



**CITY COUNCIL/ELECTRICAL
ADVISORY COMMITTEE**

April 11, 2012 – 6:00 p.m.

Regular Meeting

CITY COUNCIL

Leo Evans, Mayor
Brady Nelson, Mayor Pro-tem
Patricia Baribeau, Council Member
Ronald Beauchamp, Council Member
Walter Baker, Council Member

ADMINISTRATION

James V. O'Toole, City Manager
Robert S. Richards, CMC, City Clerk
Ralph B.K. Peterson, City Attorney
Mike Furmanski, Electrical Superintendent
Michael Dewar, City Controller
Thomas Butz, Power System Engineering

ELECTRICAL ADVISORY COMMITTEE

Tim Wilson, Chairperson
Ann Bissell, Vice Chairperson
Larry Arkens, Committee Member
Glendon Brown, Committee Member
Donald Racicot, Committee Member
John Anthony, Committee Member
Vacant Seat
Vacant Seat

Escanaba City Council Chambers: 410 Ludington Street - Escanaba, MI 49829

Regular Meeting Agenda
Wednesday, April 11, 2012

CALL TO ORDER
ROLL CALL
APPROVAL/ADJUSTMENTS TO THE AGENDA
CONFLICT OF INTEREST DECLARATION

NEW BUSINESS

- 1. Update - Electric Department –Distribution Operations**
Explanation: Electrical Superintendent Mike Furmanski will discuss current departmental activities and operations.
- 2. Update– Operation and Maintenance of Power Plant – Pro Energy Services, Inc.**
Explanation: Pro Energy Services, Inc will update the City Council, Electrical Advisory Committee and Citizens of Escanaba on the status of the operation and maintenance of the power plant.
- 3. Discussion – Environmental Update**
Explanation: Administration and Geosyntec will provide an update on the Due Care plan being developed for the plant site.
- 4. Discussion– Plant Sale Update.**
Explanation: Administration will provide an update on the plant sale negotiations with Escanaba Green Energy.

Agenda -April 11, 2012

5. Discussion – Electric Rate Study.

Explanation: Administration will provide an update on the ongoing electric rate study.

6. Approval – Power System Engineering.

Explanation: Administration will seek approval to continue using the services of Power System Engineering regarding the plant sale as well as power purchase agreements.

GENERAL PUBLIC COMMENT

COMMISSION/STAFF COMMENT AND ANNOUNCEMENTS

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 City Hall at (906) 786-9402.

Respectfully Submitted,

James V. O'Toole
City Manager

OFFICIAL PROCEEDINGS
CITY COUNCIL
ELECTRICAL ADVISORY COMMITTEE
CITY OF ESCANABA, MICHIGAN
Special Joint Meeting
Wednesday, March 7, 2012

Pursuit to a meeting notice posted February 23, 2012, the meeting was called to order by the Mayor Leo J. Evans at 6:00 p.m. in the Council Chambers of City Hall located at 410 Ludington Street.

Present: Mayor Leo J. Evans, Council Members, Walter A. "Pete" Baker, Patricia A. Baribeau, Ronald J. Beauchamp, and Brady L. Nelson.

Absent: None

Present: Electrical Advisory Committee Members: Chairperson Tim Wilson, John Anthony, Larry Arkens, Ann Bissell, and Don Racicot.

Absent: Glendon Brown, and Two vacancies

Also Present: City Manager James V. O'Toole, Electric Superintendent Mike Furmanski, City Controller Mike Dewar, City Attorney Ralph B.K. Peterson, Power Plant Manager Jerry Pirkola, PSE Consultant Tom Butz, guests, and Media.

Electric Superintendent Mike Furmanski asked to switch Agenda Items 3 & 4.

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

UNFINISHED BUSINESS - None

CONFLICT OF INTEREST - None

PUBLIC HEARING - None

NEW BUSINESS

Update - Electric Department - Distribution Operations.

Electrical Superintendent Mike Furmanski discussed current departmental activities and operations regarding:

- Hiring of new lineman;
- Various projects;
- Stephenson Avenue lighting project;
- MJ Electric still working on additional electrical poles throughout the community.

Update - Operation and Maintenance of Power Plant - Pro Energy Services, Inc.

Jerry Pirkola of Pro Energy Services, Inc. updated the City Council, Electrical Advisory Committee and Citizens of Escanaba on the status of the operation and maintenance of the power plant. The following was reviewed:

- Units 1 & 2 ran part time in February;
- There was one leak which caused both units to be shut down for one week while repairs were made;
- Units 1 & 2 were currently running, and the Combustion Turbine unit (CT) was also currently running with three starts for the month;
- There was 23,500 tons of coal available on the dock in Gladstone. There was enough supply to last possibly through June and July;
- Reviewed propane charges for December to date;
- City Controller Dewar advised January losses were \$250,000. In January, City began purchasing power from Nexus Energy. Power Plant losses to date were \$500,000.

Update - Power Plant Environmental Remediation.

Administration provided an update on the environmental remediation study.

