure will be used for the following calculations. This results in annual transmission charges to the City of approximately $1,012,800 (20,000 kW x

$4.22/kW/mo x 12months). This estimate is probably a worst case scenario. This transmission charge could be reduced by generating more power from the plant at the time of the system peak. In fact, it is quite likely that this figure would be reduced because at the time of the system peak, power is likely to be higher in price, which would result in less energy being imported. In order to reduce transmission charges, it is required to predict when the monthly peak will occur. Predicting this peak is difficult during the summer and winter months, because it is not possible to know the warmest summer day or the coldest winter day as the month is unfolding. It is even more difficult to predict the time and day of the peak for spring and fall months. The strategy for reducing the transmission charges can be based on the likely time of day for all months, and focus on extreme temperature days for summer and winter days. Nevertheless, our transmission charge will increase by generating less and purchasing more energy from the outside market.

For #1 above, we will assume that the 1 generator produces 5 MW at all times. Adding the transmission charge to the fixed costs totals $5,908,078. Our power production costs in the 2009/2010 budget total $13,964,544. Generating 5MW continuously throughout the year would cost $2,962,632 (i.e., $67.64 per MWh). To stay within budget, we would have to purchase 111,200 MWh for a cost equal to or less than $5,093,834 or $45.81/MWh (assuming the worst case for transmission charges).

For #2 above, transmission charges would be $1,266,000. Fixed costs would be $6,161,278. To stay within budget, we would have to purchase 155,000 MWh for a cost equal to or less than $7,803,266, or $50.34/MWh.

A more detailed explanation of plant costs can be found on page 8.

SHORT TERM OPTIONS:

1) Keep the #2 generator offline; continue as is for a longer period. The #2 generator will remain offline until the stack is repaired. The stack repair should be completed in July. When #2 is available, we will make a determination based on current and expected market prices whether to bring the unit back online or not. The transmission cost estimates described above would continue under this option.

2) Seek a short-term power purchase agreement. With the recent low market prices, it may be possible to arrange for a short-term power purchase agreement that could lower our overall energy costs. There is some time lag with this option as requests for proposals would have to be written and sent to perspective bidders, the bids would have to be evaluated, and the agreement would have to be approved and executed. Transmission cost estimates would have to be factored into the cost analysis. These costs would be dependent on the amount of energy purchased and energy purchased at the time of the system peak.

LONG TERM OPTIONS:

1) Sign a long term power purchase agreement and idle the plant down to 1 boiler producing 5 MW.

The 2009/2010 plant budget contains the following line items with their associated budgeted amounts:

Description	$	Type of cost
Plant Operations	1,666,002	fixed
Plant Maintenance	1,032,924	fixed
Plant Admin costs	1,140,000	fixed
Monthly Customer Charge	12,000	fixed
Management Fees to UPPCo	46,524	fixed
Dispatching Fees to UPPCo	37,950	fixed
Clean Air Act Payment	24,878	fixed
Plant Insurance Coverage	75,000	fixed
Plant Depreciation	860,000	fixed
Fuel Costs	7,284,785	variable
Economy Power Purchases	1,512,934	variable
Transmission Charge	48,000	variable
Plant Ash landfill costs	223,547	variable

Subtotal: $13,964,544 -- $4,895,278 fixed and $9,069,266 variable

Fixed costs are those costs that are present regardless of how much power the plant generates. Variable costs are those costs that are directly proportional to the amount of energy produced.

On a cost per kWh basis, fixed costs go down as the amount of energy produced goes up. Essentially, as the fixed costs are spread out over a greater number of kWh, the fixed cost portion of each kWh is lowered. The variable costs are approximately the same value for each kWh of energy produced, with small variations due to changes in plant efficiencies at various outputs.

The transmission charge would be directly related to the amount of energy imported at the time of the system peak each month. The long term wholesale full service proposals that were evaluated by PSE included transmission costs.

Under this option, the annual plant fixed costs would remain at $4,895,278.

For this scenario, we will assume that 1 generator produces 5 MW at all times. The long term power purchase proposals received by the City in December show the potential to save $3M per year. Under the scenario of keeping 1 boiler running at 5MW, we would purchase 111,200MWh per year, or 72% of our power. 72% of $3M = $2.16M. So we could potentially save $2.16M, but still have plant costs of $4.9M, which would increase overall energy costs for the City by $2.74M.

2) Sign a long term power purchase agreement for full requirements energy and keep the plant in a state of readiness.

Under this option, the plant fixed costs would remain at $4,895,278. The long term power purchase proposals received by the City in December show the potential to save $3M per year. The transmission costs are included in the evaluations performed by Power System Engineering. The net result would be an increase in costs to the City of $1.9M.

This $1.9M figure assumes that the marginal congestion component (MCC) and the marginal loss component (MLC) values remain similar to what they have historically been. The MCC and MLC are costs the City would have to pay to deliver the energy from the supplier to the City. It is expected that these costs would increase if the plant was not generating power, adding to the increased costs to the City.

3) Purchase full requirements energy through a long term purchase agreement and sell the plant. There is a referendum scheduled for August 4, 2009. The outcome of this referendum may result in the City Council having the authority to sell the power plant to an entity that would continue to operate the plant. Two private entities have expressed an interest in purchasing the plant to convert it to biomass. PSE's evaluation shows the potential for savings of approximately $3M annually. If the City sells the plant, the fixed costs associated with plant ownership are paid by the new owner. Also, with the plant continuing to be operated by the new owner, the congestion and loss values should remain consistent with past values. Therefore, the City could realize the full savings available through a long term wholesale purchase agreement.

CONCLUSIONS/POSSIBLE COURSES OF ACTION:

The plan going forward at this time is to continue the repairs to the #2 stack, while monitoring the MISO prices. When #2 is commercially available, the decision to begin production will be made. If MISO market prices are low and are expected to stay low, #2 will not be brought on line. If MISO market prices are high or expected to go high, #2 will be brought on line.

Talk to PSE to see if they feel if it would be possible to secure a short term purchase agreement with prices that are below our variable costs of self generation. If the savings are found to be large enough, it may be worth making changes to how the plant is dispatched.

If the August 4th referendum grants the City Council the authority to sell the plant, the City should further investigate and verify what was offered in the power purchase proposals and the plant purchase proposals. Thorough investigation will reveal if a deal can be reached that is in the best interest to the City and its customers.

OTHER CONCERNS:

At this time, the City does not have a new operating agreement with UPPCo. UPPCo has stated that if a new agreement is not reached by June, 2009, they will discontinue negotiations, but would continue to operate the plant until June, 2011. We have been in talks with UPPCO and other potential plant operators, but there is no operating agreement pending at this time.

