

OFFICIAL PROCEEDINGS
CITY COUNCIL
ELECTRICAL ADVISORY COMMITTEE
CITY OF ESCANABA, MICHIGAN
Special Joint Meeting
Wednesday, September 8, 2010

Pursuit to a special meeting posted September 2, 2010, the meeting was called to order by the Mayor Gilbert X. Cheves at 6:00 p.m. in the Council Chambers of City Hall located at 410 Ludington Street.

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

Absent: None.

Present: Electrical Advisory Committee Members: Chairman Ronald Beauchamp, Larry Arkens, John Mellinger, Tim Wilson, Glendon Brown, John Anthony and Don Racicot.

Absent: Ann Bissell

Also Present: City Manager James V. O'Toole, Electric Superintendent Mike Furmanski, City Controller Mike Dewar, City Attorney Ralph B.K. Peterson, Consultant Tom Butz of Power Systems Engineering (PSE), Power Plant Manager Jerry Pirkola, members of the public, and media.

In as much that the previous minutes of August 11, 2010, were approved at the September 2, 2010, regular Council Meeting, Members were asked to contact City Clerk Richards if they had any questions or concerns.

Evans moved, Nelson seconded, **CARRIED UNANIMOUSLY**, to approve the agenda as printed.

UNFINISHED BUSINESS - None

CONFLICT OF INTEREST – None

PUBLIC HEARING - None

NEW BUSINESS

Update-Electric Department.

Electric Superintendent Furmanski provided an overview and status report on activities and issues concerning the Electric Department. The following items were reviewed:

- General Operations/Electrical Distribution Update;
- Substation Update.

Update-Power Generation.

Power Plant Manager Jerry Pirkola provided an overview and status report on activities and issues concerning the Power Plant, discussions included:

- Power Plant Update. Both units were being dispatched by MISO;
- Peaking Generator Update;
- Coal Update: approximately 56,480 tons at the end of August;
- Reviewed UPPCO employee status.

Management Briefing and Discussion – Various Issues.

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

Definitive Sales Purchase Agreement – Administration provided an update on the Definitive Sales Purchase Agreement with Traxys, North America.

The following was discussed:

- City received Traxys response last week. City was preparing its response;
- The Electrical Advisory Committee would receive an updated agreement once completed.

Transition Power Purchase Agreement - Administration provided an update on the Transition Power Purchase Agreement with Traxys, North America.

The following was discussed:

- Board Members were advised of changes in Traxys term sheet;
- City responded to changes. Administration was still waiting for a response from Traxys.

Environmental Work Plan Update – Administration provided an update on the Environmental Work Plan needed at the Power Plant property.

The following was discussed:

- Wilcox Engineering was retained by Council on September 2, 2010. Report was

expected by the following week.

Power Plant Inventory Update – Administration provided an update on the joint Power Plant inventory that has been completed.

The following was discussed:

- Electric Superintendent Furmanski reported on a walk through with Traxys at the Power Plant;
- All assets were documented;
- Assets would be part of the Definitive Agreement;
- Members discussed a way to keep track of the inventory items used until the sale of the Power Plant.

Short-Term/Long-Term Power Purchase Agreement – Electric Superintendent Furmanski and PSE Consultant Butz lead a discussion on how a short-term and/or long-term power purchase agreement would be implemented in conjunction with or at the end of a transitional agreement. A power point presentation was made by Mr. Butz. (See Attachment – A.)

The following was discussed:

- Traxys would be converting the Power Plant from coal to biomass with a Short-Term Purchase Agreement;
- Traxys was also working on an outage schedule with MISO;
- Administration advised a Transition Agreement with Traxys would need to be agreed upon for the Plant Sale to take place;
- Reviewed various proposed case scenarios.

Coal Dock Lease – Administration sought approval of a coal storage dock lease with the Reiss Coal Company.

The following was discussed:

- Administration advised the final lease agreement was not obtained prior to the meeting;
- The final agreement would be a month to month lease, approximately \$7,500 per month.

Power Plant Septic System – Administration provided an update on the septic system at the Power Plant.

The following was discussed:

- UPPCO and Wisconsin Public Services (WPS) of Green Bay were working on technical specs.

Professional Services Contract – Power system Engineering – Administration sought to extend the professional services contract with Power System Engineering, Mr. Tom Butz, through the end of the calendar year 2010.