Geosyntec could not be present to make a full presentation. Geosyntec representative Gary Daniels presented a brief overview of the Environmental Remediation status at the Power Plant.

Baker moved, Beauchamp seconded, **CARRIED UNANIMOSLY**, to have Geosyntec make their full presentation at the next month joint meeting as unfinished business.

Update - Plant Sale.

Administration provided an update on the letters of interest tendered for the purchase of the Escanaba Power Plant.

- Negotiating team contacted all five parties who were interested in purchasing the City Power Plant and gave all parties the terms of purchase to move the decision forward. Administration reviewed terms given to the five parties;
- Three of the five parties responded saying they were not interested. Two parties, ReCast Energy and Escanaba Green Energy LLC responded in favor of purchasing the Power Plant;
- Administration reviewed proposals received from Escanaba Green Energy LLC and ReCast Energy, (See Attachment – A)
- After the City negotiating team met with both parties, they recommended it was in the best interest of the City of Escanaba and its citizens to enter into a purchase agreement with Escanaba Green Energy LLC for the City Power Plant.

Escanaba Green Energy LLC representatives Charles Detiege and John Branson made a presentation about their company, its background, the purchase of the Power Plant, why it would work, the expected benefits for the City and the economy, and financing for the purchase of the City Power Plant and its conversion to Escanaba Green Energy LLC. (See attachment – B)

After various questions by Council and Electrical Advisory Committee Members, and answers from Escanaba Green Energy LLC representatives, the following motion was made:

NB-3 With no further questions, issues or concerns from the Electrical Advisory Committee Members, Nelson moved, Baker seconded, to grant exclusivity to Escanaba Green Energy LLC for a period of 90 days from the date of signing a the letter of intent, during which time Escanaba Green Energy LLC will have the exclusive right to negotiate a binding contract with the City of Escanaba based upon the representations made by Escanaba Green Energy LLC in its proposal to purchase the Escanaba Generating Station dated February 23, 2012 including but not limited to:

- 1) Upon approval by Council, Escanaba Green Energy LLC will provide the City with a irrevocable letter of credit for \$200,000. Said deposit will be applied to the purchase price at the time of closing. Said deposit will be refunded to Escanaba Green Energy LLC only in the event that the closing does not take place due to the sole fault of the City;
- 2) Upon closing, Escanaba Green Energy LLC will agree to maintain the plant in an operable condition or in a state of making capital improvements for a period of 3 years;
- 3) Escanaba Green Energy LLC will not require a Power Purchase Agreement as a condition of closing;
- 4) Escanaba Green Energy LLC will agree to provide a performance bond or letter of credit in the amount of at least \$2,000,000 that will be used to protect the City from having a party abandon the project and leave the City with cost responsibility of dealing with an abandoned plant;
- 5) The purchase price of the Power Plant is \$1,500,000;
- 6) Escanaba Green Energy LLC will close on the sale in 90 days.

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

Ayes: Nelson, Baker, Beauchamp, Baribeau, Evans

Nays: None

MOTION CARRIED.

Update - Plant Salvage Estimate.

Administration provided an update on the selection of a party providing the Power Plant Salvage Value estimate. Approval was given at a prior meeting. Administration stated they would be selecting the firm of Golder Associates to provide a Power Plant salvage estimate.

Update - Cost of Service/Rate Study.

Administration provided an update on the Cost of Service/Rate Study proposals that were received on March 6, 2012. Proposals ranged from \$19,000 to \$47,000. A Service/Rate Study needed to be accomplished as soon as possible so rates could be determined for the upcoming Fiscal Year Budget. The Electrical Advisory Committee would be updated and forwarded copies of the proposals. Administration stated information would be brought to Council at its regular March 15, 2012 meeting for approval.

Discussion – Administration Fee – Pro Energy Services.

Administration discussed an administrative fee request from Pro Energy Services for the management and oversight of the power plant operations. City Controller Mike Dewar reviewed the information. Mr. Dewar stated Pro Energy Services asked for the fee request due to the amount of details the City of Escanaba had requested. Mr. Dewar stated there was value with the additional information being received.

- Electrical Advisory Committee Member Raciot believed Pro Energy was given contract for their services. Pro Energy was given and knew the types of information that could be requested. He was opposed to Pro Energy's additional fee request;
- \$2,500 additional per month was being requested by Pro Energy Services;
- Numerous questions were asked by Council and Committee Members:
 - Was contract less lucrative, and larger than they thought, or was Pro Energy just asking for more funds because they are being asked to do more?;
 - What was the justification for the additional fee request from Pro Energy?;
 - Was the additional service worth \$30,000 extra a year?;
 - What was the detail, and reasoning for increase from Pro Energy?
- The level of detail being requested from Pro Energy was excessive, but was in the details as part of the original contract;
- It was suggested that Administration contact legal counsel to ascertain whether Pro Energy's request was legitimate or not.

It was the consensus of both bodies not to act on their request at this time.

