

**ELECTRIC ADVISORY COMMITTEE**  
**06/17/2009**

The special 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

**Absent:** Tim Wilson, Don Racicot

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

**APPROVAL/ADJUSTMENTS TO THE AGENDA**

Member Baker made a *MOTION* to adjust the agenda to add discussion on the coal issue, current status and what's been done since last weeks meeting. Brown seconded it and it *CARRIED UNANIMOUSLY*.

**CONFLICT OF INTEREST**

None

**NEW BUSINESS:**

**Fixed for Float RFP Discussion**

Furmanski reported that Administration and Power System Engineering will lead a discussion of the results of the fixed for float swap RFP that was recently issued. He went on to explain that a fixed for float swap is an agreement that fixes the cost of purchased power at an agreed upon price. He commented that the City has been able to purchase power for a much lower cost than it could generate power over the past few months. Offers were requested in an attempt to lock in power at these reasonable rates. If the offers received warrant further investigation, a recommendation to City Council will be sought.

Member Brown asked for some clarification on Block 2 of the RFP which was 15MW per hour for the 5 x 16 period. Furmanski reported that it was for purchasing 15MW per hour for 5 days, 16 hours per day. This would be for on peak hours. Block 1 was 7 MW per hour for the 7 x 24 period which is 7 MW , 7 days a week, 24 hours a day. Furmanski said he and Butz had talked it over already and had decided that the 7 MW and 15 MW could actually be cut back to 5 MW and 12 MW should we go ahead with an agreement, and it should not be a problem with any of the proposers.

A copy of the RFP is attached and part of the minutes as **ATTACHMENT A**

Tom Butz, Power System Engineering, provided a powerpoint presentation to members and fielded their questions as he went through it. The power point presentation is made part of the minutes and attached-**ATTACHMENT B**.

Butz ended the presentation with the decision options available to the EAC. Those options include rejecting all offers or considering the top two (2) offers. He commented that if the EAC went ahead to get an agreement, a recommendation would have to be made to Council at the June 18<sup>th</sup> meeting, which would be tomorrow evening. In considering the top two offers, the parties would have to be notified, further work would have to be done with working through credit and agreement terms, retention of experienced legal counsel, determining if the deal continues to make sense. This would all have to be ironed out so the agreement could be implemented by early July if acceptable. The target date set was for July 6<sup>th</sup>.

Butz commented that 2009 is looking less volatile than 2008. He felt that if this were a normal summer, he would lean toward the fixed price because of the volatility. Even in the short term he felt you'll come out better than self generation.

Brown asked the estimate of costs for the retention of experienced legal counsel in the matter and Butz commented in the area of \$8000-\$12,000.

Brown asked if we could take just one block or are we obligated to take both blocks with the RFP. He felt that Block 2 is the one that you would hedge against the most. Butz said it would be better to take on both blocks.

Beauchamp asked Furmanski if he was looking for a recommendation on this this evening. Furmanski said yes, if they were going to go forward with it, they would need a recommendation to take to Council tomorrow evening.

Baker asked if Butz has seen any of these agreements of fixed costs where they have a ceiling cap. Butz commented that basically they are called a marginal call whereby when the deal gets to a certain point, market to market, then a defined action comes into play. Baker asked then if he knew of any other municipalities that had such an agreement, and whose documents are public information. Butz commented that he was not sure about that, and that the expertise on the legal side is who he himself is counting on to help him through this process and getting an agreement that is favorable to the City.

Brown said he would like to hear from Mike on what his thoughts were on the whole process. Furmanski commented that the companies that responded were not doing us a favor, they just saw us as an opportunity to make some money. His thoughts were to just continue on doing as we are doing, and rejecting all offers. He commented that as Mellinger said, manufacturing is down and this is a driver; also weather is a driver. He said the general philosophy of a municipality is not to take risks, if you have a chance to lock in, then lock in. But, he felt we should continue to do as we are. He said transmission charge will be there every month as long as that one generator is down. Arkens asked when the #2 generator will be back on. Pirkola said if all goes according to

plan, the week of July 20. Butz asked how long it took to bring it back up. Pirkola said 12-24 hours, but if they have to fill it, it would be 24 to 36 hours. He said if we are looking at a 3 month deal, they do not typically like to let a boiler sit with water in it for more than 30 days so they would drain it. Baker asked if you had 2 good operable units if you could take one unit down and then switch over to the other unit. Pirkola said it was possible to flip flop their useage.