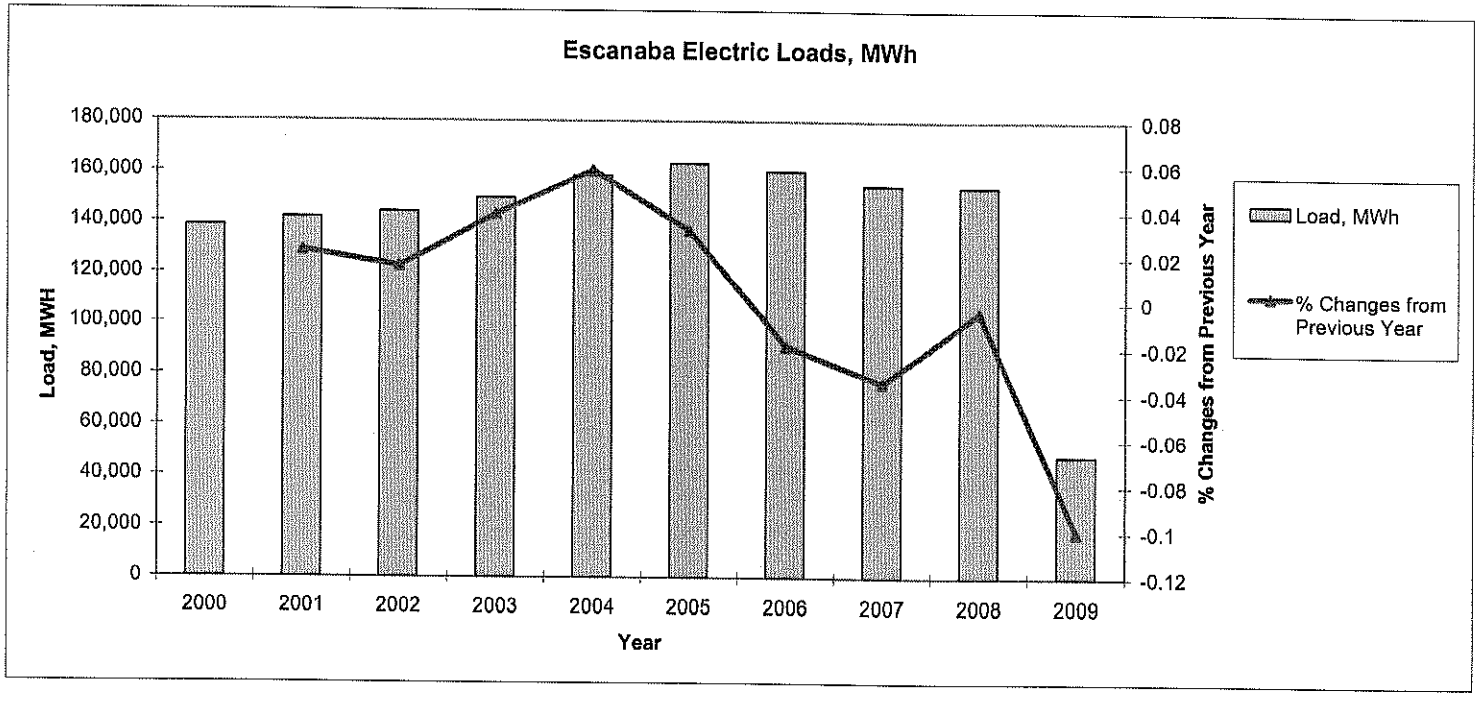
Market prices during the current economy have not been experienced for summer months, and the economics of purchasing short-term MISO energy compared to self generation are not known. If prices push up above the break-even prices shown earlier, there will not be any alternatives in the short-term to reduce power costs.

The City does not have a network transmission arrangement with ATC, but pays transmission charges based on the amount of energy purchased at the time of the ATC system peak. It is unclear if there is a requirement to purchase network transmission at this time, but it would be required in the case of purchasing all-requirements energy and capacity from another entity. Net savings calculations for this case assumed the costs of network transmission. Purchasing network transmission will remove the issue of needing to "chase" the ATC peak by seeking to increase generation and reduce purchases during the ATC peak, and will make transmission cost a fixed amount based on the City load during the time of the ATC peak.

ATTC

Escanaba Electric Loads, MWH

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total	% Changes from Previous Year
2000	12,441	11,309	10,773	11,600	11,065	11,435	11,688	12,753	11,467	9,160	10,627	14,171	138,489	
2001	14,279	10,965	11,395	11,009	11,029	10,740	12,625	13,728	10,550	12,262	11,017	12,094	141,693	2.3%
2002	12,248	10,860	10,807	11,798	11,168	10,573	14,415	13,092	12,573	11,812	10,457	14,184	143,987	1.6%
2003	13,552	12,269	12,745	11,777	11,193	12,004	13,025	13,181	12,487	12,165	10,497	14,688	149,583	3.9%
2004	13,661	12,351	14,149	12,324	11,610	13,336	12,863	14,074	13,495	12,256	13,561	14,617	158,297	5.8%
2005	14,688	12,693	13,939	12,071	12,836	13,817	13,746	15,498	13,329	14,256	12,672	13,792	163,337	3.2%
2006	14,050	12,772	13,725	12,324	12,784	13,283	15,022	14,020	13,008	13,369	12,701	13,206	160,264	-1.9%
2007	14,863	13,068	12,978	12,218	11,761	12,273	13,548	14,134	11,749	13,404	12,268	12,425	154,689	-3.5%
2008	15,077	13,029	13,053	12,265	11,574	12,461	13,565	12,887	12,994	12,028	11,032	14,078	154,043	-0.4%
2009	12,974	11,461	12,590	11,059									48,084	-10.0% YTD



NB-2

MEMORANDUM June 8, 2009

TO: Electrical Advisory Committee Members

FROM: Michael Furmanski, Electrical Superintendent

SUBJ: Escanaba Electrical Department Monthly Update – June 2009

I offer the following departmental update to the Electrical Advisory Committee.

1. New Development. The following work has been started and/or completed:
   a. Permanent service at Taco Bell

2. Distribution System Upgrades/Maintenance. The following upgrades or maintenance needs have been completed or are in progress on the electrical distribution system:
   a. Low voltage in Ford River area
   b. Pole changeouts
   c. Low voltage on 8th Ave So

Should you have any questions or concerns please contact me. I intend to review this information with the Electrical Advisory Committee at their regularly scheduled June 10th, 2009 meeting.

NB-2

MEMORANDUM June 8, 2009

TO: Electrical Advisory Committee Members

FROM: Michael Furmanski, Electrical Superintendent

SUBJ: Power purchases update

HISTORY: Unit #1 was taken down on March 9th, 2009 for its annual maintenance outage. Since that time, we have had 1 or both of the generators down at the plant. The #2 generator was taken down for a major overhaul on March 20th and is still down today. During the time that the plant has been operating 1 generator, we have been able to purchase energy from the MISO market at very reasonable prices.

March data:

- Real Time = 4,114.22 MWh for $100,661.21 = $24.47/MWh
- Day Ahead = 2,422 MWh for $101,964.51 = $42.10/MWh
- Total power purchased = 6,536.22 MWh for $202,625.72 = $31.00/MWh
- Transmission charge = $21,364.70 over 6,536.22 MWh = $3.27/MWh
- Total cost of power purchased including transmission charges = $34.27/MWh