GENERAL PUBLIC COMMENT

COUNCIL/COMMITTEE, STAFF REPORTS

Joint City Council & Electrical Advisory Minutes
March 7, 2012 – cont.

Manager O'Toole reviewed a Department of Environmental Quality (DEA) Notice of Termination regarding the Power Plant Opacity violation. He stated the DEQ had decided not to proceed with Consent Order No. 13-2009 violation.

ADJOURNMENT

Hearing no further public comment, or further reports from the Electrical Advisory Committee or Council, the meeting adjourned at 7:45 p.m.

Respectfully submitted,

Robert S. Richards, CMC
City Clerk

Approved:

Leo J. Evans, Mayor

	ReCast	Escanaba Green Energy LLC
Expected Plant Modifications	Repower to Biomass with Existing Configuration - possible conversion to higher pressure discussed earlier	Repower to woody biomass chips.
Offer Price for plant	\$200,000	\$1,500,000
Buyer shall make a non-refundable deposit of \$200,000 to be applied too the purchase price on the date of closing.	Not until the details of the Asset Purchase agreement are agreed on.	Yes
3 year commitment to maintain the plant in a state of being operable, or in a state of making capital improvements to the facilities	Yes	Yes
Seller does not require that a Power Purchase Agreement to sell energy from the facilities be in place prior to or after the closing date.	Yes	Yes
Buyer is required to provide a performance bond in the amount of at least \$2 Million (amount to be negotiated before granting exclusivity) that will be used to protect the City from having a party abandon the project and leaving the City with cost respons	Yes	Yes
Date of closing	Want to wait until MISO rules on our Attachment Y submittal	90 days

3/7/2012

Benefits of the Project

- Local jobs will remain in the city.
 - Hire from the staff at the Station:
- Will purchase local chips (270,000 tons annually) from chipping operations of local loggers creating more than 100 jobs in the area.
- Will purchase supplies from local vendors.
- Scamaba will have an updated "Green Power" plan in the region to help with reliability.
- The potential to create additional jobs through off companies.



EGE & HM

Financing the Project

- The Joint Venture has already discussed with a select group of lenders and investors that have agreed to provide construction and permanent financing.
- Borrowing terms will be very competitive despite tight lending market, helping to keep overall Project costs under control.
- Conversion should take no more than 10 months.
- No PPA required to close the Sale with the City.



EGE & HM

Questions



EGE & HM

3/7/2012

HM Background Cont..

- Arranged over \$2 billion of financing for projects in 15 different countries.
- Arranged over \$300 million financing for renewable fueled projects.
- Worked on at least five small generating plants that have been or are being converted to burn waste biomass.



EGE & HM

Project

- The EGE and HM Joint Venture is looking to purchase the Escanaba Generating Station and then convert the Station to burn waste biomass.
- EGE and HM expects to invest up to \$25 million in the Project and to use local labor whenever possible to implement the conversion and overall Station upgrades.



EGE & HM

Why This Will Work

- EGE & HM have a vested interest in seeing this Project go forward.
- The Station is an operating plant so all that is needed is a fuel conversion and modest system upgrades.
- Plant can continue to operate during conversion and upgrade work except for an approximate three month period. ...
- HM has extensive background in negotiating PPA's and financing these types of projects.
- Will most likely use the expertise of Englobal, 2000 person engineering company, to do the conversion and upgrades.
- Converted 15 power plants to biomass.
- 10 of them were stoker boilers like the boilers in the Station.
- Local Resources that are available:
 - Work force
 - Wood Supply
 - Local Vendors



EGE & HM

3/7/2012

Purchase, Fuel Conversion and System Upgrades of the Escanaba Generating Station



Escanaba Green Energy (EGE) & Huntley MacMillan Energy Ventures (HM)

EGE & HM

EGE Background

- EGE has experience in:
 - Environmental permitting for multiple types of facilities
 - Wood Boilers
 - Foundries
 - Steel Mills
 - Power Plants
 - Worked with Foundries and Mills to reduce cost through improved waste removal.
 - Worked in the power industry



EGE & HM

Huntley MacMillan (HM) Background

- HM has extensive background in Power Plant Projects:
 - Worked on over 20 waste biomass power generating plants.
 - Worked on plants in 15 different states and provinces so has experience with the different types of:
 - Financing sources
 - Fuel species & types
 - Technologies
 - Fuel suppliers
 - Power purchasers and agreements (PPA)



EGE & HM

TO: Jim O'Toole/Manager

FROM: Mike Furmanski/Electric Supt.

RE: Recommendation of PSE

Power System Engineering, Inc., (PSE), has been critical to our Power Purchase Agreement, (PPA), as well as our work on the sale of the plant. While we now have a 5 year PPA in place, we will continue to do spot checks on market prices in the future. The plant sale is hopefully going to close soon, but there is a lot of work to do regarding the sale in the immediate future. PSE has been intricately involved every step of the way and it makes perfect sense to continue with them as our consulting firm. Bringing in a different firm at this point would set us back while the new firm was brought up to speed with where we are in the process.