Baker said he had further thoughts and observations on this matter. He said in the last 2-3 months we have seen the plant and the people who run it do a superb job. He commented that the focus on purchasing has gained a new level of importance. The people have done a superb job and we are now at up to a level of 70% purchasing. He felt that if we could do anything to provide them with more technical support it should be done so we can keep it around 70%. He said he would be hesitant to sign any fixed rate agreement right now based on the information that is before him.

Baker said he would put forth a motion that we not do anything right now on any short term agreement. Brown said he would support that along with an addendum to it, saying Tom Butz has done a lot of work for us to this point and possibly we could do a post study analysis in September and compare how we have done against his analysis. Baker said he fully supports the addendum to the motion.

After a final short discussion, a *MOTION was made by Baker to not enter into a short term fixed agreement and at the end of September to do a full analysis of the 3 month contract looking at purchase costs vs variable costs. The motion was seconded by Brown.* Bissell asked for public comment at this time and Beauchamp said no, we have been here before with a motion on the floor and a second. Bissell said she would like to be transparent, saying we ask for public input and she felt we need to hear public comment before we vote. Beauchamp said at this time with the motion on the floor and the second to it, he could only entertain more committee discussion if needed. Baker asked what more could possibly be done to help the plant people do their job and possibly do it even better and succeed even more. Beauchamp said some software had been suggested at one time. Pirkola commented that right now it is a very easy decision for the plant people. The prices are so low, it makes their decision easy. He commented that when the prices go between \$50-\$70, that is when the decision making gets harder. The trend has been lately that at 10:00am the prices are higher and then are back down again around noon and tending to stay low.

Beauchamp said that a motion was on the floor and a second and asked if there was any further discussion. The *MOTION CARRIED UNANIMOUSLY.*

Bissell commented that she would like to have a provision made in our agendas to have public comment before we decide on an issue. Beauchamp asked Furmanski his thoughts on the matter and he responded if it was the committee's wishes it would be no problem. Beauchamp then asked Bissell if it was a motion for all future agenda to which she replied yes. *A Motion was then made by Bissell to have public comment for all future agendas at the beginning of the meeting before you get into the item discussion as well as at the end of the agenda. The motion was seconded by Baker.* He then commented that

he had no problem with the motion just presented but did have a problem with when a motion was on the floor and had been seconded, to then interrupt the process with public comment. The *MOTION CARRIED UNANIMOUSLY*.

### **Coal Discussion**

Baker reviewed that we currently have 67,000 tons of coal on the dock, a \$4.5 million dollar obligation with approximately 45,000 tons yet to come and said he did in fact see the contract that had been signed by 3 people. He wondered if there had been any further news since last weeks meeting.

Furmanski reported that he had talked with City Attorney Ralph Peterson on the matter and was told that the City does hold a signed contract and with that would probably lose any battle in court and end up paying fees for Alpha Coal also. Baker then asked why we, not City Attorney, can't just pick up the phone and call them and ask for a gentleman's agreement such as the case in 2005 where we helped them out when they had extra coal on the dock. Arkens asked if the coal met the specs from the bid to which Furmanski reported that we have not received any of the Alpha coal yet to check that requirement. Baker asked the rate for storage on the dock to the coal company to which Pirkola responded it just went up in June to \$2.52. Baker asked also if the dock could hold 100,000 tons of coal. Pirkola said presently the portion we are leasing is just about full, and we would have to talk with C. Reiss to see if we could get more space. Baker asked about the paying for the coal and Furmanski reported that the coal is paid for and owned by the Electric Department within 30 days of the delivery of it. The City is then paid back by the rate payers when they pay their bill. Baker then said that we have a real coal problem on our hands and asked if Alpha won't take it back, can we find a buyer for it. Furmanski commened that we are working on that.

