OFFICIAL PROCEEDINGS
CITY COUNCIL
ELECTRICAL ADVISORY COMMITTEE
CITY OF ESCANABA, MICHIGAN
Special Joint Meeting
Wednesday, August 31, 2011

Pursuit to a special meeting posted August 23, 2011, the meeting was called to order by the Mayor Gilbert X. Cheves at 6:02 p.m. in the Council Chambers of City Hall located at 410 Ludington Street.

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

Absent: None.

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

Absent: Ann Bissell, and One Vacancy.

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, City Power Plant Representative Pat Fulcher, Guests, members of the public, and Media.

Evans moved, Baker seconded, **CARRIED UNANIMOUSLY**, to approve the agenda as presented.

UNFINISHED BUSINESS - None

CONFLICT OF INTEREST - None

PUBLIC HEARING - None

NEW BUSINESS

Update - Electric Department – Renewable Energy Requirements Act 295.

Electrical Superintendent Mike Furmanski discussed projected requirements of Renewable Energy Requirements starting in 2012 and available resources for purchasing the renewable energy credits (RECs)(See Attachment – A).

- Reviewed history of the RECs, and plan to purchase RECs at $39;
- Current REC market was very soft. RECs were selling for $0.50. Enough RECs were purchased to carry City through 2013;
- REC Plan will need to be revised June 2012.

Update – Purchase Power Alternatives.

An update was presented regarding the purchase power options for a 3-5 year term power purchase agreement. Additionally, the Administration sought strategic direction of the value of moving forward with seeking a purchase power arrangement before the time when the plant sale was finalized. PSE Consultant Tom Butz provided a power point presentation for Administration and Board Members regarding Purchase Power Alternatives. (See Attachment – A)

- The timing of purchase power alternatives was critical along with the strategic direction for Administration;
- Reviewed how ATC would be involved during conversion of the Power Plant;
- Further information was needed and would be forwarded to Board Members as soon as possible.

Update– Power Plant Purchase Parties.

Information was provided regarding a Power Plant purchase offer update and a recommendation for selecting a Power Plant Purchase lead offer.

- PSE Consultant Tom Butz provided a power point presentation regarding a Power Plant Purchase. (See Attachment – A);
- It became obvious after further review, that a Power Plant conversion to biomass to operate the Power Plant was no longer profitable;
- Fuel Streamers has submitted a proposal to purchase the Power Plant to convert coal to a more profitable fuel source;
- Wording of the public referendum was being adhered to;
- Fuel Streamers representative Mr. Fred Solomon reviewed his company and their desire to purchase the City Power Plant. (See Attachment – B);
- Reviewed timelines for the sale of the Power Plant for possible sale by the end of the year with Fuel Streamers;
- Mr. Butz briefly reviewed the RFP scoring criteria which lead the negotiating team to recommend Fuel Streamers to purchase the City Power Plant.

Board Member Wilson moved, Board Member Arkens seconded, **CARRIED UNANIMOUSLY**, to authorize City administration to enter into negotiations for the purchase of the City Power Plant with Fuel Streamers of Indiana, LLC.

Council Member Baker moved, Council Member Nelson seconded, to authorize City Administration to enter into negotiations with Fuel Streamers of Indiana, LLC for the purchase of the City Power Plant.

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

Ayes: Baker, Nelson, Evans, Baribeau, Cheves

Nays: None

MOTION CARRIED.

GENERAL PUBLIC COMMENT - None

COUNCIL/COMMITTEE, STAFF REPORTS

ADJOURNMENT

Hearing no further public comment, or further reports from the Electrical Advisory Committee or Council, the meeting adjourned at 7:33 p.m.

Respectfully submitted,

Robert S. Richards, CMC
City Clerk

Approved: _____
Gilbert X. Cheves, Mayor

Joint City Council and Electrical Advisory Committee 8/31/2011

Agenda Item 1 - Act 295 RECs

- Act 295 Passed in 2008
- Renewable Energy and Energy Efficiency Requirements
- Required Renewable Energy Source
  - 2% - 2012
  - 3.3% - 2013
  - 5% - 2014
  - 10% - 2015
- City has No long Term Renewable Energy Source
- Renewable Energy Credit (REC) Separable from Energy

City Plan of Renewable Energy

- Original Plan
  - Co-fire Biomass Fuel
  - In Timeframe of Not Selling Plant
  - Estimated Cost $39/REC (2011)
- Updated Plan
  - Excess RECs Available for 2012 and 2013
  - Market Price for RECs is extremely Soft
  - Price Quote for 2012 and 2013 of $0.50/REC
    - Much lower than previous plan
- 2012 & 2013 REC Purchases- 3,503 and 5,248 RECs ($4,380.50)