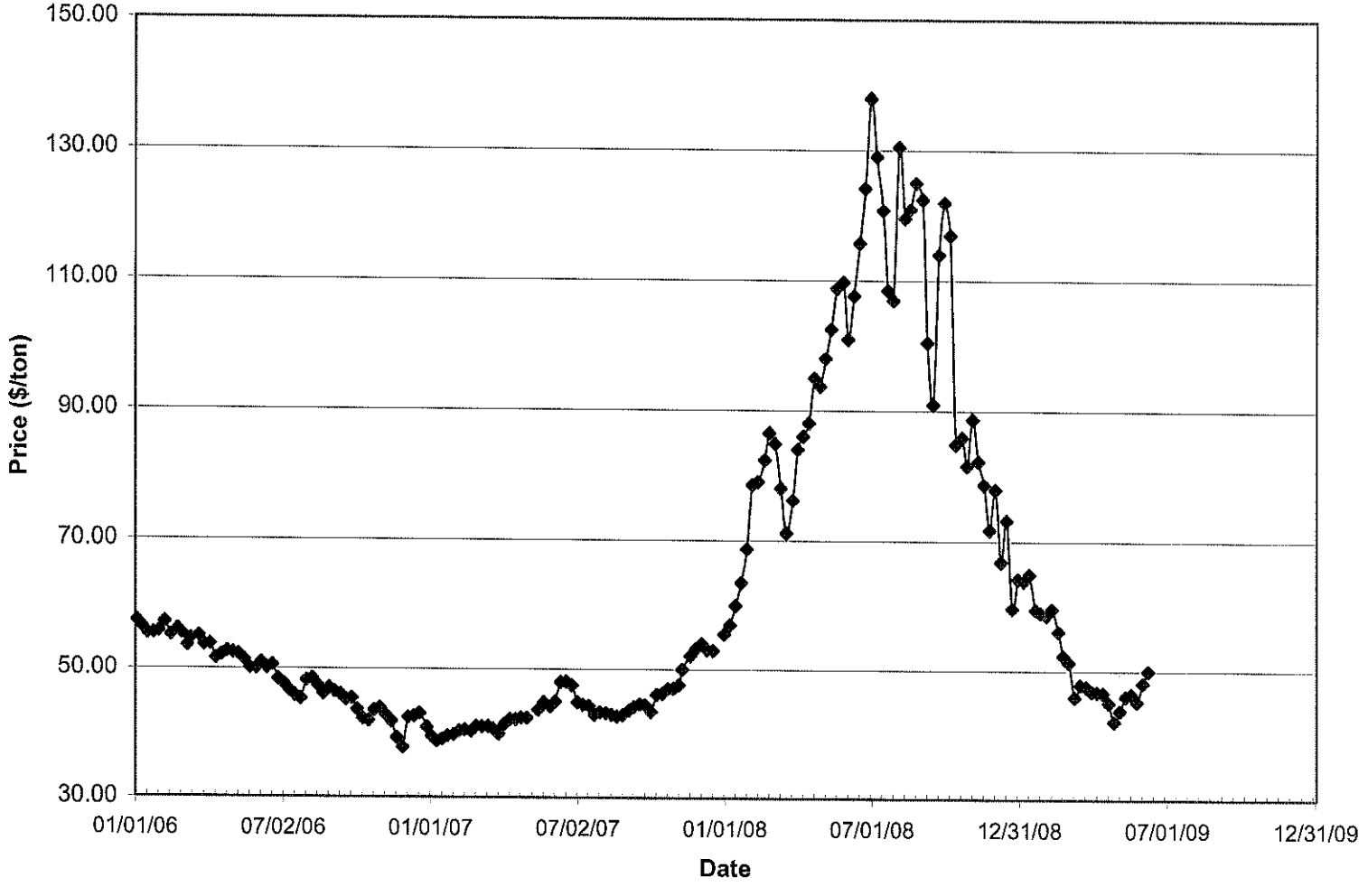
April data:

- Real Time = 3,773.80 MWh for $91,862.97 = $24.34/MWh
- Day Ahead = 3,388 MWh for $141,092.41 = $41.64/MWh
- Total power purchased = 7161.80 MWh for $232,955.38 = $32.53/MWh
- Transmission charge = $59,783.50 over 7,161.80 MWh = $8.35/MWh
- Total cost of power purchased including transmission charges = $40.88/MWh

May data:

- Real Time = 4,891.232 MWh for $96,742.61 = $19.78/MWh
- Day Ahead = 2,772 MWh for $90,129.33 = $23.51/MWh
- Total power purchased = 7,663.232 MWh for $186,871.94 = $24.39/MWh
- Transmission charge = unknown at this time, estimated to be $60,000 = $7.83/MWh

Spot Prices - Marker Coal for Escanaba
NYMEX Look-Alike (12,000 Btu/lb, 1% Sulfur)
This is a "look-alike" Index and does not provide exact pricing for Escanaba coal.
Prices are FOB Mine and do not include transportation to Escanaba.



UB-2

NB-2

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April 15, 2009

ATTORNEY-CLIENT PRIVILEGED COMMUNICATION

Mr. Michael Dewar
Controller
City of Escanaba
410 Ludington Street
P.O. Box 948
Escanaba, MI 49829-0948

Re: City of Escanaba Power Plant

Dear Mike:

You have asked us whether the City of Escanaba (the "City") is legally permitted to operate its electric power plant for the purpose of selling biomass-generated electricity to non-City customers. As discussed more fully below, we are of the opinion that the City does not have the authority under existing Michigan law to operate its electric power plant solely for the purpose of supplying non-City wholesale or retail customers with electricity.

The City currently operates a coal-fired electricity generating facility (the "Power Plant") primarily to supply City residents with electrical power. The City is currently facing the prospect of increased operating costs for the Power Plant, including, but not limited to the need to replace or rehabilitate one of the Power Plant's turbine generators. In addition, the City has determined that electricity generated outside of the City and available to City customers "off the grid" ("Grid Power") is less expensive to the City and its customers than electricity generated at the Power Plant.

The City has considered a number of options for the continued operation of the Power Plant, including, but not limited to the possibility of retrofitting the Power Plant so that biomass (wood chips or processed wood) instead of coal can be used to generate electricity. However, in addition to the costs of converting the Power Plant for biomass operation, the City projects that biomass-generated electricity will be more expensive to the City and the City's customers than both coal-generated electricity and Grid Power.

A private entity (the "Private Entity") has proposed to buy the Power Plant from the City and retrofit the Power Plant so that the Power Plant can use biomass instead of coal to generate

electricity. The Private Entity might be able to recoup the expenses of retrofitting the Power Plant by selling the biomass-generated electricity directly to the electrical grid at large (not necessarily to City customers) on a for profit basis by taking advantage of tax credits, grants and incentives to produce renewable source electricity.

It has been suggested that if the Private Entity can profitably retrofit and operate the Power Plant, the City should attempt to retrofit the Power Plant itself and operate the Power Plant on a for profit basis for the benefit of the City and its residents. The City could, in theory, sell all of the biomass-generated electricity output to the electrical grid at large for a profit and then purchase less expensive Grid Power to distribute to City residents. The net result of such a scheme would be that the City's customers would pay less for electricity and the Power Plant's profits could be used for other lawful discretionary purposes.

In connection with this proposal, you have asked us whether it is legally permissible for the City to retrofit and operate the Power Plant primarily for the purpose of selling biomass-generated electricity directly to the grid at large and not directly for the City's electricity requirements. In addition, you asked us to briefly review the incentives that would be available to the Private Entity or the City if either were to retrofit and operate the Power Plant for the biomass-generation of electricity.

Sale of Electricity

As you know, the City is a municipal corporation and political subdivision of the State of Michigan that was incorporated as a home rule city pursuant to the Home Rule Cities Act, Act 279, Public Acts of Michigan, 1909, as amended. The City's express authority to generate and sell electricity is derived from Section 24 of Article VII of the Michigan Constitution of 1963 ("Section 24"), Michigan statutes and the City's charter. The plain language of Section 24 only permits the City to sell and deliver surplus power outside of its corporate limits in an amount not in excess of 25 percent of the amount furnished by the City within its boundaries (the "25 Percent Limitation"):

> Subject to this constitution, any city or village may acquire, own or operate, within or without its corporate limits, public service facilities for supplying water, light, heat, power, sewage disposal and transportation to the municipality and the inhabitants thereof.
>
> Any city or village may sell and deliver heat, power or light **without its corporate limits in an amount not exceeding 25 percent of that furnished by it within the corporate limits,**

> except as greater amounts may be permitted by law; (emphasis added).[1]

Even though Section 24 permits the Legislature to authorize cities to exceed the 25 Percent Limitation by statute, to our knowledge, no such statute has been enacted.[2] The Home Rule Cities Act is silent about the 25 Percent Limitation.[3] Furthermore, the Home Rule Cities Act does not delegate the authority to the City's electors the ability to authorize the City to exceed the 25 Percent Limitation pursuant to the City's charter.[4]

On the contrary, though the Home Rule Cities Act does not address wholesale transfers of electricity output, the Home Rule Cities Act manifests the Legislature's intention to restrict the ability of cities to compete with other public and private utilities outside of each city's corporate boundaries in the retail context. For example, under the Home Rule Cities Act, the City may only purchase or condemn private property for its electric utility to serve areas outside of its limits within clear geographic limitations:

> [E]xcept that electric delivery service is limited to the area of any village or township that was contiguous to the city as of June 20, 1974, and to the area of any other village or township being served as of June 20, 1974 and retail sales of electric generation service are limited to the area of any city, village, or township that was contiguous to the city, village, or township as of June 20, 1974, and to the area of any other city, village, or township being served as of June 20, 1974 ...[5]

Furthermore, the Home Rule Cities Act prohibits the City from competing with other utilities for retail electric delivery service and electric generation service outside of the City unless specific conditions are satisfied:

> A city shall not render electric delivery service for heat, power, or light to customers outside its corporate limits already receiving that service from another utility unless that utility consents in writing, and shall not render retail electric generation service to customers

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[1] Mich. Const. of 1963, Art. VII, Section 24.

