

OFFICIAL PROCEEDINGS
CITY COUNCIL
ELECTRICAL ADVISORY COMMITTEE
CITY OF ESCANABA, MICHIGAN
Special Joint Meeting
Wednesday, February 9, 2011

Pursuit to a special meeting posted January 28, 2011, 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 Council Member Nelson.

Absent: None.

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

Absent: John Mellinger

Also Present: City Manager James V. O'Toole, Electric Superintendent Mike Furmanski, City Controller Mike Dewar, Power Plant Manager Jerry Pirkola, Consultant Tom Butz of Power Systems Engineering (PSE), and Media.

UNFINISHED BUSINESS - None

CONFLICT OF INTEREST – None

PUBLIC HEARING - None

NEW BUSINESS

Update – Power Plant Operations.

Jerry Pirkola, Power Plant Manager, discussed current plant operations, plant maintenance issues, and costs associated with operations of the facility. Mr. Pirkola reviewed the following information;

- Currently Unit One was offline due to repairs that needed to be made to its boiler system;
- Reviewed cost/repairs to the Combustion Turbine (CT). Members requested a list of CT costs over the last twelve months. Manager O'Toole advised he would forward information to members;
- Update on the remaining coal, and miscellaneous repairs;
- Budget update;
- A scheduled maintenance outage on Unit One during the last week of April was scheduled and with Unit Two the following week.

Update – Electric Department.

Electrical Superintendent Michael Furmanski discussed current departmental activities, operations and provided a project update on the design of the new electrical substation.

- Reviewed various system problems;
- Crews have been performing line maintenance;
- Update on Substation repairs. Substation Update Project was on hold until City ascertained the future of the Power Plant;
- City Controller Dewar reviewed costs of running the Power Plant. He advised MISO had been paying for Power Plant costs while it has been running. Over all, the finances for the Power Plant have been better, based on the RAC situation with MISO. City buying power at 5.5 cents per kilowatt, and selling power for 8.7 cents per kilowatt. It was emphasized the Power Plant was still losing funds because it still wasn't covering fixed costs;
- Reviewed Regional Transmission upgrades. It was emphasized the City was in a good situation at the moment because the Region needed the City Power Plant, but once the ATC upgrades were completed, the City Power Plant will not be needed, and in order to run the Power Plant, the City costs would be high.

Update – Operation and Maintenance – Request for Proposal (RFP).

Administration updated the City Council, Electrical Advisory Committee and Citizens of Escanaba on the status of the Operation and Maintenance Request for Proposal.

PSE Consultant Butz made a presentation regarding the Operation and Maintenance RFP. (See Appendix – A).

Update – Sale of Generation Facilities – Request for Proposal (RFP).

Administration updated the City Council, Electrical Advisory Committee and Citizens of Escanaba on the status of the Sale of Generation Facilities Request for Proposal.

PSE Consultant Butz made a presentation regarding the Sale of the Generation facilities RFP. (See Appendix – A).

After discussion, it was a consensus of the Electrical Advisory Committee, and City Council, to allow submission of the Operation and Maintenance until March 1, 2011.

Approval – Environmental Work Plan Development.

Administration sought approval to retain Mountain Engineering, Inc of Iron Mountain Michigan in an amount not to exceed \$9,900 to complete an environmental work plan which would detail the types and levels of contamination at the Power Plant property and determine the costs associated with implementing a “Due Care” plan at the site.

Manager O’Toole stated there was a matter of contention last fall on what the actual environmental cleanup costs were at the City Power Plant. City needed clarity on what was needed. Consultant Myron Berry reviewed what a “Due Care” plan consisted of. Mr. Berry advised the plan could be accomplished within six weeks and would allow the City to have a better handle on what the actual environmental cleanup costs would be at the City Power Plant. This information would be passed on to the buyer, and would be used in the upcoming Power Plant Sale negotiations.

NB-5 Nelson moved, Baker seconded, to retain Mountain Engineering, Inc of Iron Mountain Michigan in an amount not to exceed \$9,900 to complete an environmental work plan which will detail the types and levels of contamination at the Power Plant property and determine the costs associated with implementing a “Due Care” plan at the site.

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

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

MOTION CARRIED.

Approval – UPPCO Substation Assets.

The Upper Peninsula Power Company (UPPCO) requested the City of Escanaba purchase UPPCO assets located at the Escanaba facility prior to the termination of the UPPCO Operating Agreement in the amount not to exceed \$35,484.83.

NB-6 Nelson moved, Evans seconded, to approve a request from the Upper Peninsula Power Company for the City of Escanaba to purchase UPPCO assets located at the Escanaba facility prior to the termination of the UPPCO Operating Agreement, in the amount not to exceed \$35,484.83, contingent upon verification prior to closing the transaction.

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

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

MOTION CARRIED.

Update – Power Purchase Agreement(s) – Short Term/Long Term – Power Cost Options.

Administration provided an overview and update on the various options being considered for short-term and/or long-term power. Additionally a review would take place on future options being investigated by the Administration in securing reliable, long-term power.

PSE Consultant Butz continued his presentation and updated members regarding Power Purchase Agreement(s) – Short Term/Long Term – Power Cost Options. (See Appendix – A).

