

**OFFICIAL PROCEEDINGS**  
**CITY COUNCIL**  
**ELECTRICAL ADVISORY COMMITTEE**  
**CITY OF ESCANABA, MICHIGAN**  
**Special Joint Meeting**  
**Wednesday, October 12, 2011**

Pursuit to a special meeting posted October 7, 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, Council Members Leo J. Evans, Pete Baker, and Brady L. Nelson.

Absent: Patricia A. Baribeau.

Baker moved, Evans seconded, **CARRIED UNANIMOUSLY**, to excuse Council Member Baribeau.

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

Absent: John Anthony, 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, members of the public, and Media.

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

**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.

- South Lincoln Road;
- Large Service completion;
- New services;
- Discussion on the need to continue replacing old utility poles. Board Members also discussed the possibility of hiring a local contractor to replace poles which could be a danger to public. Administration advised they were also looking at a mutual aide agreement with the City of Gladstone.

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

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.

- Unit 1 ran entire month of September, and Unit two only ran three days;
- End of October for Unit 2 Tube Replacement;
- Shipped Coal was depleted from the dock. Coal was now being trucked into the Power Plant. Discussed estimated coal loss from dock;
- Received an update report regarding the tube replacement.

**Discussion – Purchase Power Alternatives – Short, Medium, and Long Term Purchase Power Comparison.**

PSE Consultant Tom Butz presented information showing various purchase power strategies, comparisons of three year, five year, and longer term showing both a market approach and a formula based approach. Mr. Butz discussed tradeoffs of varying term transactions with the benefit of cost certainty. Impacts on rate design and business planning was also included in the discussion. (See Attachment – A)

**Update – Fuel Streamers Group Asset and Sales Status.**

Administration updated the City Council and Electrical Advisory Committee on the status of negotiations with the Fuel Streamers Group. The next joint meeting would include discussion on various time lines.

**GENERAL PUBLIC COMMENT - None**

**COUNCIL/COMMITTEE, STAFF REPORTS**

Member Brown commented on the ATC Meeting he attended.

**ADJOURNMENT**

Hearing no further public comment, or further reports from the Electrical Advisory Committee or Council, the meeting adjourned at 7:02 p.m.

Respectfully submitted,

Robert S. Richards, CMC  
City Clerk

Approved: \_\_\_\_\_  
Gilbert X. Cheves, Mayor

Joint City Council and Electrical  
Advisory Committee  
10/12/2011

## Questions

- ▶ Will MISO Market Prices Be High Enough in 2012 to Warrant a Fixed Price Forecast?
- ▶ What are the projected savings for entering into most optimum purchase contract?
- ▶ What is the “safe” purchase power contract both in terms of availability and projected costs?
- ▶ Is a Decision needed to enter into a purchase power contract before knowing timing of selling plant?

## Purchase Power Strategy

- ▶ Types of Proposals
  - Market Based
    - Term – 2, 3, 5 years
  - Formula Based
    - 3 yr Discounted Demand Charge
    - 3+ year Full Demand Charge
    - Block Load Formula – Market Purchase
- ▶ Parties Providing Quotes
  - Nextera
  - American Electric Power
  - Cargill
  - WE Energies
  - Great Lakes Utilities

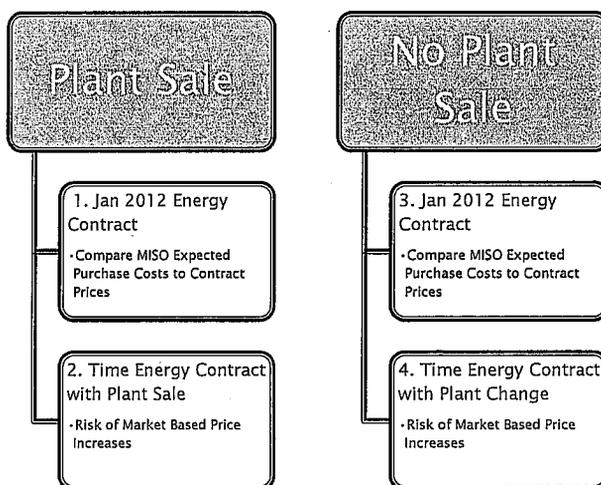
## Criteria of Proposals

- ▶ Formula Based
  - Term – 3yrs Discounted Demand – 10+ Full Cost
  - Basis – Cost Formula of Defined Resources
  - Demand Charges
    - High Percentage of Costs 50–63%
  - Energy Charges
    - Much Lower Compared to Market Based
- ▶ Market Based
  - Term 3–5 years
  - Basis – Price Quote – Regional Supply Surplus
  - Demand Charges – 5% of Costs – Very Low
  - Energy Charges – 95% of Costs

