

ELECTRIC ADVISORY COMMITTEE
05/09/2007

The regular meeting of the Electric Advisory Committee was called to order at 5:15pm by Chairman, Tony Westerberg, in Room 102 of City Hall.

Present: Larry Arkens, W.A. Baker, Ron Beauchamp, Ann Bissell, John Mellinger, Tony Westerberg, Tim Wilson

Absent: None

Also Present: Gil Cheves, Mike Furmanski, Council Liaison Leo Evans, Pat Fulsher

Approval of Minutes:

Westerberg called for a motion to approve the minutes of the April 18, 2007 meeting. A motion was made by Baker and seconded by Bissell. Mellinger called for discussion and then made a motion to amend the minutes of the meeting to include the information forwarded by Glendon Brown to all members of the EAC. Beauchamp commented that the information was not presented at the meeting itself. Baker seconded the motion to approve the minutes of the meeting upon amending them to include Glendon Brown's information. A vote was taken to approve the minutes as amended and passed 6-1, with Bissell being the opposing vote.

Adjustments to the Agenda:

None

Conflict of Interest Declarations:

None

OLD BUSINESS:

None

NEW BUSINESS

Electric Report of City Activities/Issues-Furmanski

Mike reported to members we are in the process of pole replacement right now for broken or rotted out poles. The department will also be starting in on a couple of new projects within the week.

Power Plant Report-Fulsher

Fulsher reported that due to the timing of the meeting being on the 9th, and his financials not being available until about the 15th of the month, his power plant reports are not available at this time. He advised we could go over last months report or pass entirely and go on with the next segment of the meeting. He did bring along copies of last months reports for those who did not receive them.

No questions were asked of him, so the meeting proceeded on to the next agenda item.

Escanaba Power Generating Project Update-Cheves

Status Report:

Cheves advised members of where we are in the project:

- We have received the Sargent & Lundy Phase 1 portion of the project
- We have performed a draft run of the open book analysis with WPPI - financial model that basically lays out revenue requirements to make any of the new plant options successful
- We have had an opportunity to do a preliminary review of these numbers. This would require the formation of a subcommittee involving EAC members and administration to assess the numbers and make them relevant, and reconcile them to Escanaba's needs. This will take some time and at this time we are still waiting for some numbers. This will provide a target range of numbers of the costs per Mw for each of the options.

Cheves then proceeded with his power point presentation titled Escanaba Energy Supply Plan that can be viewed in its entirety on the www.escanabaenergy.com website.

Cheves then introduced Andy Kellen from WPPI who then took over the meeting and with his power point presentation, gave the WPPI Evaluation of the Sargent & Lundy Feasibility Study. This evaluation can be viewed in its entirety on the www.escanabaenergy.com website.

Neil Palmer was then introduced to EAC members to address some of the current trend issues that are out there to better help the committee when deciding on an option. Palmer stressed that the study was needed so we are able to get decent numbers from the market. He stressed that a lot has changed in the marketplace since the initial stages of the study began. There is a lot of global pressure on the U.S. to do something about global warming and also the election of a new Congress has made big differences on the marketplace. Palmer stressed there are more regulations coming, a lot of big changes and lots of uncertainties yet to face.

Cheves then opened the meeting up for discussion/questions from Committee members.

- Westerberg questioned if it was primarily due to environmental constraints as to why a 600Mw plant was not an option. Cheves advised it was because of the site

size assessment that was done for our area. Kellen reported that a 600Mw plant would also impact nearby Seney Wildlife Refuge for air emissions.

- Bissell questioned how long the Phase 1 information can sit on the shelf and still be valid as far as the information it provides. Cheves reported that the modeling can certainly be updated, we have flexibility with it as it was originally set up and intended to be. It can certainly be picked up in the 2-5 year range and be looked at again.
- Bissell questioned what the time frame was if we opted to go alone or with someone else. Cheves reported the contract time frame is 5 years; we have to give WPPI the option to participate during that time.
- Baker had questions about wholesale power agreements and available capacity. He questioned how much new generation is available today that was not available 5 years ago. Kellen reported 2000+ Mw have become available. When asked how much more in the next 5 years will become available, he reported at least another 2000 Mw. Baker reported that back in 2003, Power Systems Engineering did a study for the City at the cost of about \$35,000 to see what capacity we could purchase in 2007. The report at that time concluded that there was no available capacity and there wouldn't be anymore available capacity to purchase. He said he understood it was a marketing issue, or a negative supply issue, but pointed out that in 2003 the ATC was formed and in existence and their knowledge of increasing the capacity highway was public information. So, pretty much everything they said was going to happen, we knew was going to happen. Baker then asked Cheves who he meant by "we" when he said we will ask the question of the Wholesale Purchase Agreement. Cheves advised that he meant members of the EAC and the subcommittee that would be formed. Baker reported that they were told back when that the EAC could not ask, we needed to hire a consultant. He questioned who we would ask-WPPI, WE, WPS-is there anyone else?. He then asked if we at this time were discussing an agreement with anyone. Gil reported that there may be others, but those are the primary. The reason it is being done as a formal proposal is because there are a variety of options to evaluate against that. One you need to open a dialogue with them and find out what they are willing to do. This is what we are doing now, seeking information from them. Baker commented then that all 3 of them had been asked to be investors in the building of the 300 Mw plant. Also, Escanaba needed a feasibility study to be done for a 60 Mw plant, but entered into an agreement with WPPI and it then expanded to include a 150 Mw or 300 Mw plant because they thought we could attract other investors.
- More questions were then presented to Cheves in reference to his power point presentation.
- Bissell questioned what type of new capacity was coming on line. Kellen said that all of it was gas, but in '08 and '09 there would be some more coal.