Update – Midwest Independent System Operating (MISO) and American Transmission Company (ATC) and Congestion.

Administration provided an overview and review on the cost of delivering energy (congestion) to Escanaba and what improvements were being considered and/or implemented by MISO and ATC to improve the regional transmission system to the area.

- ATC will make five main improvements. It was the consensus that once the ATC improvements were completed, there would not be a need for the Escanaba Power Plant.

Update – Coal Supply.

Administration provided an update on the existing inventory of coal and the possibility of having to purchase additional coal. UPPCO Plant Manager advised there would be 10 to 15 tons of coal left on the docks by the end of April. Administration advised purchase price could be \$110 - \$120 per ton. RFP's where being put together.

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 8:05 p.m.

Respectfully submitted,

Robert S. Richards, CMC
City Clerk

Approved: _____
Gilbert X. Cheves, Mayor

Joint City Council and Electrical
Advisory Committee Study
Session
2/09/11

Plant Sale and O&M RFPs Advertising

- ▶ MEMA Exploder List
- ▶ Select Parties of Interest
 - Bluewater - John Irving Contact , NAES (PSE)
 - Temp Contact - PIC Group & ProEnergy
- ▶ Power Engineering Magazine - Website
 - Web Classified Section
- ▶ Nationwide Advertising.com Classified Business Opportunities
- ▶ Resource Management Associates - Website

Power Engineering Classified Ad

City of Escanaba Michigan
Request for Proposal

The City of Escanaba, Michigan is requesting proposals from parties interested in acquiring a public generation facility. The generation facility offered for consideration consists of two 12.5 MW gas-fired steam turbine generators and a 6000V oil-fired DC, synchronous and substation equipment.

Please read the RFP along with request of supplemental information included in the RFP to your email address.

Submissions and Request for Intent to Bid in the form of a bid envelope, shall be received by the February 9, 2011.

Changes from Last RFP

- ▶ Link of O&M Interest to Possible Plant Purchase Parties
 - O&M Providers Provide Expertise to Potential Investors
- ▶ Some Parties Provide Both O&M Interest and Plant Purchase Interest
 - Traxys and ProEnergy

Summary of Key Dates

- ▶ Plant O&M
 - Proposals Due February 14, 2011
 - Shortlisted February 21, 2011
 - Joint Council / EAC Meeting February 23, 2011
 - Seek Escanaba Council Action – March 3, 2011
- ▶ Plant Sale
 - Proposals Due March 1, 2011
 - Shortlisted March 7, 2011
 - Joint Council / EAC Meeting March 9, 2011
 - Seek Escanaba Council Action – March 17, 2011

Negotiation Timeline

- ▶ Plant O&M
 - Negotiation of Terms End of March 2011
 - Goal of Agreement Execution end of April 2011
 - Transition into June 6, 2011 Transfer Date
- ▶ Plant Sale
 - Depends on Proposals
 - Earliest Transition Date – September 2011

Proposal Evaluation Questions

- ▶ Desire to Have Face to Face Presentation of Shortlisted O&M Providers at Feb 23, 2011 Meeting?
- ▶ Decision to not Require Notice of Intent to Bid for Plant Sale Proposals – March 1, 2011
 - Desire as Many Proposals as Possible
 - City has Right to Change Schedule

Plant O&M Scoring Areas – Draft

- ▶ Experience in Steam Plant Operations
- ▶ Proposed Approach of Cost Savings
- ▶ Proposed Approach of Improving Plant Reliability
- ▶ Proposed Approach in Utilization of Plant Employees
- ▶ Service Fee
- ▶ Flexibility in Terminating Agreement with Plant Sale

Plant Sale Proposal Scoring – Draft

- ▶ Experience in Developing Generation Facilities
- ▶ Proposed Handling of Environmental Cleanup Costs
- ▶ Proposed Handling of Offtake Power Transaction Agreement(s)
- ▶ Other ?

Parties Expressing Interest

- ▶ Operating and Maintenance – RFP
 - PIC Group Inc.
 - Pro Energy
 - Bluewater
 - Traxys
 - (NAES Pulled out)
- ▶ Plant Sale – RFP
 - One Prospective Party from Plant Sale Website
 - Pro Energy
 - Traxys
 - Others?
 - Proposal Deadline of March 1, 2011

O&M Interest Summary

- ▶ Very Satisfied with Interest
- ▶ PIC, Pro Energy, NAES and Bluewater are all major players
 - Many Employees former GE and other Major Suppliers
 - Employees Migrate Across These Companies
- ▶ ProEnergy – Also has interest in Plant Sale Proposal
- ▶ Seeking Operator Has Opened Doors of Finding Prospective Buyers

Purchase Power Evaluation

- ▶ Short Term Strategy Continues to Look Favorable
 - Strong Economic Recovery Doesn't Appear Eminent
- ▶ Short Term Purchase Prices
 - Jan 2012–Dec 2014
 - Mich Hub ~ \$49.20/MWh Same as 9/3/2010 Quote
- ▶ Increased Concerns of Congestion into Area
 - \$17/MWh Basis From Michigan Hub
 - High Congestion in Nov–Dec 2010
- ▶ Plant Sale Timing Required for Action