[2] The Michigan Energy Employment Act of 1976, as amended, does permit members of joint agencies to sell or exchange capacity or output, but does not expressly state that such amounts may exceed 25 percent of the amount furnished by an individual member of the joint agency within that member's corporate limits. M.C.L. 460.824; M.C.L. 460.844.

[3] See, e.g., M.C.L. 117.4c; M.C.L. 117.4f.

[4] Id.

[5] M.C.L. 117.4f(c) (also generally requires allowing free choice of customers, agreement(s) with other public and private utilities and a State license).

> outside its corporate limits receiving that service from another supplier ...[6]

In addition, the Michigan Supreme Court has narrowly construed the authority of cities to acquire and operate public utilities. In *Toebe v. City of Munising*, the Michigan Supreme Court determined that the City of Munising's constitutional authority to operate a public utility for supplying heat did not include the authority to sell coal directly to City residents.[7] In reversing the lower courts, the Court conveyed the principle that private enterprises should be free from municipal competition in business activities:

> [T]he plaintiff's desires to engage in a legitimate private business and has a right to be free from the unauthorized proprietary business activity of [the City of Munising].[8]

We conclude that since no statute clearly expands the City's authority under Section 24 and the general public policy elaborated by the Legislature and the Michigan Supreme Court in other contexts favors a restrictive view of the City's authority to sell and deliver power outside of the City's boundaries, the City must adhere to the requirements of the plain language of Section 24. We are therefore of the opinion that the City's authority to sell and deliver wholesale and/or retail power outside of the City's boundaries is subject to the 25 Percent Limitation.

We do not dispute that the City has the authority under existing law to retrofit the Power Plant for biomass-generation of electricity. Nevertheless, we are of the opinion that the 25 Percent Limitation will prohibit the City from retrofitting the Power Plant primarily to provide electricity to non-City customers. The 25 Percent Limitation exists to permit the City to sell surplus power to non-City customers. Pursuant to the proposed arrangement, all of the City's electricity requirements will come from Grid Power and none of the biomass-generated electricity produced at the Power Plant will be intended for City use. It is therefore difficult to conceive how 100 percent of the Power Plant's output can be categorized as a surplus. Consequently, we are of the opinion that the City's proposed arrangement to operate the Power Plant solely for the direct production and distribution of 100 percent of the electricity produced by the Power Plant outside of the City is not authorized by current law.

Incentives Available to the Private Entity

Apart from the issue of whether the City has the legal authority to retrofit the Power Plant for biomass-generation of electricity is the issue of whether it makes economic sense for the City to do so instead of the Private Entity. Tax-paying entities such as the Private Entity may take advantage of any number of federal incentives that are not available to the City.

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[6] M.C.L. 117.4f(c).
[7] Toebe v. City of Munising, 275 N.W. 744, 744 (Mich. 1937).
[8] Id. at 745.

For example, the Private Entity, as a taxpayer-owner of the Power Plant, may take various credits against federal income tax liability. The Private Entity may be eligible to receive a tax credit of 1.5 cents (adjusted for inflation) for each kilowatt hour of electricity produced from renewable energy sources at the Power Plant. The Private Entity may also be eligible to take an investment tax credit equal to 10% to 30% of certain costs of retrofitting the Power Plant for renewable energy production.

These credits may be valuable to the Private Entity even if the Private Entity does not generate taxable income. The recently enacted American Recovery and Reinvestment Act of 2009 (the "Recovery Act") would allow a *taxpayer* such as the Private Entity to elect to take a direct federal grant in lieu of taking the production or investment tax credits referenced above.

In addition, the Private Entity may also take advantage of favorable "bonus depreciation" rules. Internal Revenue Code §168(k) would allow the Private Entity a depreciation deduction of 50% of the adjusted basis of certain Power Plant property in the first year the biomass retrofitted Power Plant is placed into service through 2010.

Finally, the Private Entity might also be eligible for federal loan guarantees through the Department of Energy to finance the retrofitting of the Power Plant for renewable energy production. A federal loan guarantee would reduce the Private Entity's borrowing costs substantially. However, these loan guarantees are not common, due in part to the complexities of the Department of Energy's requirements for the loan guarantee program.

Incentives Available to Either the Private Entity or the City

A number of government incentives are available to both public and private entities to retrofit and operate the Power Plant for biomass electricity production, including, but not limited to certain grant programs. Federal Energy Efficiency Qualified Energy Conservation Block grants may be available to either the City directly from the federal government, or indirectly to the Private Entity through the City or other State instrumentality or agency. In addition, the Recovery Act allocated $50 million to wood to energy grants to promote increased utilization of biomass for energy production. It is not yet clear how the federal government will determine to allocate these Recovery Act grant funds and whether public or private entities, or both, will be eligible to receive such Recovery Act grant funds.

After the Power Plant is retrofitted for biomass electricity production, the production of biomass-generated energy will provide the owner of the Power Plant (either the Private Entity or the City) with federal "renewable energy credits." The value of these renewable energy credits is dependent on the type of energy generated, the process used to certify the credit, and standards of the market into which the credit is to be sold. Unlike the credits discussed earlier in this letter, these renewable energy credits are not credits against tax liabilities. Rather, renewable energy

credits are used by certain industries and utilities to satisfy federal renewable portfolio standards by buying renewable energy credits in lieu of actually modifying their own poor environmental practices. This use gives renewable energy credits their value. Accordingly, there is a commercial market for renewable energy credits.

Michigan law also provides for an incentive for biomass electricity production that is available to either the Private Entity or the City. Michigan recently enacted the Clean, Renewable, and Efficient Energy Act, Act 295, Public Acts of Michigan, 2008 ("Act 295"), which created a renewable portfolio standard in Michigan with which utilities must comply. A Michigan utility can comply with Act 295 by generating power with renewable resources itself or by purchasing such power from a provider of renewable energy or by purchasing renewable energy credits. Act 295 was intended to create a demand for renewable resource derived energy. However, we understand that the supply of renewable energy and renewable energy credits in Michigan to satisfy the requirements of Act 295 far outstrips demand.

Finally, both the Private Entity and the City may have a number of tax-exempt and/or federally subsidized financing options available to either of them, either as direct bond issuances or through conduit borrowings, to finance the costs of retrofitting the Power Plant. The options will depend on any number of factors once the specific details regarding such a financing and project are known.

We do emphasize, though, that having the legal ability to sell bonds does necessarily mean that the City will be able to sell such bonds as a practical matter. The ability of the City to obtain financing for a project to retrofit the Power Plant will depend upon the creditworthiness of the City's electric utility system. The municipal bond market has been very volatile over the past six months due to the overall financial crisis as well as problems specific to the municipal bond industry, such as the downgrade of the municipal bond insurance companies. At this point we can not say whether such financing would be available to the City or predict what the financial terms of such a bond issue would be.

