

OFFICIAL PROCEEDINGS
CITY COUNCIL
ELECTRICAL ADVISORY COMMITTEE
CITY OF ESCANABA, MICHIGAN
Special Joint Meeting
Wednesday, December 7, 2011

Pursuit to a special meeting posted November 29, 2011, 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.

Present: Electrical Advisory Committee Members: Vice Chairperson Tim Wilson, Larry Arkens, Ann Bissell, Don Racicot, and Glendon Brown.

Absent: John Anthony

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, Representatives from Nextera Energy, Mark Palanchian, Tim Delay, Trip Bristow, and Jack Sullivan, members of the public, guests, and Media.

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

UNFINISHED BUSINESS - None

CONFLICT OF INTEREST - None

PUBLIC HEARING - None

NEW BUSINESS

Election of Electrical Advisory Committee Chairperson.

As a result of the recent City Council election, Chairperson Ronald Beauchamp has vacated his seat on the Electrical Advisory Committee. A new Chairperson needed to be appointed to fill the now vacant seat.

Vice Chairperson Wilson asked for nominations for Chairperson of the Electrical Advisory Committee.

Committee Member Brown nominated Committee Member Wilson for Electrical Advisory Committee Chairperson.

Hearing no other nominations, a Unanimous ballot was cast for Vice Chairperson Wilson to serve as Chairperson for the Electrical Advisory Committee.

Joint City Council & Electrical Advisory Minutes

December 7, 2011 – cont.

Chairperson Wilson asked for nominations for Vice Chairperson of the Electrical Advisory Committee.

Chairperson Wilson nominated Committee Member Brown for Electrical Advisory Committee Vice Chairperson.

Hearing no other nominations, a Unanimous ballot was cast for Committee Member Brown to serve as Vice Chairperson for the Electrical Advisory Committee.

Update - Electric Department –Distribution Operations

Electric Superintendent Mike Furmanski discussed current departmental activities and operations which included the Pole Replacement RFP and a Tree Trimming RFP. The following items were also discussed:

- Marquette General Hospital Building construction on South Lincoln Road and M-35;
- Stephenson Avenue lighting;
- Power Plant Environmental drilling;
- Gladstone Electric Employees would be helping City of Escanaba Electric Employees with the Stephenson Avenue lighting project;
- Administration was still trying to hire new linemen to fill vacated positions. Administration may also be seeking help from private contractors.

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.

- Received update regarding Midwest Independent Transmission System Operator, Inc. (MISO) Racking, and which units were being run per request from MISO;
- Unit #1 would be down one day in December month for maintenance;
- There was enough coal on Gladstone docks to run power plant through June 2012;
- Traxys was still shipping in coal.

Discussion– Purchase Power Contract.

Administration provided a summary of the key terms and conditions being negotiated for the purchase power agreement. Representatives from Nextera, Mark Palanchian, Tim Delay, Trip Bristow, and Jack Sullivan provided an introductory presentation of their company and on the services they would be offering the City of Escanaba.

Discussion – Purchase Power Strategy – Timing of All Requirements Power Purchase.

PSE Consultant Tom Butz presented information showing a range of impacts of locking into a purchase power contract for early 2012 vs. delaying the decision until later in 2012 or 2013. The strategy of purchased power contracts and how it's related to market agent services was also discussed. (See Attachment – A)

After discussion, Manager O'Toole stated Administration was making a recommendation for a 5 year contract with Nextra Energy for purchase power for the City of Escanaba.

Baribeau moved, Nelson seconded, to authorize Administration to negotiate and enter into a five year contract with Nextra Energy, of Juno Beach, Florida, for purchase power energy for the City of Escanaba.

Ayes: Baribeau, Nelson, Baker, Beauchamp, Evans

Nays: None

MOTION CARRIED.

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. City Manager O'Toole advised Fuel Streamers, based on dwindling tax incentives, withdrew their interest in purchasing the Escanaba Power Plant. Talks were still underway regarding a sale of the Plant with other possible prospects.

Discussion – Monthly Power Costs.

Administration presented a summary of monthly costs including the power costs in the MISO market.

Discussion - Plant Sale Contingency Options

Administration led a discussion on options available for the Escanaba Generation facilities should a plant sale not materialize. Various option outlines and timeframes were reviewed and discussed including a request, Attachment Y, to MISO to shut down or idle the Power Plant for 30 months. If MISO did not grant either request and wanted the Power Plant to continue operation, the City could be asked to run the Power Plant at the expense of MISO.

- If MISO approved the request to idle down the Power Plant, Pro Energy would begin to temporarily shut down operations. They would also continue to maintain the

Joint City Council & Electrical Advisory Minutes
December 7, 2011 – cont.

facility and the City would continue pursuing a buyer for the Power Plant;

- A vote of the people would be required to completely shut down the Power Plant;
- Administration requested approval to submit to MISO, Attachment Y – It would take at least 6 months to get a reply from MISO. If MISO would tell the City we could not shut the plant down, MISO will be obligated to operate and cover all costs of the Power Plant.

Baribeau moved, Nelson seconded, to authorize Administration to submit form Attachment Y to MISO, to idle down the Escanaba Power Plant, with MISO regarding the Escanaba Power Plant.

Ayes: Baribeau, Nelson, Baker, Beauchamp, Evans

Nays: None

MOTION CARRIED.

GENERAL PUBLIC COMMENT

Based on questions from members of the public, Mr. Butz briefly reviewed reasons why Fuel Streams were not interested in the Power Plant purchase.

COUNCIL/COMMITTEE, STAFF REPORTS - None

ADJOURNMENT

Hearing no further public comment, or further reports from the Electrical Advisory Committee or Council, the meeting adjourned at 8:06 p.m.