Electrical Advisory Committee Member Arkins moved, Electrical Advisory Committee Member Brown seconded, **CARRIED UNANIMOUSLY**, to maintain the services with PSE Consultant Tom Butz through the end of the current calendar year 2010, at the current PSE rate schedule.

Council Member Baribeau moved, Council Member Nelson seconded, to extend the professional services contract with PSE Consultant, Mr. Tom Butz, through the end of the calendar year 2010, at his current rate prices.

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

Ayes: Baribeau, Nelson, Baker, Evans, Cheves

Nays: None

MOTION CARRIED.

Comparison of Power Cost Projections – Administration’s comparison of power supply alternatives and expected cost impacts per consumer impact of the various alternatives was reviewed during the PSE presentation. (See Attachment – A.)

GENERAL PUBLIC COMMENT - None

COUNCIL/COMMITTEE, STAFF REPORTS - None

ADJOURNMENT

Hearing no further public comment, or further reports from the Electrical Advisory Committee and Council, the meeting adjourned at 7:28 p.m.

Respectfully submitted,

Robert S. Richards, CMC
City Clerk

Approved: _____
Gilbert X. Cheves, Mayor

City of Escanaba Joint EAC City Council Meeting



Purchase Power Objectives

- Plant Sale Allows Purchase Power
 - Avoiding Fixed Costs of Plant
- Removing Plant Ownership Cost Uncertainty
- Currently Favoring Short-term Market
- Consideration of Long Term Purchases if Competitive
- Manage Delivery Cost Risk – Congestion
- Consider Long Term Purchases as Available
 - Higher Cost for Most Providers

Types of Purchases

- Transition Purchase
 - Purchase From Traxys
 - Term – 16 Months
 - Starting from Plant Sale Closing
- Short Term Purchase
 - Starts After Transition Purchase
 - 3-4 Years
- Long Term Purchase
 - 5, 10, 20 Years

Power Supply Assumptions

- Five Year Review
- Plant Sale in December 2010
- Transition Purchase Through Mar 2012
- Short Term Option
 - AEP
- Long Term Option
 - GLU
- MISO Assumptions
 - Purchase Pwr LMP and Escanaba Gen Revenue

Plant Conversion Schedule

- Dec 2010 Start
- Unit 2 converted in 8 Months
- 1 Month or more with both units online
- Unit 1 Conversion – Six Months
- Both Units Running on Biomass
- Drives Term of Transition Purchase
- MISO Approval Process

Purposes of Case Comparison

- Primary - Purchase Power Strategy
 - Self Generation vs. Plant Sale Options
- Secondary – Compare near term Purchase Power Alternatives
 - Impact of Transition Purchase vs. Starting Short Term Purchase at Plant Sale Closing
 - Transition Purchase is Included in Signed Term Sheet

Power Supply Cases

1. Plan 1 Self Generation
2. Transition - Short Term
 - Transition 16 Mo – Short Term Through Dec 2014, Long Term
3. Transition – Long Term
 - Transition 16 Mo – Long Term
4. Begin With Short Term
 - Begin with Short Term at Plant Closing
 - Case for comparison purposes only