## Decision Options

- ▶ Plant Sale
  - Plant Sale (Worst Case by Dec 2012)
  - No Plant Sale
- ▶ Energy Purchase
  - Type
    - Market
    - Formula
  - Timing
    - Early 2012
    - Based on Plant Change

## Summary of Options

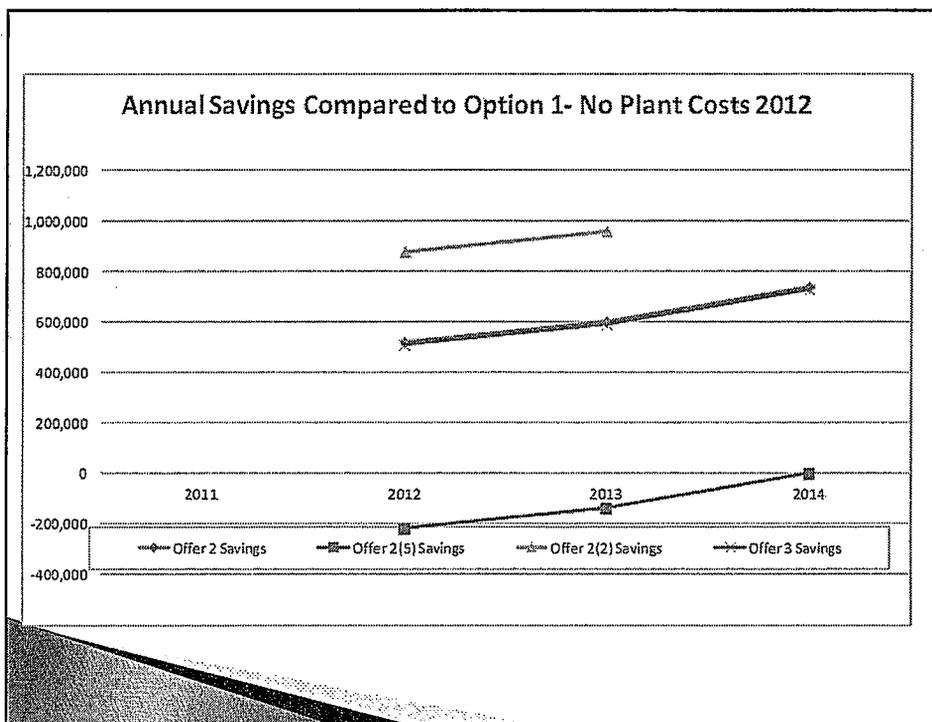
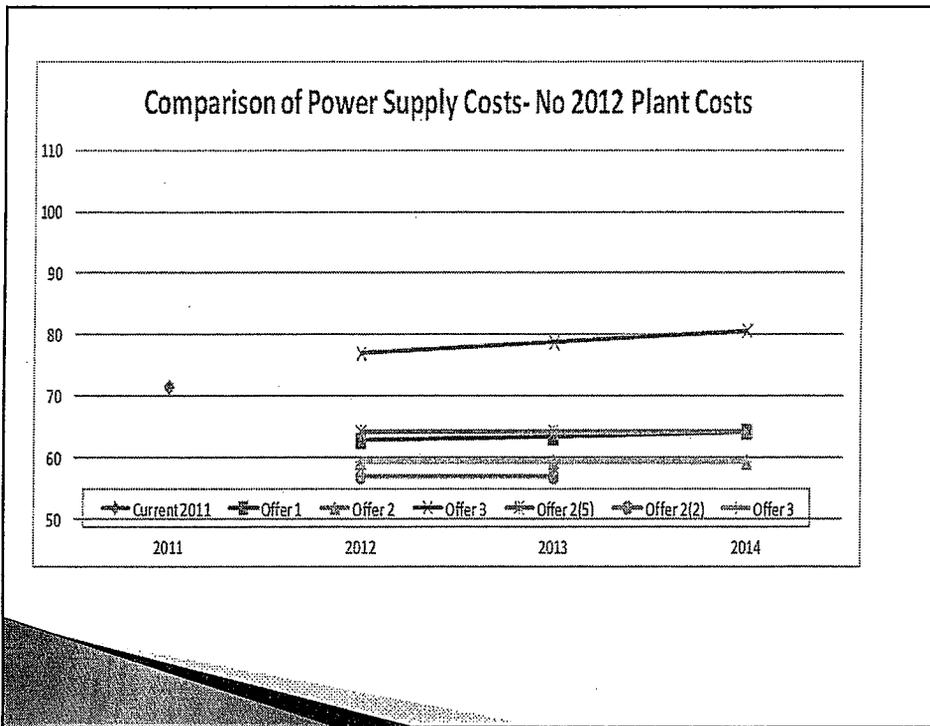