Respectfully submitted,

Robert S. Richards, CMC
City Clerk

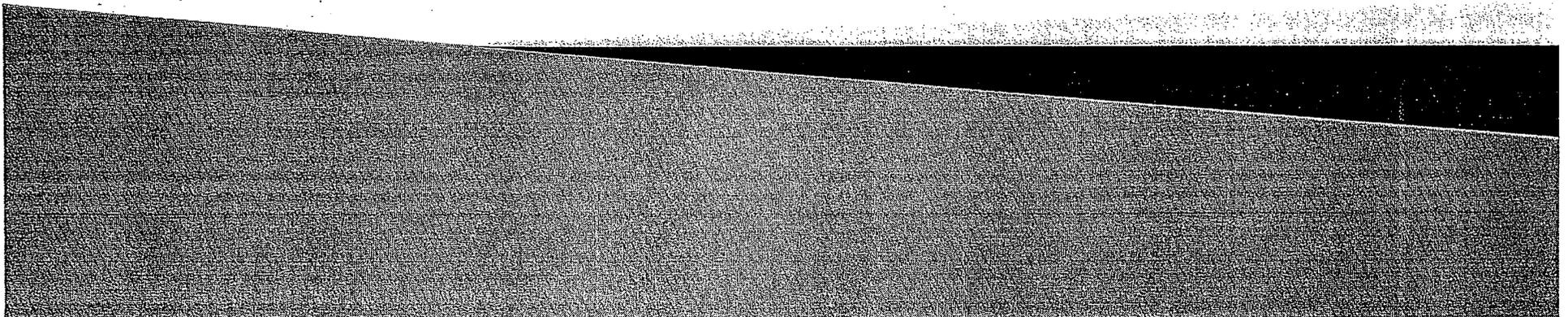
Approved: _____

Leo J. Evans, Mayor

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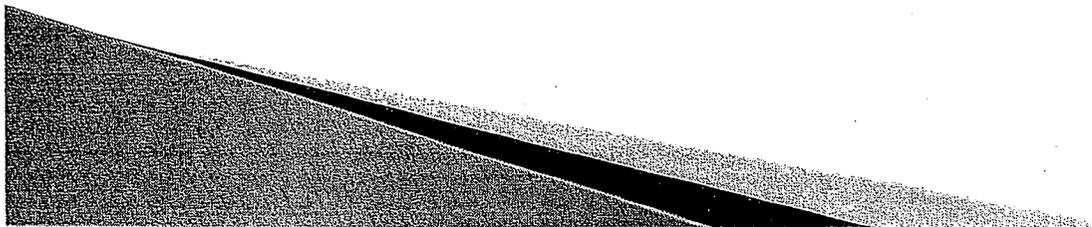
Attachment - A

**Joint City Council and Electrical
Advisory Committee
12/7/2011**



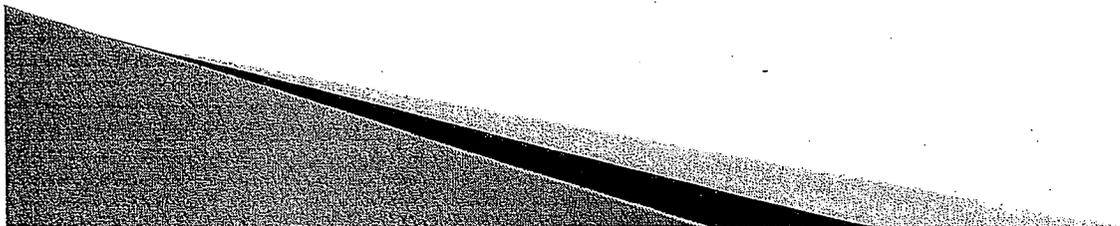
Attachment - A

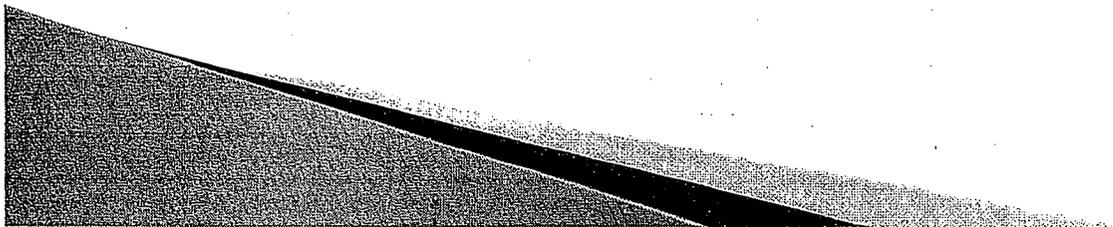
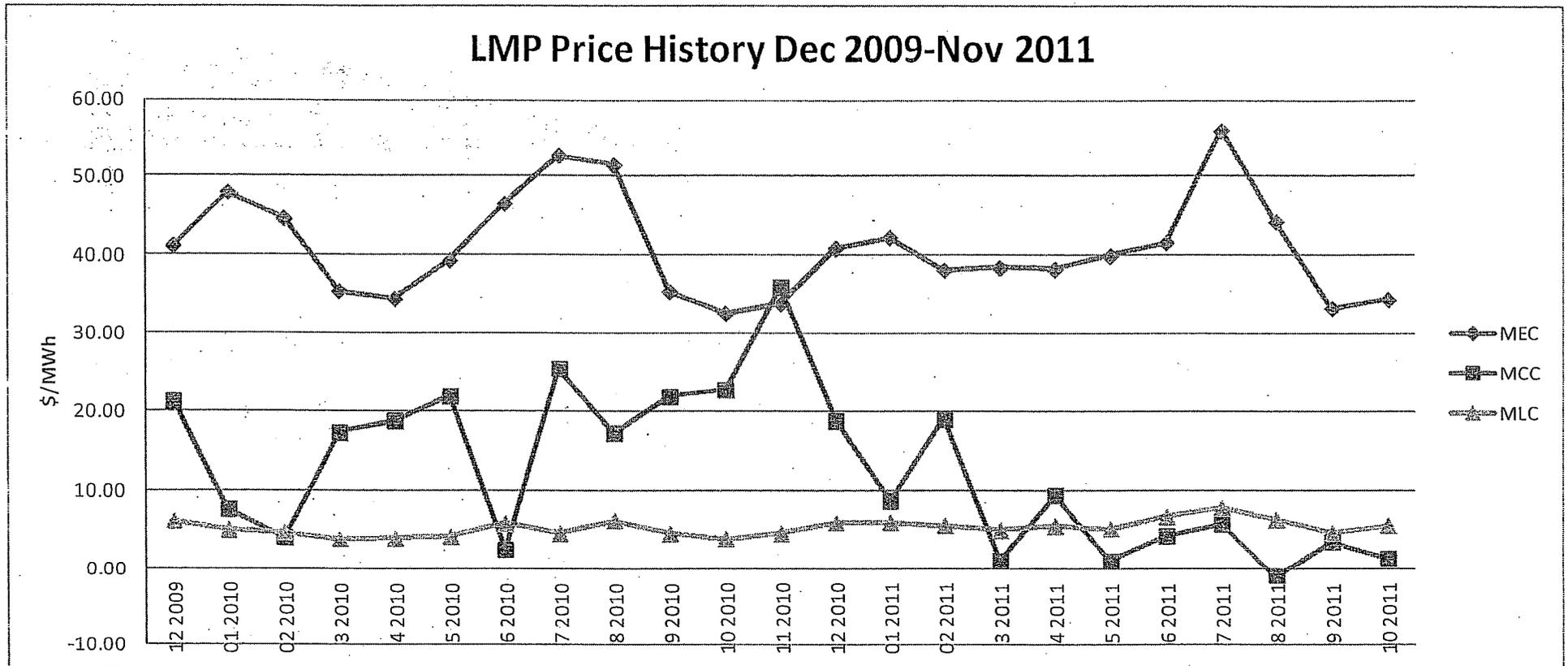
Purchase Power Update