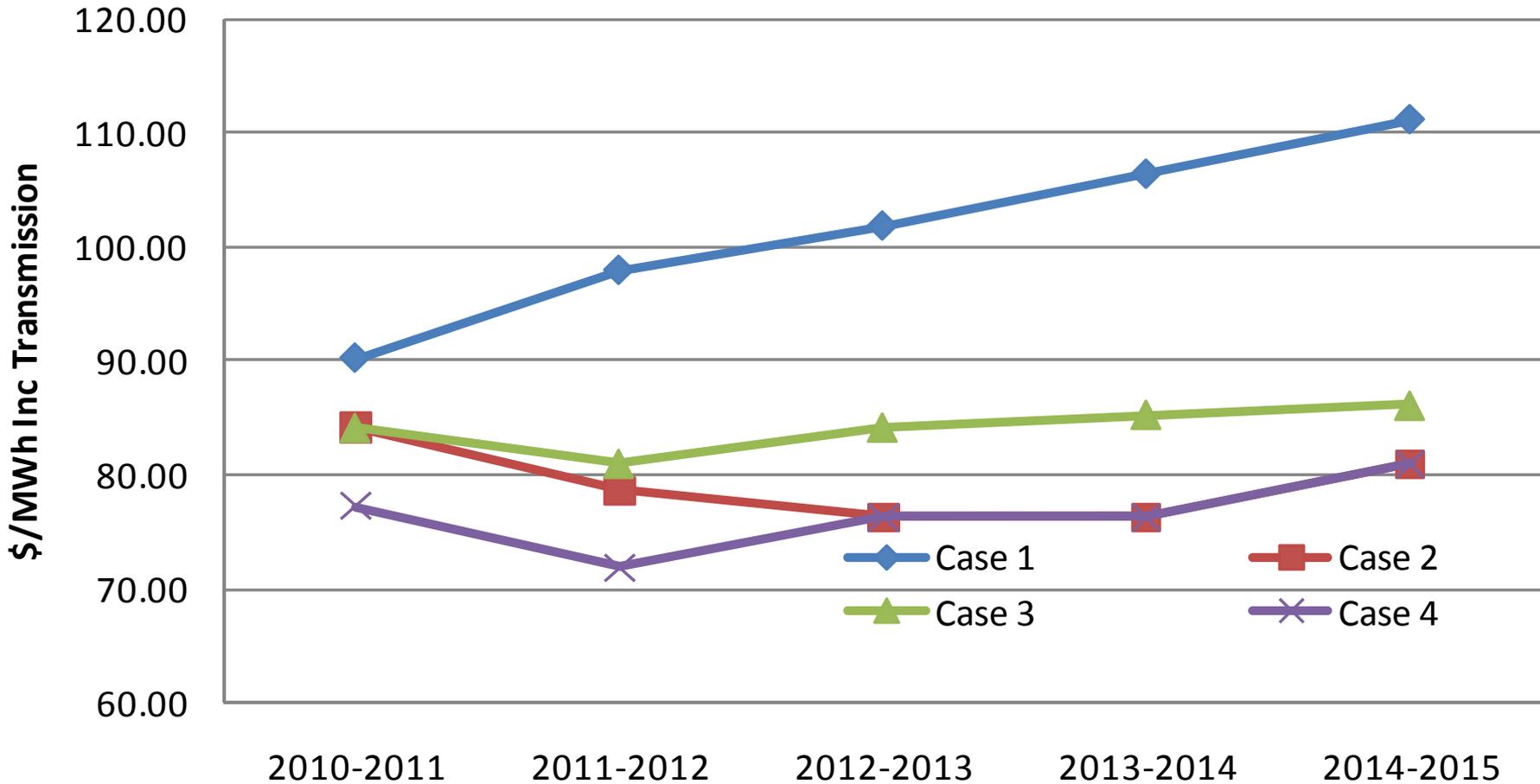
Comparisons

- Case 2 and 4 Comparison
- Average Annual Power Costs by Case
 - Cost Difference in Cost of Transition vs. Starting Short Term Right Away – 16 Mo
 - Transition – Short Term vs. Transition – Long Term
 - Cost Comparison of Short vs. Long Term Strategy

Case 2 and Case 4 Comparison

- Purchase Power Cost Compare – First 16 Months
- Compare to Short Term Purchase Quote
- Assume MISO Approves Scheduled Unit Outages
 - One unit out at a time – 16 month period
- Cost Difference
 - Case 2 Avg \$79.14/MWh Case 4 Avg \$69.04/MWh
 - Case2 \$1.9 Million Higher

Escanaba - Projected Avg Power Cost



Comments

- Self Generation Highest Cost
- Short Term – Daily Quote
- Lowest Cost – Purchase Short Term Immediately
 - Not in Plant Sale Term Sheet
- Lower Cost – Purchase Transition and Then Short Term
 - Seek Shortest Term Possible for Transition Purchase

Main Points

- Plant Sale Allows Opportunity to Purchase Market Power Without Carrying Plant Fixed Costs
- Transition Purchase Agreed in Term Sheet
- Resolving the Plant Sale Agreements will Allow Purchase Strategy to Move Forward
- Plant Sale Allows Continued Employment in Escanaba and Renewable Generation

Purchase Approach

- Seeking Shortest Term for Transition Purchase
 - Short Term Quotes Lower Than Transition Price
- Lock Into Short Term Purchase Early
 - Long Term Approach Higher Cost in 5 Year Projection, but may provide lowest cost in the 10 year timeframe
- Purchase Price not Locked Until Decided

Next Steps

- Nail down Outage Schedule Information for Unit Conversions
- Seeking Definitive Dates from Plant Sale Negotiations
- Negotiate Purchase Power Contracts