We hope that you have found this letter to be responsive to your inquiry. If you have any questions, please do not hesitate to call me.

Very truly yours,

MILLER, CANFIELD, PADDOCK AND STONE, P.L.C.

By: _____

Patrick F. McGow

cc: George E. Gurrola, Esq.

DELIB:3074999.4\027017-00026

DB-3

Escanaba Generating Station

Update for the June 10, 2009 EAC Meeting

The Unit 2 major overhaul is essentially complete. Balancing is all that remains to be completed before the unit can be returned to service. Some minor maintenance repairs have yet to be completed on the boiler.

Unit 2 Stack update: A contract has been awarded to CR Meyer for replacing the upper 80 feet of the stack. The material is on order for delivery at the end of June. When the new portion of the stack is completed, installation of the Gunite insulation will resume. It is estimated the work will be completed mid to late July.

We continued to purchase peak time power through May in the MISO Day Ahead market. The Day Ahead purchases averaged $32.51/MWhr and the Real Time purchases averaged $19.78/MWhr.

2112 tons of coal was burned in May leaving approximately 27,000 tons of compacted 2008 West Ridge coal on the dock. The second 2009 coal cargo was received on May 19 totaling 18,096 tons, which brings the total 2009 coal to 37,800 tons. As of today, there is approximately 64,000 tons of coal on the dock.

The O&M budget is attached. Maintenance costs were higher than estimated but are in line with previous year's actual costs. Fuel costs continue to be lower than expected because we purchased more economical power than the estimate. The year to date Plant overall operating costs are below budget mainly due to lower A&G costs and lower fuel costs.

The Combustion Turbine was dispatched for MISO one time in May for 1.4 hours for transmission support.

NB-3

Escanaba Generating Station Actual versus Budget 2008& 2009

OPERATION		JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	YTD Total	TOTAL	YTD Diff
					2008					2009						
Operation Expenses	Prev.	121,011	124,600	124,594	112,332	109,608	159,565	124,008	142,750	154,395	122,195	179,984	122,492	1,295,056	1,597,532	
Less Fuel	Est.	155,550	145,800	139,500	125,701	112,896	164,352	127,728	119,974	151,360	121,044	112,573	127,954	1,363,905	1,604,431	
With Fuel & Ash Labor	Actual	138,244	138,592	136,423	133,737	171,282	131,145	130,173	143,990	128,760	128,553	0	0	1,380,900	1,380,900	16,995
Maint. Expense	Prev.	86,829	102,726	55,977	75,668	28,483	68,718	60,474	71,327	244,281	228,724	81,219	39,961	1,023,205	1,144,385	
	Est.	44,053	42,700	44,053	44,053	46,200	54,653	55,500	74,000	120,000	135,000	115,000	50,000	660,212	825,212	
	Actual	26,616	65,949	52,347	60,404	42,646	72,707	86,931	76,094	129,793	210,674	0	0	824,163	824,163	163,951
O&M (Less Fuel)	Prev.	207,840	227,325	180,570	188,000	138,091	228,282	184,481	214,077	398,675	350,920	261,203	162,453	2,318,261	2,741,917	
	Est.	199,603	188,500	183,553	169,754	159,096	219,005	183,228	193,974	271,360	256,044	227,573	177,954	2,024,117	2,429,644	
	Actual	164,860	204,542	188,770	194,141	213,929	203,852	217,104	220,084	258,554	339,227	0	0	2,205,063	2,205,063	180,946
Fuel (Burn Only)	Prev.	273,212	391,410	462,425	549,798	491,875	525,502	649,660	556,321	364,767	555,261	639,341	696,050	4,820,229	6,155,620	
	Est.	526,856	526,856	623,556	651,581	651,581	685,211	758,076	674,001	477,826	640,371	640,371	679,606	6,215,918	7,535,895	
	Actual	540,872	502,862	593,601	656,727	598,352	711,316	660,325	545,412	375,978	252,208	0	0	5,437,653	5,437,653	-778,264
Total O&M	Prev.	481,051	618,735	642,995	737,798	629,965	753,785	834,141	770,398	763,442	906,180	900,544	858,503	7,138,490	8,897,538	
	Est.	726,460	715,356	807,109	821,335	810,678	904,216	941,304	867,975	749,186	896,415	867,944	857,560	8,240,035	9,965,539	
	Actual	705,733	707,404	782,371	850,867	812,281	915,169	877,430	765,496	634,532	591,435	0	0	7,642,716	7,642,716	-597,318
A&G	Prev.	150,668	150,668	150,668	150,668	150,668	150,668	150,668	-422,156	105,000	105,000	105,000	55,000	842,520	1,002,520	
	Est.	115,000	115,000	115,000	115,000	115,000	115,000	120,000	120,000	120,000	120,000	120,000	120,000	1,170,000	1,410,000	
	Actual	55,000	55,000	55,000	95,000	95,000	95,000	-23,298	95,000	95,000	95,000	0	0	711,702	711,702	-458,298
Total O&M with A&G	Prev.	631,719	769,403	793,663	888,466	780,633	904,453	984,809	348,243	868,442	1,011,180	1,005,544	913,503	7,981,011	9,900,058	
	Est.	841,460	830,356	922,109	936,335	925,678	1,019,216	1,061,304	987,975	869,186	1,016,415	987,944	977,560	9,410,035	11,375,539	
	Actual	760,733	762,404	837,371	945,867	907,281	1,010,169	854,131	860,496	729,532	686,435	0	0	8,354,418	8,354,418	-1,055,617
Total O&M with A&G	Prev.	1,299,443	1,263,324	834,339	897,590	800,490	921,720	989,381	361,289	1,161,689	1,067,796	1,039,620	936,420	9,597,060	11,573,100	
Ash, Energy Sales and	Est.	931,622	920,519	990,151	1,005,261	994,603	1,089,202	1,133,588	1,057,608	1,122,632	1,084,987	1,056,516	1,067,370	10,330,174	12,454,060	
Purchases	Actual	818,207	839,814	891,862	1,002,828	984,799	1,148,952	973,480	948,331	937,841	927,206	0	0	9,473,320	9,473,320	-856,854
City Load	Prev.	13,548	14,134	11,749	13,404	12,268	12,425	15,077	13,029	13,053	12,265	11,574	12,461	130,952	154,987	
(mwhrs)	Est.	13,800	13,800	12,200	12,700	12,700	13,300	14,600	13,100	13,400	12,500	12,500	13,600	132,100	158,200	
	Actual	13,565	12,887	12,994	12,028	11,032	14,078	12,974	11,461	12,590	11,059	0	0	124,668	124,668	-7,432
Net Generation Stm	Prev.	6,301	8,834	11,096	13,516	12,106	12,750	15,606	13,462	9,052	11,686	11,269	11,936	114,407	137,612	
(mwhrs)	Est.	12,325	12,325	11,125	11,625	11,625	12,225	13,525	12,025	8,525	11,425	11,425	12,125	116,750	140,300	
	Actual	12,687	11,929	11,995	11,210	9,747	11,890	10,961	9,025	6,116	4,217	0	0	99,776	99,776	-16,974
Coal Use Est. 2008-09	Est.	7,272	7,272	6,564	6,859	6,859	7,213	7,980	7,095	5,030	6,741	6,741	7,154	68,883		
Coal Burnt (Tons)	Actual	7,552	7,021	6,848	6,508	5,930	7,195	6,680	5,517	3,803	2,551	0	0	59,605		-9,278
Megawatts/Tons Coal		1.68	1.70	1.75	1.72	1.64	1.65	1.64	1.64	1.61	1.65			1.67		
Ash Estimate 2008-09	Est.	21,788	21,788	19,667	20,551	20,551	21,611	23,909	21,258	15,070	20,197	20,197	21,434	206,389		
Ash Expense	Actual	20,890	20,480	16,398	15,040	16,016	17,948	17,295	14,365	9,264	6,747	0	0	154,443		-51,946
Ash Landfilled (Tons)		1,638	1,606	1,286	1,180	1,256	1,408	1,356	1,127	727	529	0	0	12,113		
Energy - Purch $$		64,978	64,826	44,067	45,197	62,296	121,419	102,485	73,486	201,113	234,095			1,013,962		(+) = above budget
MwHrs		1,699	1,742	1,583	1,548	2,118	2,646	2,891	2,982	6,536	7,162			30,907		(-) = below budget
Cost $/MWhr		38.24	37.21	27.85	29.19	29.41	45.90	35.45	24.64	30.77	32.69			32.81		
Energy - Sales $$ STM		28394	7896	5974	3276	794	584	431	16	2067	71			49503		
MwHrs		286	90	85	64	14	10	10	0	59	2			620		
Cost $/MWhr		99.25	88.23	70.53	50.95	55.92	59.86	44.41	53.13	34.98	32.08			79.86		
Production Costs $/MWhr		61.61	65.63	71.17	85.72	94.73	86.47	79.51	96.94	120.80	164.39			85.28		
Total Cost in $/MWhr		60.32	65.17	68.64	83.37	89.27	81.61	75.03	82.75	74.49	83.84			75.99		
Load Peak (mws)		27.09	28.13	29.23	22.05	22.35	23.35	24.60	23.00		21.77					
Date		7/8	8/5	9/2	10/13	11/13	12/14	1/15	2/5		4/20					
Outage Hours Unit 1		0.00	0.00	0.33	0.00	0.00	13.83	0.00	0.33	324.83	0.00			339.33		
Outage Hours Unit 2		0	0.00	0.00	0.00	0.00	23.28	0.00	0.00	277.25	720.00			1020.53		
STM Availability %		100	100.00	99.98	100.00	100.00	97.51	100.00	99.98	59.54	50.00			92.24 %		