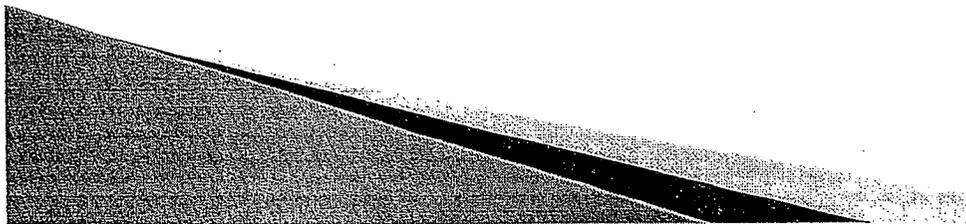
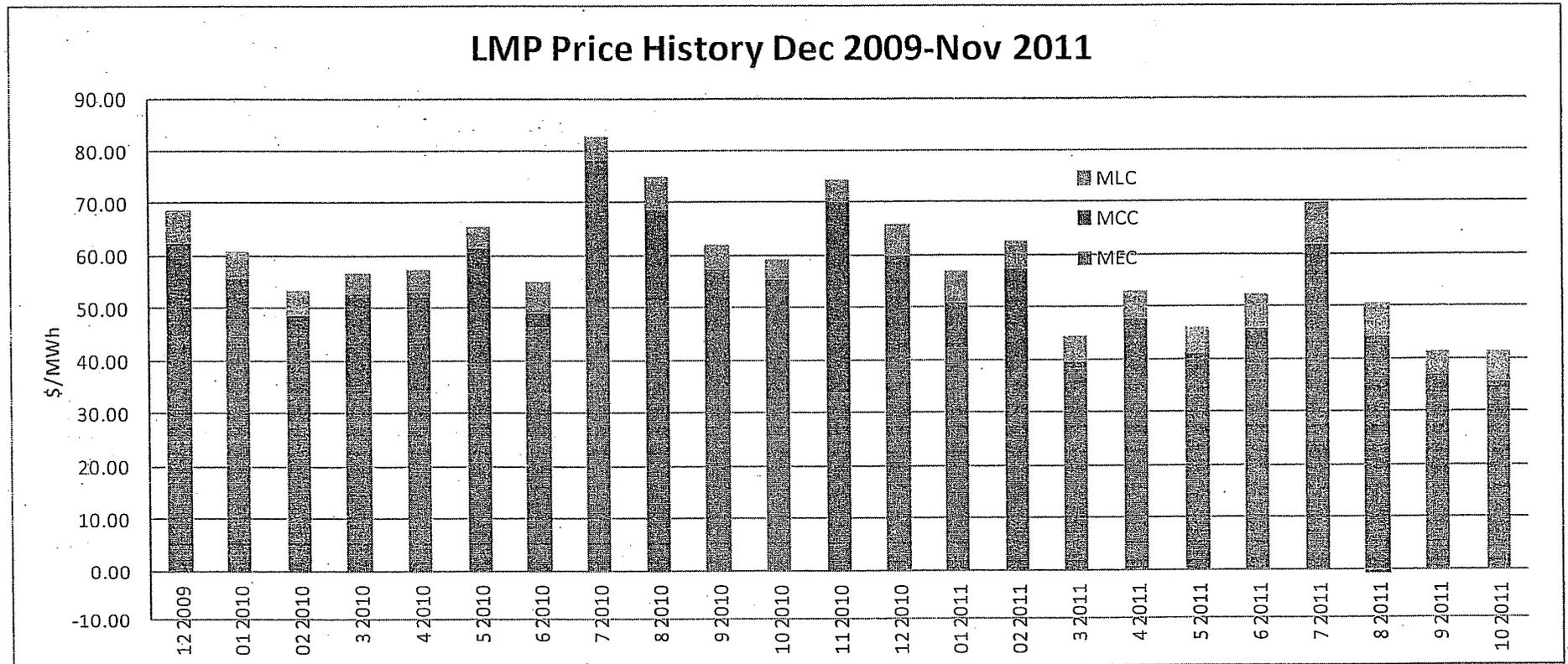