Next Steps

- Counter-Party
- Only Available through 2013
  - Current REC Production sold to Wolverine
- Pursue Future REC Needs
  - 2014 and Beyond

Impact on Electric Rate Collection

- Currently Based on $39/REC Plan
- June 2012 - Pause Collecting to Adjust REC Fund

Attachment - A

Agenda Item 2 Purchase Power Alternatives

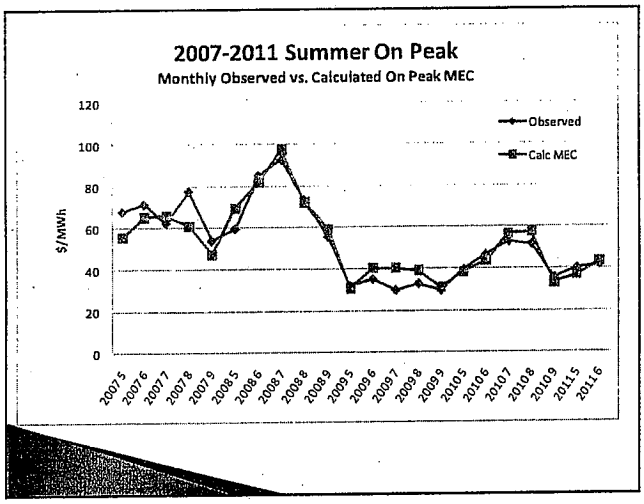
- Background
  - MISO Market Purchase Power Prices Remain Low Natural Gas Futures Low
  - Prices Expected to Increase
    - EPA Regulations Could Precipitate Generation Retirements
- Update on Pricing
  - All Three Year Proposals
  - Three Parties Provided Pricing
    - AEP, Cargill, Nextera
  - Prices for Named Parties Not Disclosed

Strategy Questions

- When Will Prices Increase?
- Is There Support for Signing Deal Before Selling Plant?
- What is the expected LMP Price?
- Remain in the LMP market vs. Short-term market vs. Formula Based Rate?

LMP Price Projection

- Correlation of MEC to Weather and Natural Gas Prices
- Add in Escanaba Congestion and Losses
  - Most Recent History – Higher Values to be Safe
- Use Extreme Weather Case for MEC
- Monthly Prices Created through 2015



Price Information

- LMP Projection / Price Quotes

	LMP Est	Party 1	Party 2	Party 3	Party 3
2012	55.78	55.27	47.30+	61.80	67.45
2013	57.27	58.83	47.30+	61.80	67.45
2014	58.38	63.13	47.30+	61.80	67.45
2015	59.55				67.45
2016					67.45
2012-2014		59.03	47.30+ 12 est		

Summary Points

- LMP Projection < Short Term Projection?
- Party 1 Prices Look Fairly Attractive
- Party 2 – Uncertainty on Delivery Costs to Escanaba
- Party 3 – Much higher Prices for 5 yr projection
- Indicative Pricing is not Firm
- Strong Direction on Pursing A Purchase?
- Decision Can Be Based on Plant Sale Dates

Agenda 3 - Power Plant Purchase Parties

- Key Updates
  - DTE and Consumers
    - Providing Update to Act 295 Status Filings
    - Updated PSCR Filings
    - Provide View of Expected Pricing and Resource Selection
  - DTE
    - No Current RFPs for seeking renewable energy
    - Act 295 and PSCR Filing
      - Show Extensive Growth in Wind Energy – Very Little in Biomass
      - Prices from mid 70's in 2013 to mid 80's by 2015

Power Plant Purchase Cont.

- Projected Biomass Costs for Plant Much Higher
- Significant Uncertainty in Signing Deal with Party Pursuing Biomass Build
  - Requires PPA Selling Biomass
  - Market Information Showing Very Soft Market
- REC Market Softening Verifies Change in Market
- Prudent to Pursue Entity Not Seeking Biomass Conversion

Attachment - A

Likely Questions

- Why Doesn't the City Pursue Continued Coal Option?
  - Privately Owned Entity Able to Take Technology Development Risk on Lower Cost Fuel Source
- Why Isn't Biomass a Viable Plant Sale Option?
  - Renewable Market Changed to Pursue Wind – Lower Cost
  - Viability of Other Renewable Energy Sources Softens REC Prices
    - Observed From Recent Market Inquiry

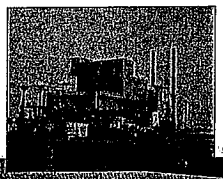
Questions Continued

- Why Can't City Buy Lower Priced Fuel?
  - Not Available As Product in Market
  - Fuel Streamers Interested in Plant Ownership
  - EPA Regulations Expected to Result in Smaller Plants Closing Down – Private Entity Comfortable with Cost-Effectively Meeting Regulations

Plant Purchase Parties

- Negotiating Team Evaluated Proposals and Had Discussions with Three Parties
- High Value of Viability of Closing Deal
- Change in Renewable Market is HUGE
- Negotiating Team Recommending Pursing Contract Negotiations With Fuel Streamers
- Seeking Approval to Move Forward to Negotiate Agreements

Presentation to City of Escanaba

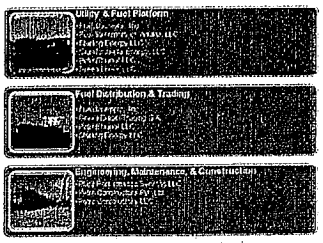


August 31, 2011

Fuel Streamers of Indiana, LLC

Who is Fuel Streamers?