DB-3

Escanaba Generating Station Actual versus Budget 2008& 2009

OPERATION	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	YTD Total	TOTAL	YTD Diff
				2008					2009						
CT Net Generation (mws)	335.5	343.2	3.6	-8.2	53.6	475.9	-55.3	-40.1	-49.1	-34.2			1,024.9		
CT Operating Hours Total	42.6	52.2	1.3	0.0	9.6	55.9	0.0	0.0	0.0	0.0			161.6		
City Requirement	0	0	0	0	0	0	0	0	0	0			0		
MISO Dispatch	43	52	1	0	10	31	0	0	0	0			137		
Maintenance & Testing	0	0	0	0	0	25	0	0	0	0			25		
Energy - Sales $$ CT	222,580	248,743	8,286	0	50,836	327,965	0	0	0	0			858,411	Revenue	
Start-Up Charge	3,060	3,060	1,020	0	2,040	5,100	0	0	0	0			$14,280	$872,691	
MwHrs (Gross) Sales	660	350	11	0	75	535	0	0	0	0			1,631		
Unit Cost $/MWhr	342	719	854		702	623							535		
Fuel Used (gal) (Meter Month)	48,900	55,159	1,617	0	11,037	70,746	0	0	0	0			187,459		
Fuel Purchased (gal)	44,001	36,518	14,707	0	21,917	58,194	0	0	0	0			175,337		
Fuel Costs (Meter Month)	173,023	130,038	51,359	0	47,115	90,912	0	0	0	0			492,447	Costs	
CT Total O/M	4393.34	948.19	2291.92	2911.57	2596.54	1162.19	5118.6	688.94	454.25	-286.54			20,279	512,726	
CT Availability %	100	100	100	100	100	100	100	100	100	100			100		
														C 359,965	

Note sales /purch by Calender Month
Operating & hrs by meter month

NB-4

From: "Jim O'Toole" <jotoole@escanaba.org>
To: mfurmanski@escanaba.org, CDeshambo@escanaba.org
Subject: WPS - Placing a Plant in Stand By Condition

Date: Monday, June 01, 2009 9:06 AM
HTML | Plain Text | Header | Raw Content

From: Giesler, Howard R [mailto:HRGiesler@wisconsinpublicservice.com]
Sent: Wednesday, May 20, 2009 10:11 AM
To: Jim O'Toole; mfurmanski@escanaba.org
Subject: RE: Placing a Plant in Stand By Condition

Jim - our company has placed units in standby condition for extended periods, primarily at one of our non-regulated facilities in Maine. I don't believe the company proceduralized the layup practices. We gathered the information from other companies and industry groups.

Some key issues are:

-building heat for the winter months(an electric boiler presents less air permitting issues than a natural gas or oil fired)
-installation of dehumidifiers to protect generator and key motor windings(the insulation degrades if moisture is present)
-possible capping of the stacks
-media blast cleaning of the precipitators(prevent ash from hardening up to a concrete consistency in the precipitator)
-cleaning of coal conveyor, fuel feed, and stoker systems
-complete draining of boilers and possible installation of dehumidifiers to circulate dry air
-develop a plan to rotate(probably monthly) key equipment such as the turbine-generators and key motors, the motors can generally be turned with mechanical assistance but the turbine-generators need to be placed on turning gear

I may have forgotten a thing or two but I think the above list are the primary considerations. Please let me know if you'd like to discuss further.

NB-5

MICHIGAN PUBLIC SERVICE COMMISSION (EXCERPT)
Act 3 of 1939

460.10y Municipally owned utility; requirements.

Sec. 10y. (1) The governing body of a municipally owned utility shall determine whether it will permit retail customers receiving delivery service from the municipally owned utility the opportunity of choosing an alternative electric supplier, subject to the implementation of rates, charges, terms, and conditions referred to in subsection (5).

(2) Except with the written consent of the municipally owned utility, a person shall not provide delivery service or customer account service to a retail customer that was receiving that service from a municipally owned utility as of June 5, 2000, or is receiving the service from a municipally owned utility. For purposes of this subsection, "customer" means the building or facilities served rather than the individual, association, partnership, corporation, governmental body, or any other entity taking service.

(3) With respect to any electric utility regarding delivery service to customers located outside of the municipal boundaries of the municipality that owns the utility, a governing body of a municipally owned utility may elect to operate in compliance with R 460.3411 of the Michigan administrative code, as in effect on June 5, 2000. However, compliance with R 460.3411(13) of the Michigan administrative code is not required for the municipally owned utility. Concurrent with the filing of an election under this subsection with the commission, the municipally owned utility shall serve a copy of the election on the electric utility. Beginning 30 days after service of the copy of the election, the electric utility shall, as to the electing municipally owned utility, be subject to the terms of R 460.3411 of the Michigan administrative code as in effect on June 5, 2000. The commission shall decide disputes arising under this subsection subject to judicial review and enforcement.

(4) A municipally owned utility and an electric utility that provides delivery service in the same municipality as the municipally owned utility may enter into a written agreement to define the territorial boundaries of each utility's delivery service area and any other terms and conditions as necessary to provide delivery service. The agreement is not effective unless approved by the governing body of the municipally owned utility and the commission. The governing body of the municipally owned utility and the commission shall annually review and supervise compliance with the terms of the agreement. At the request of a party to the agreement, disputes arising under the agreement shall be decided by the commission subject to judicial review and enforcement.