Historic LMP

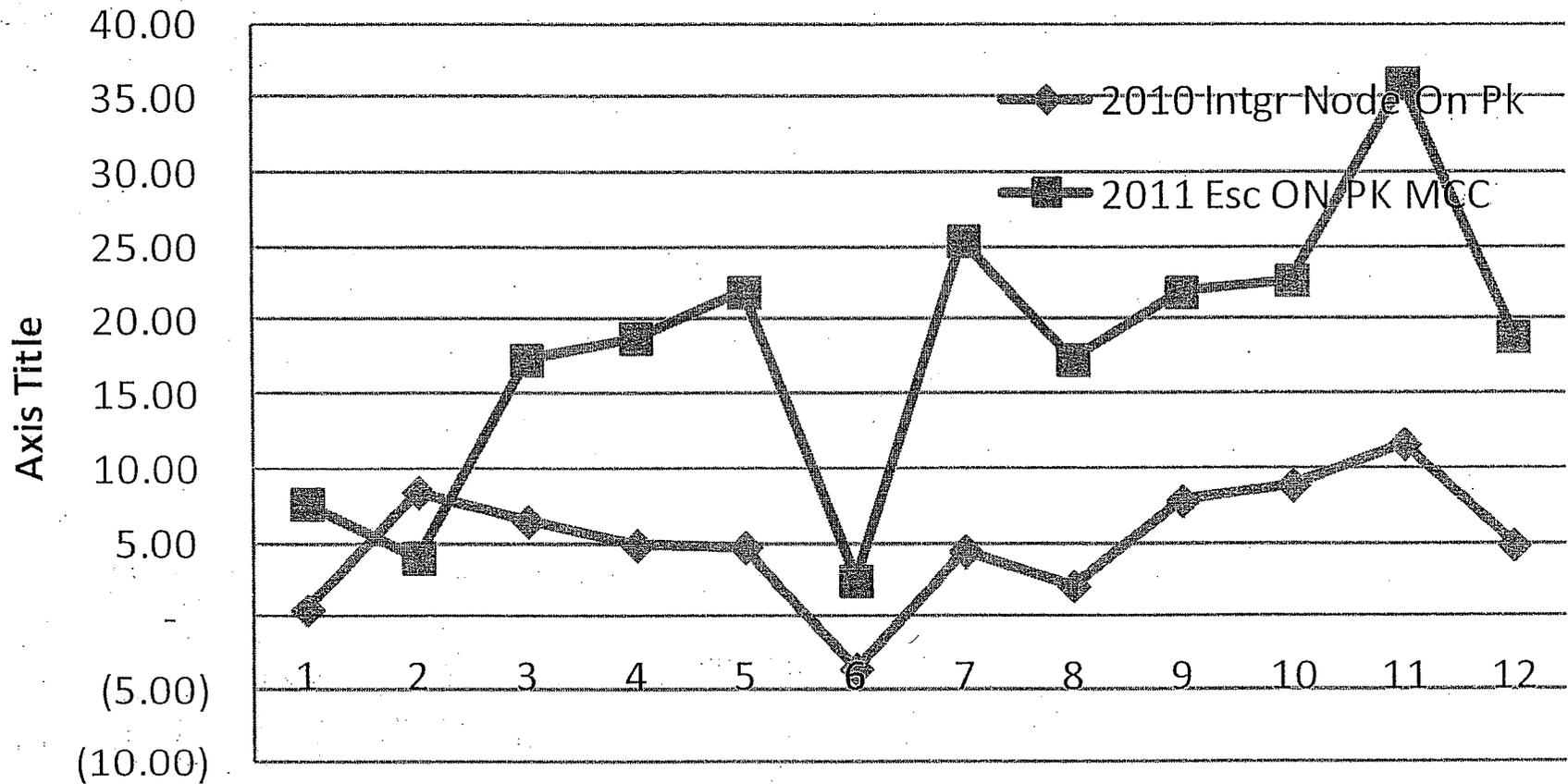
- ▶ Escanaba Started MISO 12/1/2009
- ▶ Congestion Pricing Previous Didn't Include Escanaba Coal Units
- ▶ CT Units included, but didn't impact pricing
- ▶ LMP Components
 - Marginal Energy Component (MEC)
 - Marginal Congestion Component (MCC)
 - Marginal Loss Component (MLC)