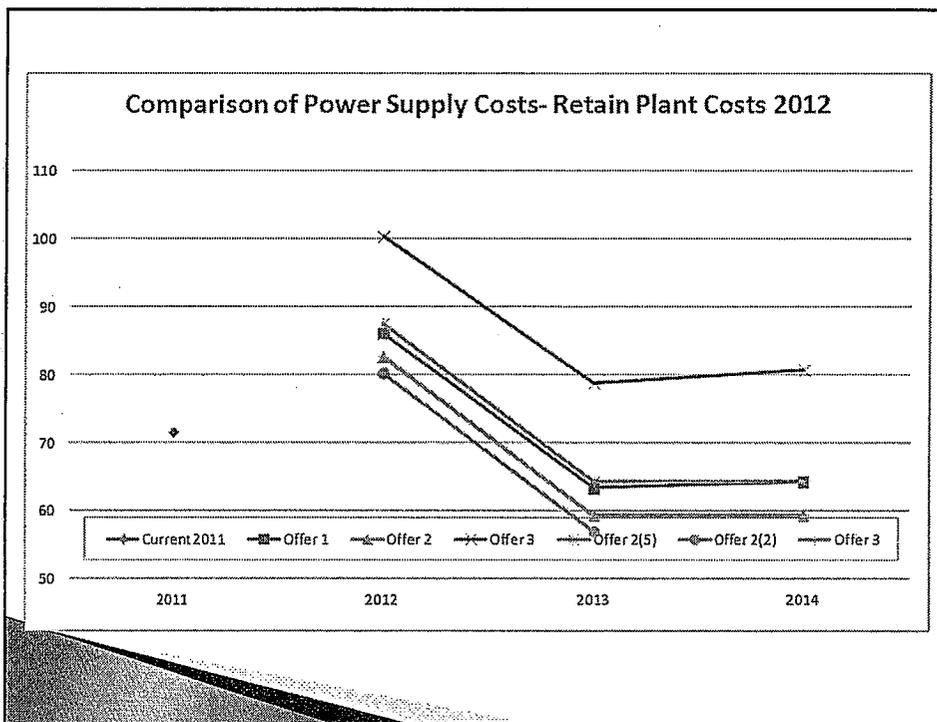
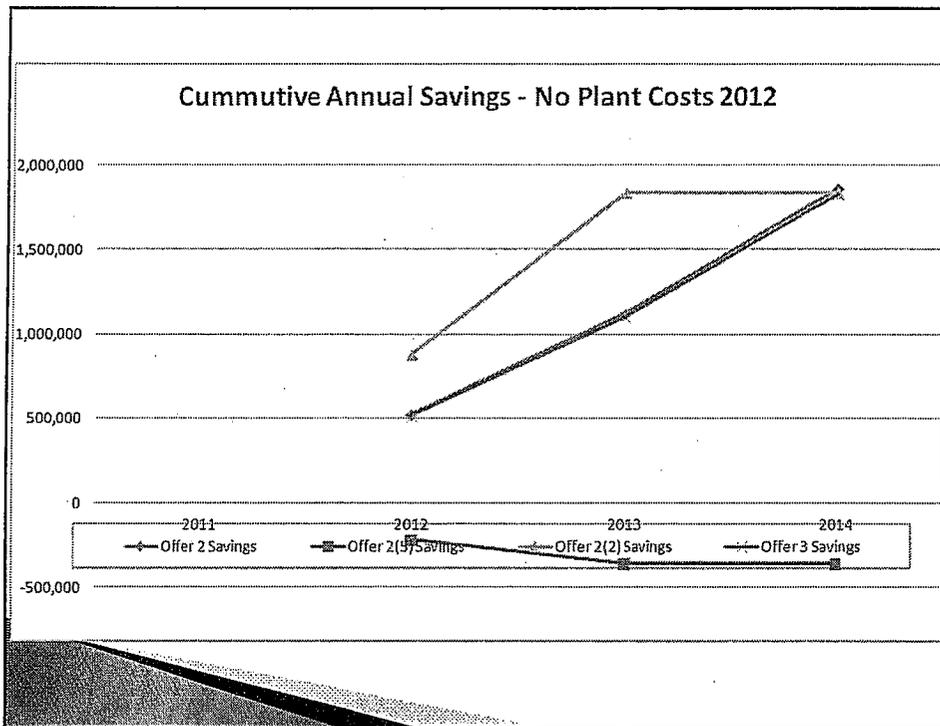
## Summary of Risks