Fuel Streamers is a privately held corporation focused on fuel distribution and trading, utility and fuel platforms, and engineering, maintenance, and construction services.

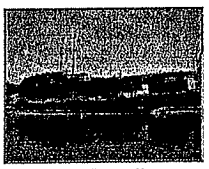


Founded	1995
Revenue	$500M

Fuel Streamers Utility & Fuel Platform

- **Fuel Streamers of Indiana controls more than 10 million tons of coal reserves.**
  - Developing a coal processing plant using propriety technologies to manufacture a low sulphur synthetic stoker coal
  - Definitive purchase agreement for a 24 megawatt coal-fired power station in Crawfordsville, Indiana
  - First of a series of purchases in the coal power market
  - Fitting new technologies for fuel flexibility and emissions

Crawfordsville Stoker Boiler

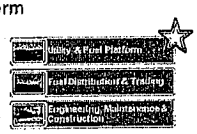


Crawfordsville Power Plant

Sterling Energy LLC holds licensing agreements to implement clean coal technologies in existing solid fuel generation facilities

- Retrofit of coal to take advantage of fuel flexibility and meet environmental standards.

Fuel Streamers Utility & Fuel Platform



- **Green Diesel LLC** is the owner/operator of a 42 million-gallon/year continuous run biodiesel processing facility
  - Located in Houston, TX
- **PetroEthanol LLC** is a joint operator of an ethanol facility in St. Croix, USVI

Green Diesel Store Tanks

Attachment - B

Fuel Distribution & Trading

Product Profile
-Ultra Low Sulphur Diesel
-Fuel Ethanol
-Ethanol blends (E10, E85, E90, etc)
-Hydrous and Anhydrous Ethanol
-Biodiesel (B99.9)
-Biodiesel blends (B5, B10, B20, etc)
-Jet Fuel
-Gasoline
-Industrial Lubricants
-Bio-oxygenates ETBE and TAEE
-Renewable feedstocks for biodiesel production
-Biomass
-Biofuel by-products

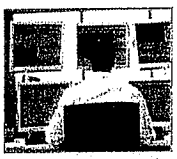
The fuel distribution and trading consists of

Sales, distribution, and trading of all traditional and renewable fuels

-International trade of renewable fuels with a focus on biofuels and fuel blends

-Ethanol trading and blending

- **IFL terminal with over a quarter million barrels of storage capacity, serviced by the Teppco pipeline**



Engineering, Maintenance & Construction

Plant Performance Services LLC is the maintenance and construction provider for Fuel Streamers.

- Specializes in turnarounds, outages, welding, demolition and other specialty services for power, refining and chemical industries
- Services facilities across the US

P2S welder in a power plant

PetroConstructors Pvt. Ltd is a global provider of design and engineering services, focused on:

Biodiesel
Renewable Fuel
Ethyl Tertiary Butyl Ether
Solvent Extraction
Ethanol
Nutraceutical
Chemical

Sterling Energy LLC holds licensing agreements to implement clean coal technologies in existing solid fueled generation facilities

Involvement of the City of Escanaba

- Customary city services
- Transition to maintain air quality and other permits required to operate the plant
- Cooperate in developing incentives through "tax increment financing"

Technologies

- Features/Benefits

Water Cooled Oscillating Grate
Fuel Flexibility-Can burn run of mine coal and blend bio-mass
Will require baghouse & scrubber to meet future emissions regulations

Coal Gasification
Evaluating the use of Coal Gasification. Can use run of mine coal and meet emissions without adding scrubbers

Coal Beneficiation & Pelletizing
Can operate plant as is and reduce emissions by treating fuel in advance of pelletization

Environmental Aspects

- Environmental Concerns
  - Boiler MACT upon finalization
  - Potential impact of Cross State Rule
  - Boiler Modification Permitting (pollution control projects)

Project Implementation

- Timeline
  - Immediately begin process of finalizing an asset sale purchase agreement and any other required documents.
  - Will initiate third party activities such as environmental studies, survey, etc.
  - Engage an engineering firm to evaluate options for improving both the efficiency and meet future compliance needs.

- Questions