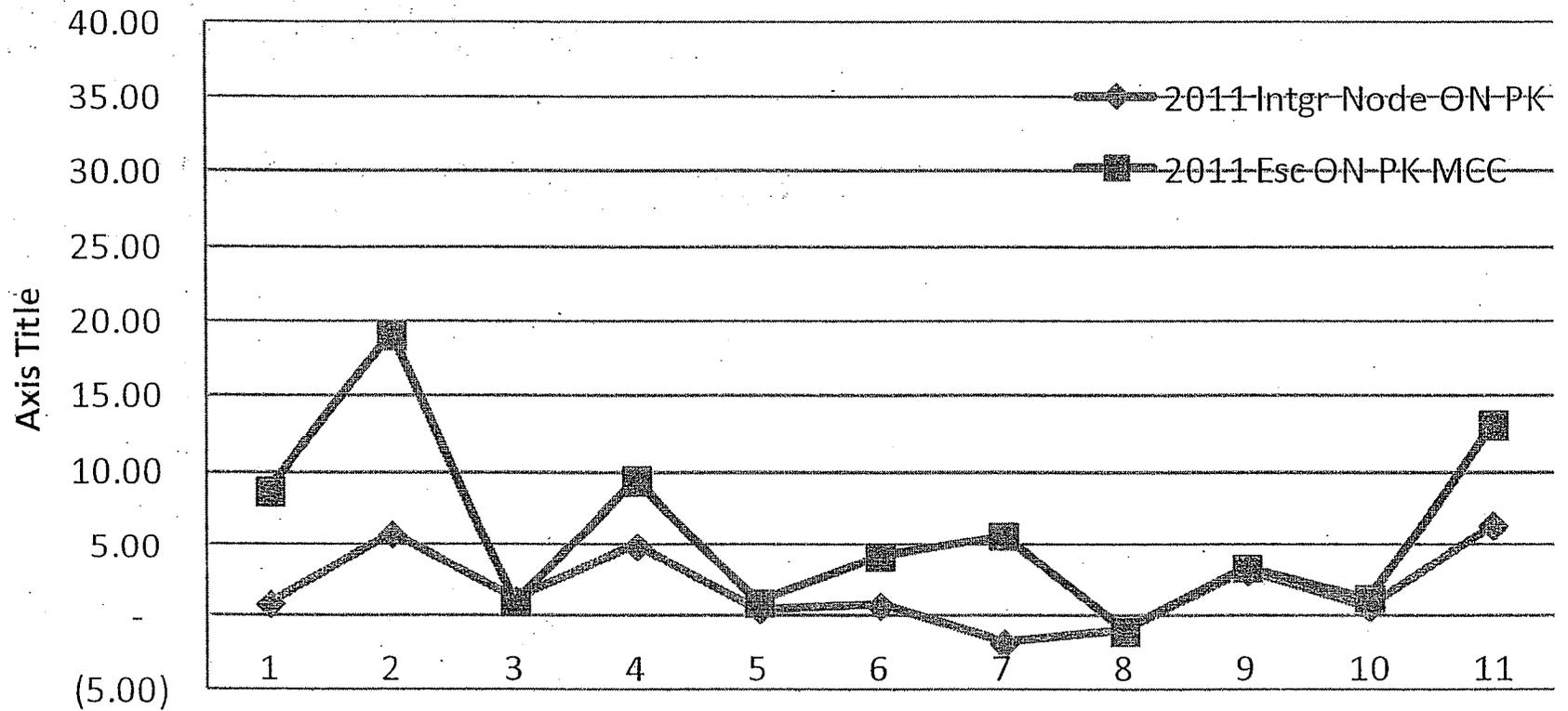




2010 Monthly MCC On Peak

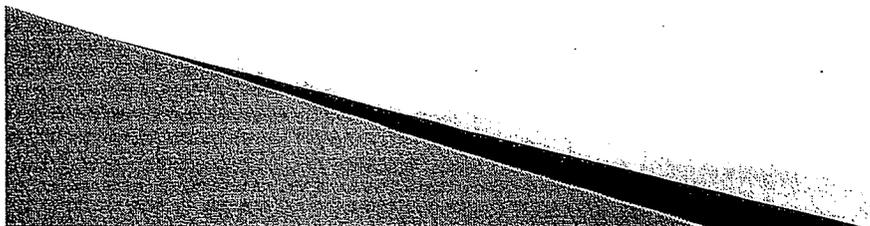


2011 Monthly MCC On Peak



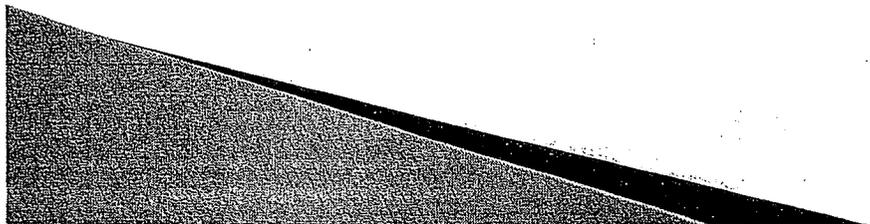
Summary Points

- ▶ MEC Driven by Primarily by Natural Gas Prices
 - Significant Drop in late 2008
- ▶ MCC – Much higher starting December 2009
 - Through 2010
- ▶ MCC Much lower in March–October 2010
 - Driven by High Water Year – Hydro Generation
 - Shown by lower Shadow price calculations
- ▶ Chandler Transformer – Huge Driver to Congestion



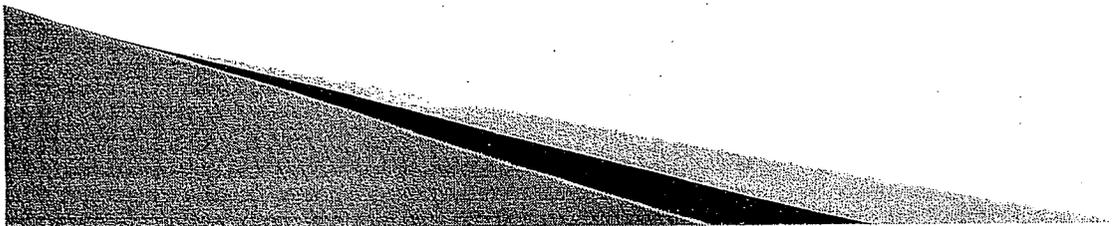
Impacts of EPA Regulations

- ▶ 2012 Dispatch Change due to Cross State Air Pollution Rule
 - As high as \$30/MWh
 - Consider using \$10/MWh for Estimated Impact
- ▶ Retirements in 2014 and 2015 due to other EPA Regulations
 - Market Price Impact not quantified