(5) If the governing body of a municipally owned utility establishes a program to permit any of its customers the opportunity to choose an alternative electric supplier, the governing body of the municipally owned utility shall have exclusive jurisdiction to do all of the following:

(a) Set delivery service rates applicable to services provided by the municipally owned utility that shall not be unduly discriminatory.

(b) Determine the amount and types of, and recovery mechanism for, stranded and transition costs that will be charged.

(c) Establish rules, terms of access, and conditions that it considers appropriate for the implementation of a program to allow customers the opportunity of choosing an alternative electric supplier.

(6) Complaints alleging unduly discriminatory rates or other noncompliance arising under subsection (5) shall be filed in the circuit court for the county in which the municipally owned utility is located.

(7) This section does not prevent or limit a municipally owned utility from selling electricity at wholesale. A municipally owned utility selling at wholesale is not considered to be an alternative electric supplier and is not subject to regulation by the commission.

(8) This section shall not be construed to impair the contractual rights of a municipally owned utility or customer under an existing contract.

(9) Contracts or other records pertaining to the sale of electricity by a municipally owned utility that are in the possession of a public body and that contain specific pricing or other confidential or proprietary information may be exempted from public disclosure requirements by the governing body of a municipally owned utility. Upon a showing of good cause, disclosure subject to appropriate confidentiality provisions may be ordered by a court or the commission.

(10) This section does not affect the validity of the order relating to the terms and conditions of service in the Traverse City area that was issued August 25, 1994, by the commission at the request of consumers power company and the light and power board of the city of Traverse City.

(11) As provided in section 6, the commission does not have jurisdiction over a municipally owned utility.

(12) As used in this section:

(a) "Delivery service" means the providing of electric transmission or distribution to a retail customer.

NB-5

(b) "Municipality" means any city, village, or township.

(c) "Customer account services" means billing and collection, provision of a meter, meter maintenance and testing, meter reading, and other administrative activity associated with maintaining a customer account.

(13) In the event that an entity purchases 1 or more divisions or business units, or generating stations or generating units, of a municipal electric utility, the acquiring entity's contract and agreements with the selling municipality shall require all of the following for a period of at least 30 months:

(a) That the acquiring entity or persons hires a sufficient number of employees to safely and reliably operate and maintain the station, division, or unit by first making offers of employment to the workforce of the municipal electric utility's division, business unit, or generating unit.

(b) That the acquiring entity or persons not employ employees from outside the municipal electric utility's workforce unless offers of employment have been made to all qualified employees of the acquired business unit or facility.

(c) That the acquiring entity or persons have a dispute resolution mechanism culminating in a final and binding decision by a neutral third party for resolving employee complaints or disputes over wages, fringe benefits, and working conditions.

(d) That the acquiring entity or persons offer employment at no less than the wage rates and substantially equivalent fringe benefits and terms and conditions of employment that are in effect at the time of transfer of ownership of the division, business unit, generating station, or generating unit. The wage rates and substantially equivalent fringe benefits and terms and conditions of employment shall continue for at least 30 months from the time of the transfer of ownership unless the employees, or where applicable collective bargaining representative, and the new employer mutually agree to different terms and conditions of the employment within that 30-month period.

(e) An acquiring entity is exempt from the obligations in this subsection if the selling municipality transfers all displaced municipal electric utility employees to positions of employment within the municipality at no less than the wage rates and substantially equivalent fringe benefits and terms and conditions of employment that are in effect at the time of transfer. The wage rates and substantially equivalent fringe benefits and terms and conditions of employment shall continue for at least 30 months from the time of the transfer unless the employees, or where applicable collective bargaining representative, and the municipality mutually agree to different terms and conditions of the employment within that 30-month period.

History: Add. 2000, Act 141, Imd. Eff. June 5, 2000;—Am. 2008, Act 286, Imd. Eff. Oct. 6, 2008.

Popular name: Customer Choice and Electricity Reliability Act

IOB-6

Power System
Engineering, Inc.

OFFICES IN:
MADISON, WI
MINNEAPOLIS, MN
MARIETTA, OH
INDIANAPOLIS, IN

12301 Central Avenue, N.E., Suite 250
Minneapolis, MN 55434
Fax: (763) 755-7028
Tel: (763) 755-5122
Web Site: www.powersystem.org

Via e-mail

June 3, 2009

Mr. Mike Furmanski
City of Escanaba Electric Department
1711 Sheridan Road
Escanaba, MI 49829

RE: Scope of Work For June through September 2009

Dear Mike:

Power System Engineering (PSE) has appreciated the opportunity to work with Escanaba on a number of projects including the Request for Proposal (RFP) to evaluate proposals for the power purchase and plant sale. The purpose of this memo is to outline a number of areas that are expected to be needed in the upcoming months.

There are a number of issues common to either direction on the August 4 2009 vote, including determining the MISO Market interaction and settlement, and determining the transmission arrangement for the city. The immediate identified needs are related to the opportunity to purchase energy from an outside entity in order to reduce the price volatility from the MISO Market. This is envisioned to utilize a fix for float swap agreement, and be settled on a financial basis, without having to settle as part of the MISO settlement. Work for this includes determining the optimum block amounts (MW) for the purchase, and optimize with the dispatch of the system and balancing off with short-term MISO purchases as needed.

PSE envisions the following areas of study and work for Escanaba for the time period of June through September. Once the August election results have been compiled, it will provide direction on the scope of services needed at that point, but there are a number of services that are common to either outcome. The following areas can be reviewed in the June through September timeframe:

1. Fix for Float Block Power Purchase
    a. Prepare an analysis showing the expected optimum block purchase size, with an anticipated block in the range of 5-7 MW over all hours of the day, and an on peak block from 7 am through 11 pm in the range of 8-12 MW. Historic load and prices for 2008 will be used for the July through September time period, with a number of defined price scenarios.
    b. Prepare an RFP based on the results of the purchase power block analysis to seek proposals from outside entities for the fix for float swap agreement. Time will also be spent interacting with prospective providers of the swap deal.
    c. Evaluate the results of the proposals, and summarize in a powerpoint presentation. Present the results to the EAC, and assist in the contract negotiations.
    d. Targeted start date for the transaction is July 6, 2009.
2. MISO Services Evaluation (needed until June 2011, or later if a "no" vote)
    a. Define the MISO settlement services needed for the City of Escanaba
    b. Send out RFP to parties that may potentially be interested in performing settlement services for the City
    c. Guide the selection process for the MISO services provider
3. All Requirements Escanaba Purchase Power Selection (if a "yes" vote on Aug 4)
    a. Refresh the analysis of the purchase power evaluation based on the most recent updates
    b. Provide a summary powerpoint presentation to the EAC and other groups as needed
    c. Make recommendation on purchase power vendor
    d. Assist in contract negotiations with purchase power vendor
4. Plant Sale Vendor Selection
    a. Refresh information on the plant sale vendor selection
    b. Provide a summary power point presentation to the EAC and other groups as needed
    c. Make recommendation of plant sale
    d. Assist in contract negotiation with plant sale entity.
5. Network Transmission Service Evaluation
    a. Perform a high-level transmission model evaluation using the ATC PSSE loadflow models in order to determine the transmission capability of facilities interconnected with Escanaba.
    b. Build a timeline of network service application and show intersect with Plant sale and power purchase timelines.

We are proposing that the budget for this work be limited to $25,000 for the June through September time period.

Please let me know if this approach is acceptable for helping continue to keep the process moving ahead during these months before the election.