Beuchamp commented that in item 2 of the contract, 4 times it reads that seller shall make available for sale to buyer, it does not say that they are obligated. Furmanski said when he first looked it over, he felt that would be our out, however, in the second paragraph of the intro, it says buyer agrees to purchase coal from seller. Several other places in the contract where it mentioned quantities, it only mentioned that quantities shall be available, did not mention anything about obligation. Baker then commented that someone needs to call these people and felt it should not be the attorney. Mellinger said he felt something should be done also and it should be high priority for someone in the Administration considering the amount of money involved.

Cheves commented that he agreed, it would not hurt to make a phone call to see what can be done, he did however caution it may be a bit premature as to how much we want to sell off or not take depending on how things played out in the next few months and get some forecasting under our belts.

Baker said he did not disagree with that, but said just getting out of even 1 boatload is a \$1.5 million dollar savings to the City. He said we might just get out of all 3 boatloads. He felt that the attorneys are the last people he would have resolve the issue. We should try and do it with a phone call ourselves. He also commented that it should not be kicked

down to Green Bay to have them handle it, they are not the ones who have to pay for it, the City does.

### **General Public Comment**

Bill Gasman came to the podium and commended all for the job that they are doing. He feels that all are looking at other options now as he had hoped would be done.

### **Announcements-Committee Members/Administration**

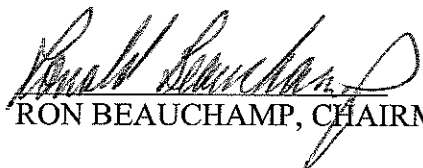
Furmanski commented that they have been working on getting together an annual Electric Utility report and have a rough first draft done. He said it does have a way to go before it is done. There will be a subcommittee meeting on it one day next week, and when he know the exact date, he will send an email out. Brown asked if he could e-mail a copy so if they had comments they could add to it. Beauchamp asked the target date for the mailing of the report and Furmanski reported it was July 6<sup>th</sup>.


Bissell commented about possibly something similar to what WPPI puts out and possibly putting into the brochure the energy star appliance rebate program that we had offered. Furmanski said decisions will have to be made as to what is printed as they have limited space.

Baker asked for a rundown of the upcoming meetings to be held and asked about the EAC role for each of them. Members were advised of times and dates of the 3 upcoming events and were encouraged to attend. Members were advised that both DTE Energy Services and Traxys would be at the Town Hall meeting at the mall.

Meeting adjourned: 7:48pm

APPROVED:

  
RON BEAUCHAMP, CHAIRMAN

  
MIKE FURMANSKI, ELEC. SUPT.

**City of Escanaba Michigan**  
**Request for Proposal**  
June 10, 2009

The following is the proposed terms and conditions for the Escanaba Energy Purchase.

**Type of Proposal:** Fixed for Floating Energy Purchase

**Seller:** [Prospective Party]

**Buyer:** City of Escanaba, Michigan

**Governing**

**Agreement:** Escanaba would prefer to utilize the Mid-Continent Energy Marketers Association Tariff ("MEMA Tariff") and the ISDA (consider using long form confirmation initially) as the Governing Agreements (not MISO Finsched).

**Product:** Fixed for Floating Energy Purchase for each Block. Transaction will settle at a fixed price monthly for the floating MISO DA Price at the UPPCO Integrated load zone. No Capacity is required. Financial Swap as defined by the ISDA schedule. There are no ancillary services associated with this transaction. Escanaba currently does not conduct MISO business directly, but is able to purchase MISO DA and RT energy through an operating agreement. This transaction is designed to fix the price of energy for Escanaba outside the current operating agreement.

**Contract Term:** July 6, 2009 through September 30, 2009  
(priced monthly for each Block).

**Preferred Point of Delivery:** The MISO Load Node - UPPC.INTEGRATD

**Contract Quantity of Energy:** Block 1 7 MWh per hour for the 7x24 period  
Block 2 15 MWh per hour for the 5x16 period,

**Proposal Deadline:** June 16, 2009 5:00 PM Central Time

**Response Form:**

Month	Block 1 (MWh/hr)	Block 2 (MWh/hr)	Block 1 Fixed Price - \$/MWh	Block 2 Fixed Price - \$/MWh
July 2009				
August 2009				
September 2009				

**Price Fixed at Node:** \_\_\_\_\_

**Financial Information:** The City of Escanaba Michigan is the entity backing the deal. Financial ratings are not readily available as they have conducted their municipal on a primarily a cash basis. Escanaba prefers an arrangement without a collateral table and would prefer to have language with respect to adequate assurance.