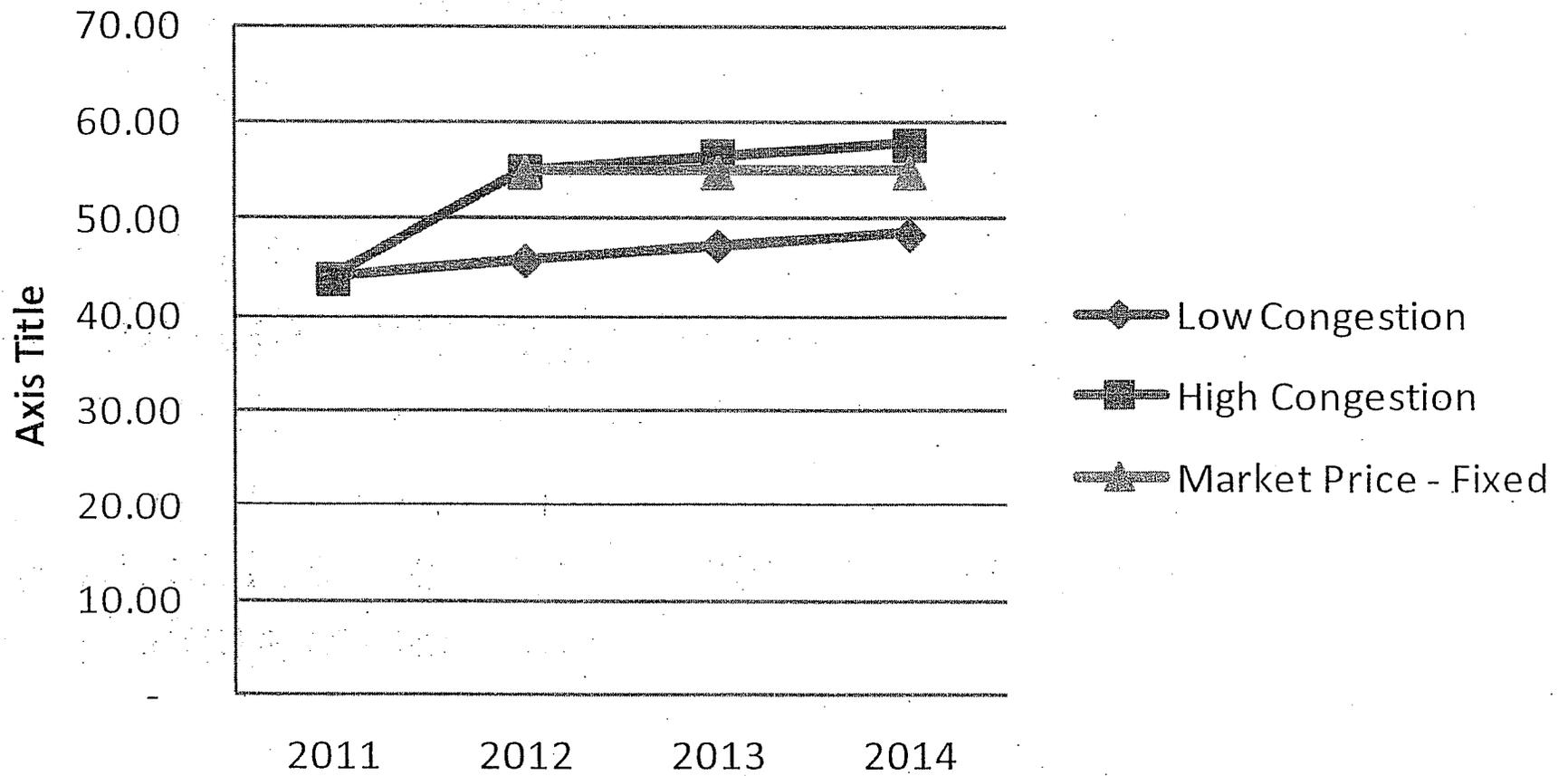


Market Price Summary

- ▶ Current Budget – \$56/MWh
- ▶ Current Purchase Price Jul–Oct \$42
- ▶ Projected Purchase Price
 - Low Congestion
 - Mid 40's 2012 increasing to \$48 by 2014
 - High Congestion
 - Mid 50's 2012 increasing to upper 50's by 2014
 - Nextera Price
 - Price including EPA Impacts