Sincerely,

Tom Butz
Senior Planning Engineer

DB-6

Bruce A. Carlson, P.E.
1056 Highland Drive
Ishpeming, MI 49849
May 29, 2009

Jim O'Toole
City Manager
The City of Escanaba, City Hall
410 Ludington Street
Escanaba, MI 49829

Dear Mr. O'Toole:

ESCANABA ENERGY – SALE OF THE ESCANABA GENERATING PLANT

It was a pleasure talking to you, and thank you for the opportunity to provide this proposal for my services. I will be immediately available to organize and implement a program to create the opportunity for the public to become informed about the benefits and plans for sale of the Escanaba Power Plant, and long-term energy plans. This proposal will also provide for continuation of my service to develop and implement a strategic plan for interim plant operation, the sale of the plant, application for power from the grid and long-term power purchase.

Phase 1 – Informing the Public of the Facts and Benefits

This work will involve planning, coordinating and facilitating meetings for the following activities:

- Initial meeting(s) with the City of Escanaba and the City Council to set goals and gather ideas and information. The vision, goals, and specific activities required and the resulting benefits will be summarized, and will be the direction to continue with Phase 2 involving the actual sale of the plant and addressing power needs.
- Meetings with the appropriate groups such as the City Council, the Chamber of Commerce, the EAC and the Save Your Plant Group to form an ad-hoc committee.
- Editorials in The Daily Press
- Mailers to the City Residents
- Morning coffee meetings

It is my understanding that this work will need to take place immediately and effectively to inform the public, particularly the citizens voting by absentee ballot.

Phase 2 – Develop the Strategic Plan and Implement it

This work will involve reviewing previous work and documents, and meeting with the City and other organizations to establish the goals and objectives. This will be a basis and direction for the detailed strategic plan. This detailed plan will involve the following strategy and major activities:

- Existing conditions
- Vision and goals
- Benefits
- Immediate priorities for the city
- Major activities and schedule
- Interim plant operation
- Purchasing power during interim and long-term
- Sale of plant
- Risk management and contingency planning
- Public relations

My rates will be $90 per hour. Expenses will be kept at a minimum since I have family living in the area.

I have proven communication and organizational skills, and will plan and facilitate effective meetings with results.

I look forward to working with you, and will call you Friday afternoon, May 29.

Sincerely,

Bruce A. Carlson, P.E.

DB-6

Bruce A. Carlson, P.E.
1056 Highland Drive, Ishpeming, Michigan 49849
Office: 906-485-4213, Mobile: 906-250-9234
Email: bcarlso@charter.net

Executive Summary

Bruce Carlson offers over 26 years of experience in power generation, power distribution, manufacturing, plant expansions and new commercial building design. This experience includes feasibility studies and managing projects through design, construction and start-up, leading plant operation and project teams, and providing electrical design for a new community college in Upper Michigan. Mr. Carlson's experience includes utilities, pulp and paper and mining; and plant, corporate, and consulting engineering throughout the U.S. and in Canada.

Mr. Carlson is experienced in business development, small business start-up and has a focused interest in alternative energy, generating business, customer satisfaction and creating jobs.

Professional Profile

Broad Range of Experience Lead teams to design, solve problems, support plant expansions, and support trialing of new product production and new equipment to meet new product nation-wide launch, contributing to an R&D facility moving to a full production facility.

Customer Focused Through effective communications and following through have achieved an excellent track record of pleasing the customer.

Project Leadership Successful leading teams to bring projects in on time, on-budget and with customer satisfaction.

Plant Operations and Maintenance Achieved success working as a maintenance team leader and as an operations team leader gaining the respect of the teams.

Organizational Skills *Back*ground includes success developing and communicating the goals and objectives, planning, coordinating, managing and seeing projects through completion.

Business Development Achieved success marketing services and products, and working effectively with clients to understand requirements and secure key accounts.

Technical Expertise Technical expertise includes operation of paper mill, pulp mill, electric power generation; and electric power distribution, controls, power system studies, plant feasibilities studies and lighting system design.

Licensure Licensed Electrical Engineer, State of Michigan

Awards As Electrical Team Leader received the Kimberly-Clark Corporation Outstanding Achievement Award. As Project Team Leader with the Upper Peninsula power Co. received the Michigan Technological University Best Corporate Sponsor of Senior Projects.

Membership Institute of Electrical and Electronic Engineers

NB-6

Bruce A. Carlson, P.E.

Experience and Accomplishments

Rockwell Automation, Senior Electrical Engineer Managed projects, led teams, provided electrical design and power studies for manufacturing. Evaluated, estimated cost and recommended options for a re-power plan for utility plant load.

Poyry, Electrical Engineer Provided power system design for as US Gypsum corporation paper mill conversion project. The client considered this project to be very successful.

Byce Engineering, Inc, Electrical Engineer Lead electrical engineer for the electrical design of a new community college to include electric power, lighting, security and IT infrastructure.

Foth & VanDyke, Inc., Electrical Engineer Completed powers system studies.

Upper Peninsula Power Co., Engineering Coordinator Working as the engineering coordinator directed distribution engineering for the Upper Peninsula of Michigan. Developed and wrote a utility emergency revolving load reduction plan. Worked with customers and led teams to solve problems.

Resource Link, Inc.,President Recruiting of the top 10% of engineers for manufacturing clients.

Jacobs Engineering Group, Project Engineer Project lead for plant control system projects that resulted in improved operations for clients.

Kimberly-Clark Corporation, Project Engineer Led electrical design team through a machine conversion and substation project completed ahead of schedule, bring the R&D facility to a full production facility resulting in quality products sold nation-wide. Project engineer for a successful paper coater machine coat weight and moisture control project that led to improved quality, production and profit.

Badger paper Mills, Inc, Maintenance Engineer As maintenance engineer led pulp mill maintenance team and power plant operating team to solve problems and achieve effective operation.

Education

Michigan Technological University, Houghton, MI
BS Electrical Engineering Emphasis: electric power systems and machinery

Bay de Noc Community College, Escanaba, MI
Associate in Applied Science, Emphasis: pre-engineering and applied technology

From: "Jim O'Toole" <jotoole@escanaba.org> Date: Monday, June 01, 2009 9:09 AM
To: mfurmanski@escanaba.org, CDeshambo@escanaba.org HTML | Plain Text | Header | Raw Content
Subject: FW: Baseline Environmental - Power Plant

From: Elizabeth Keller [mailto:EKeller@escanaba.org]
Sent: Wednesday, May 20, 2009 12:29 PM
To: jotoole@escanaba.org
Subject: re: Baseline Environmental - Power Plant

Subsequent to the original memo, I had changed my mind and suggested NOT ordering environmental assessments, beginning with ESA's I and II, so as not to place the city in the role of contaminator. This could trigger state-required remediation activity with the city as responsible party. My recommendation is to begin this process only if and when there is a likelihood of selling the plant. Phase I and II ESA's could be done early in the transfer process, but the BEA should wait until it can be certified to a new owner. (The city may order and pay for this activity as part of a transfer deal, but the certification, which is good for only 90 days, must go to the new owner).

Elizabeth H. Keller, CMAE III
City of Escanaba Assessor
PO Box 948
Escanaba MI 49829
Phone (906) 786-9402
FAX (906) 786-4755
website: www.escanaba.org
Hours: 7:30 am to 4:00 pm ET

From: "Jim O'Toole" <jotoole@escanaba.org>
Sent: Wednesday, May 20, 2009 7:31 AM
To: ekeller@escanaba.org
Subject: Baseline Environmental - Power Plant

Elizabeth:

As you know we have been discussing the environmental concerns associated with the Power Plant property. In February you wrote a memorandum which stated we should begin the environmental assessment process as soon as possible. By doing this, is there a downside to a potential sale or if a sale falls through? In other words, what are the pros and cons? Also, do you have a template of a RFP in getting the assessment done?

Thanks.

James V. O'Toole
City Manager
P.O. Box 948, 410 Ludington Street
Escanaba, Michigan 49829
(906) 786-9402
citymanager@escanaba.org