**Escanaba  
Purchase Power Analysis**

Tom Butz  
Power System Engineering  
June 17, 2009

1

**Background**

- MISO Purchases Much Less Than Generation Cost
  - Variable Generation Cost - \$61/MWh
  - LMP Purchase Cost \$35-40/MWh Including Transmission Costs For March and April 2009
- Question - Will Summer Prices Provide Economical Purchase Opportunity?
  - Seek Fixed Price Purchase Product

2

**Short-Term Sales Agreement**

- Allows Escanaba to Purchase and Sell to MISO
- Limited to DA and RT Transactions
- Provision for Bilateral Agreement
  - UPPCO not interested in facilitating
- Need for Other Means of Locking In Purchase Price

3

**Description of Product**

- Fixed for Float Purchase
  - Lock into a Price - Fixed
  - Measured Against MISO Price - Float
- Settled Outside of MISO Settlement
  - Doesn't Impact UPPCO
- Agreement of Counter-Party and Escanaba
- Typically Use ISDA Agreement
  - International Swaps and Derivatives Association
  - Legal Counsel to Provide Guidance

4

**Process**

- Define two Blocks
  - 7 MW - 7x24 (all hours)
  - 15 MW - 5x16 (on peak hours)
- Request for Proposal Sent June 10
  - MEMA Distribution List
  - Due June 16
- Received 7 Proposals
  - AEP, Ameren, Cargill, Powerex, Sempra, Traxys, WE Energies

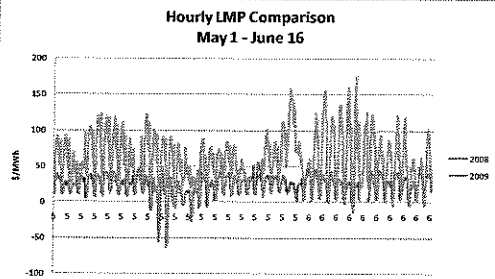
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**Analysis**

- Compare 2008 LMP Prices to 2009
- Project 2009 LMP Average Cost
- Compare Projected 2009 LMP Purchase to Average Generation Cost
- Compare Fixed for Float (F/F) to Generation Cost
- Decide - Fixed Price and Savings vs. Variable Price with Possibility of more or less Savings

6

### LMP Comparison 2008 vs. 2009



7

### LMP Average Cost Comparison

	2008 7x24	2009 7x24	2008 5x16	2009 5x16
May	60.17	21.32	80.56	29.43
June	58.49	24.00	87.10	32.43

8

### Key – Project Average 2009 LMP

	2008 7x24	2009 7x24	2008 5x16	2009 5x16
May	60.17	21.32	80.56	29.43
June	58.49	24.00	87.10	32.43
July	73.28	38.78	106.48	51.82
Aug	62.10	38.78	84.66	51.82
Sept	47.52	21.32	65.82	29.43

June-July 2008 Change Applied to 2009 June to Date LMP  
Lock into August Price using July Price

Assume September Prices same as May 2009

9

### Compare Purchase vs. Generation

- Purchase RT and DA LMP vs. Generation
  - 3 month Savings of \$640,542
- Best F/F Proposals
  - Party 6 – \$444,835
  - Party 1 – \$405,102

10

### Risk Analysis

- How Many Days of 2008 LMP Average Prices to “eat up savings” of LMP purchase compared to F/F Purchase?
  - July – 3.5 Days
  - August – 8.7 Days
  - September – 26.7 Days

11

### Decision Options

- Reject All Offers
- Consider Top Two Offers
  - Notify Parties
  - Work Through Credit and Agreement Terms
  - Retain Experienced Legal Counsel
  - Determine if Deal Continues to Make Sense
  - Implement by Early July if Acceptable

12