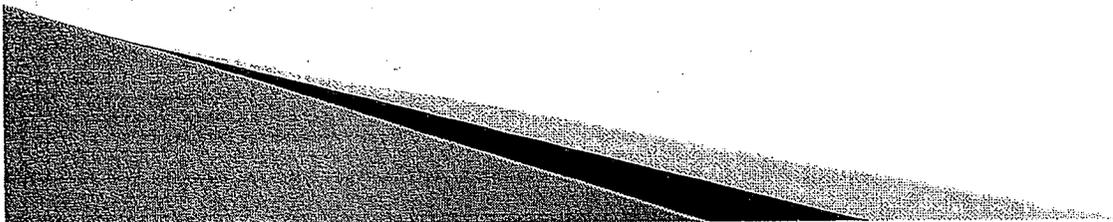


Price Projection Summary

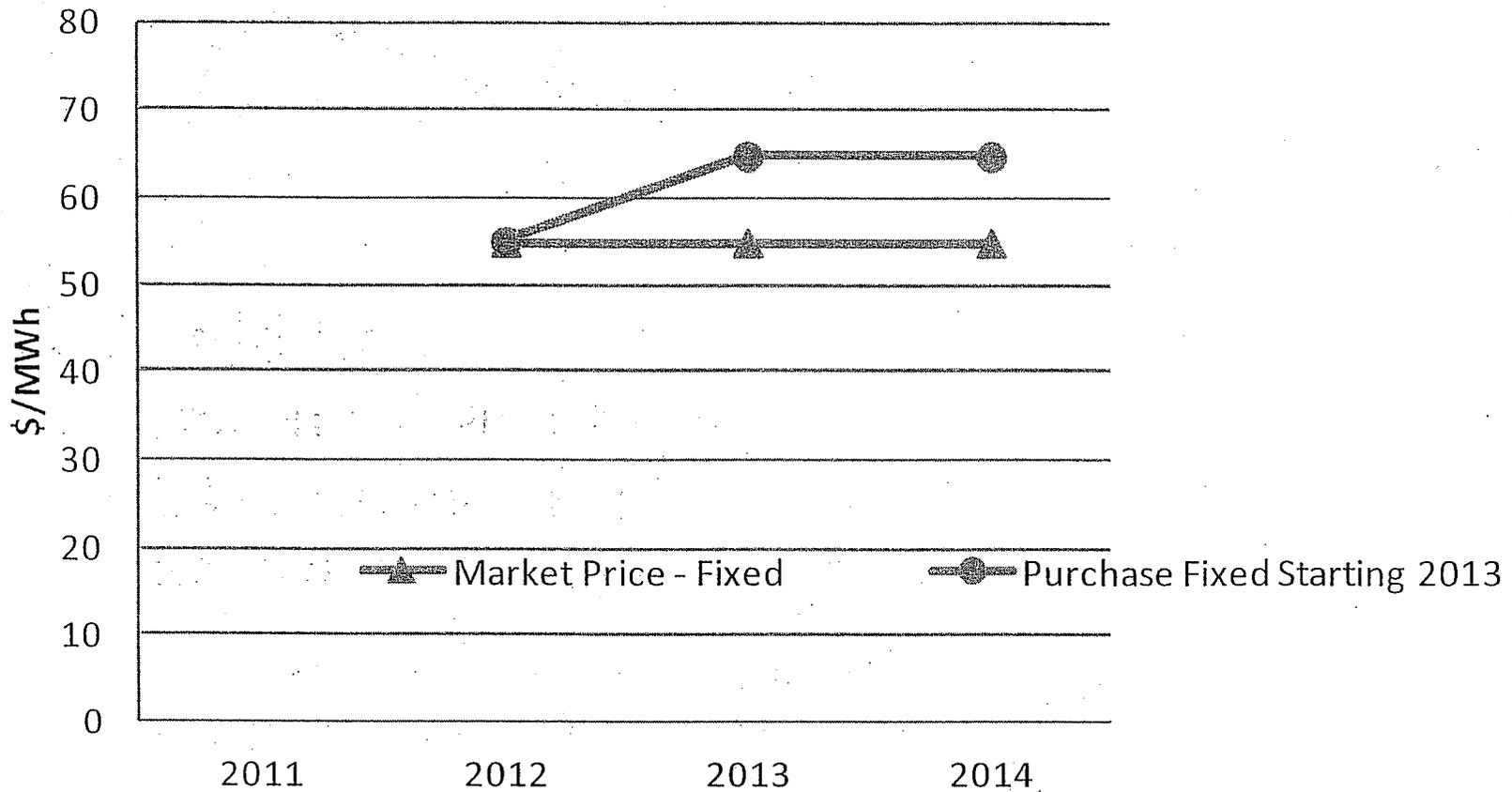


Expectation of Future Prices?

- ▶ Could be Lower –
 - Doesn't seem as Likely
 - 2011 Congestion Lower in Most Months But Returning to Higher for November
- ▶ More Reasons to be Higher
 - Higher Congestion – 2010 values
 - Impact of EPA regulations