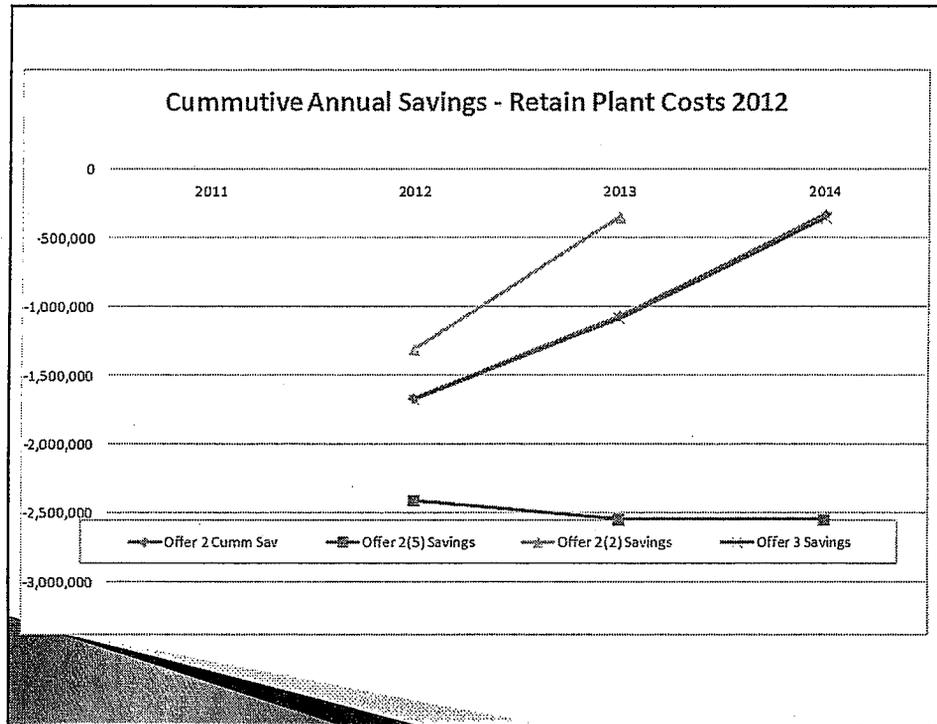
- ▶ Delayed Purchase –
  - Contract Approach
    - Less or no Savings Compared to Formula Based Option
  - Formula Approach
    - Little Risk for making later decision
      - Timing of Providing Adequate Notice to Begin Formula Purchase
      - Slight Risk of Not Being Able to Contract with Formula Based Provider

## Cost Comparisons

- ▶ Use Formula Based Block Approach as Base
- ▶ Compare Various Market Decisions
  - Making Decision Later – Prices Not Known Now
  - Make Decision Early – Indicative Prices Known
    - Early Decision – Losses of Higher Prices Compared to Current Short Term Market Position
      - \$1/MWh Difference = \$150,000 annually
  - Assume Worst Case – 1 year of Overlap of continuing Plant Ownership
    - \$3.5 M Additional 2012 Costs
- ▶ Purchase from MISO – \$51/MWh Assumed to Continue







## Summary of Analysis

- ▶ Jan 2012 Decision
  - For Worst Case - 2013-2014 Savings Not Adequate to Cover Costs of retaining Plant Costs Through 2012
- ▶ Assume Decision for Formula Based Option is Available When Desired
- ▶ Decision Doesn't Appear Critical- Risk of not Closing in 2012 is too Expensive -
  - Unless MISO Prices >\$55/MWh
- ▶ City Early Decision is Hedge for MISO prices
- ▶ Check Market Prices Again When Plant Sale is Eminent