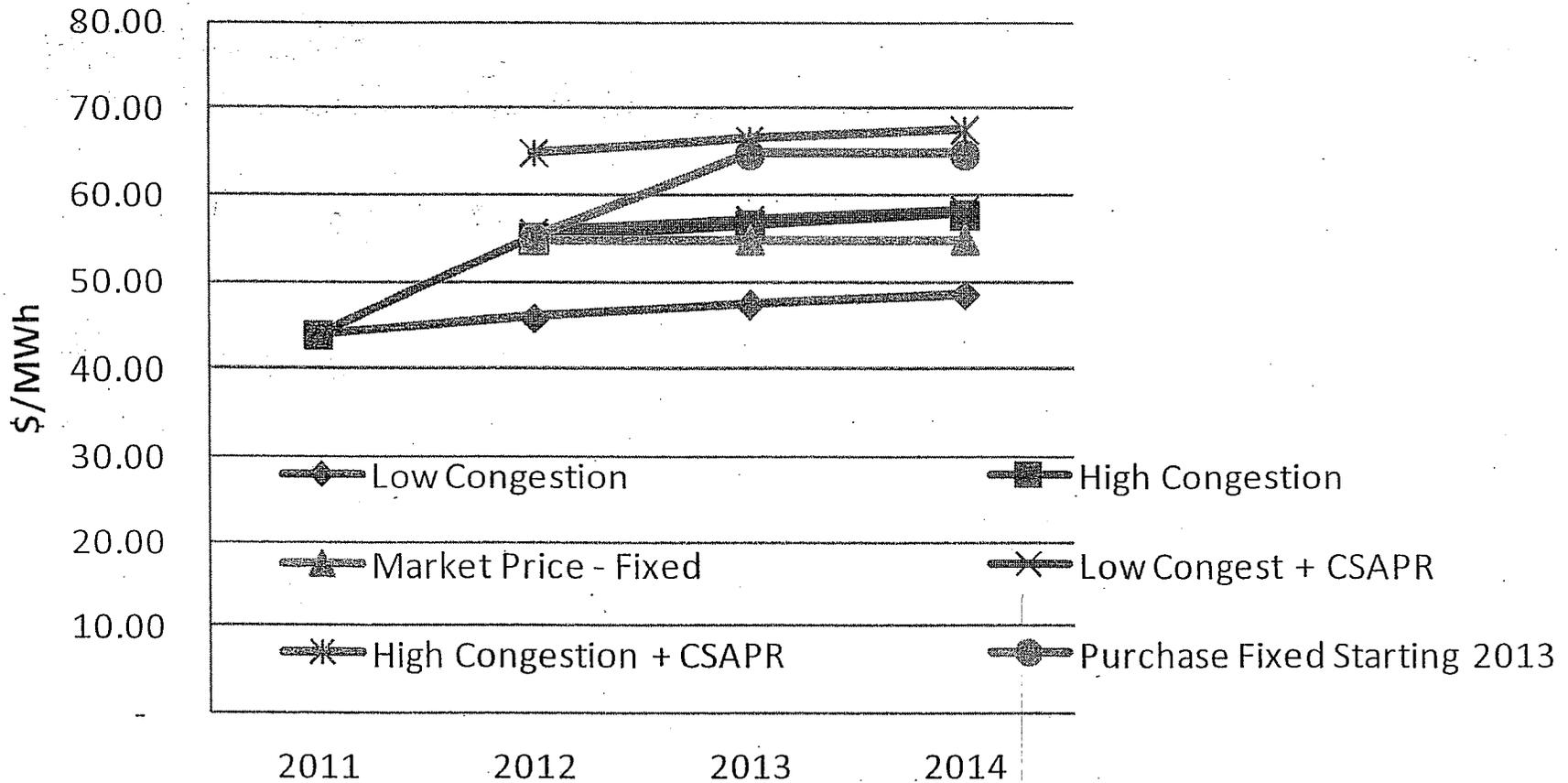
Price Projection - Fixed Price Options



Summary of All Pricing Paths

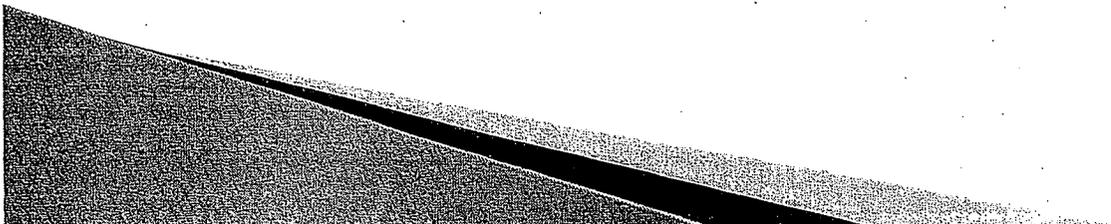


Price Projection Summary - More Options

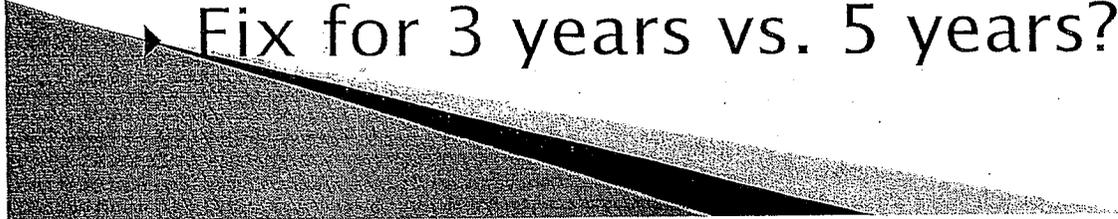


Cost Impact

- ▶ Low Congestion – No CSAPR
 - 3.6 Million more to lock into 3 yr pricing
- ▶ High Congestion – No CSAPR
 - Save 700 K to lock into 3 yr pricing
- ▶ Low Congestion – CSAPR Impact
 - Save 1 M to lock into 3 yr pricing
- ▶ High Congestion – CSAPR Impact
 - Save 5.4 M to lock into 3 yr pricing



Pivotal Questions?????

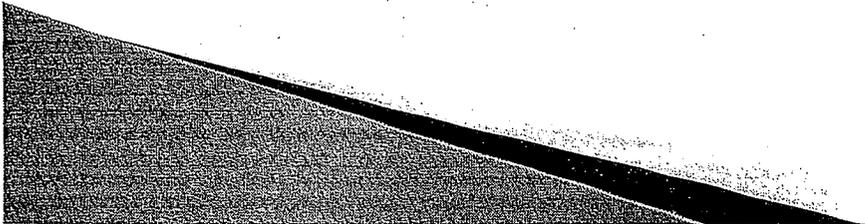
- ▶ What is the Expected Impact of CSAPR?
 - And other expected retirements?
 - ▶ Will Congestion of 2012 be similar to 2011 or 2010?
 - 2010 Congestion is much higher
 - ▶ What is the Value of Market Purchase Certainty?
 - ▶ What will Fixed Price Market Purchases be if 2012 has higher pricing?
 - Delay of decision could be costly
 - ▶ Fix for 3 years vs. 5 years?
- 

Options

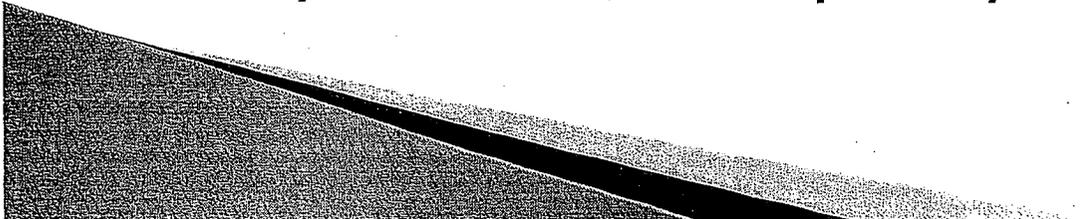
- ▶ Pursue full requirements fixed price deal
 - Three Year Deal – 2012–2014
 - Five Year Deal – 2012–2016
- ▶ Pursue a block energy purchase
 - Partial hedge on price uncertainty
- ▶ Wait on making a decision – Start purchase later in 2012 or 2013



Purchase Power Contract Summary



Contract Approach

- ▶ Nextera Provides Fixed Price for Energy
 - Fixed Price for All Years
 - ▶ Nextera Creates Load Forecast
 - ▶ WPS Continues to Provide Market Agent Services
 - Transition to Great Lakes
 - ▶ City Continues to Perform MISO Settlements
 - ▶ Allowance for Load Growth
 - Limit of new large load additions
 - ▶ City Purchases Capacity
- 

Timing of Contract Discussions

- ▶ Legal Review Underway
- ▶ Working on Getting Our Final Agreement by Friday
- ▶ Final Discussions by Next Tuesday
- ▶ Pursue Final Approval December 15, 2011 Council Meeting