- Baker questioned if we modernize the plant, is that to gain more output? Fulsher advised it would increase the efficiency of the plant, not the output. It could lower our fuel costs.
- Baker then said that he felt there should be no more work done on the 300 Mw plant. No more time should be spent on this. Why not just take it off the table, Escanaba cannot build a 300 Mw plant.
- Tim Wilson questioned Kellen's e-mail. Kellen said they concluded that proceeding with the baseload plant is not something they want to continue with at this time. Kellen did say they would be willing to propose WPPI membership to Escanaba and look at different options as to how this could be done as Escanaba could possibly become a full requirements member where WPPI supplies their power, but in turn, they purchase the output of their existing facility. Other options are also available and could be worked out.
- Mellinger questioned if Escanaba's needs were available on the market right now. Kellen said they are in contracts right now where if they take on new members, they can increase the amount of energy that they can take on with the contract.
- When asked where Gladstone and Negaunee were getting their power from, Kellen advised he believed that Gladstone had their existing supply contract signed over to WPPI and get their rates under the old contract until it expires and then will take on the same rate as all the other WPPI members.
- Westerberg questioned if Escanaba signed on as a full member to WPPI in full capacity, what additional transmission would be required. Kellen reported that they are looking into this right now. This will make things a little difficult. Escanaba does have a plant so transmission is here, but they are looking into it as if Escanaba does not have a plant. They are making sure of the adequacy of transmission, and how they could physically supply the city and the costs of transmission constraints. Things are still being looked into at this time.
- Baker asked Kellen if they were the buyer of the energy produced at municipal plants or just the manager of the plants and you take it over and own it or are you just the purchaser. Kellen reported that they are the purchasers. The municipal still owns it and runs it, however they dispatch the energy into their system. They have a power supply agreement with the plant and a power purchasing agreement with the plant and the municipal runs it.
- Beauchamp questioned if the 300 Mw plant option is eliminated, would Sargent & Lundy Phase 1 and Open Book Analysis be released. Cheves reported Phase 1 is in the process of being released now and the Open Book analysis, when it is agreed upon between WPPI and the City that it is a final report, will be released, otherwise it will be a draft.

- Baker commented that WPPI said they might be interested in working with Escanaba as a full service member, but Baker did not see it listed as one of our options. Cheves reported that it is one of our options, but first we have to find out what we can get. If we can get total full service requirements from WPPI or whomever, you have to look at this against your existing plant.
- Baker expressed concern over going out for a Wholesale Purchase Power Agreement, stating they all work together. He felt more work was needed in a more focused area. He questioned whether or not WPS or WE would come in and buy our generation as WPPI would and then enter into a WPPA with us. Kellen commented at this point that he does not want to get Escanaba's hopes up, that this is actually what would happen.
- Bissell questioned if with a WPPA, we go with someone other than WPPI and turn the plant off, does it eliminate our option of building here again? Cheves advised that was not necessarily so.

MOTION: After discussion, Cheves reported what he was looking for from EAC is a motion to table Phase 2 of the Sargent and Lundy report so we could move on and focus on our other options. Baker made the motion to Table Phase 2 of the report. Motion was seconded by Arkens and carried unanimously.

Cheves reported the EAC has been included as we are addressing the wholesale options. A subcommittee consisting of 3 members of the EAC and City Administration and Cheves, if the City chooses to have him involved in it or not at this point. Baker questioned if it would be conducted in a fashion of putting out a Request for Proposal and questioned that if we issue an RFP, would we be closing out on our other options. Furmanski interjected that we would have a 3 year time frame where we would have to advise UPPCO that we are closing our plant and decisions to make on a 30 year plan or a partial requirements for a 5 year timeframe.

MOTION: Baker made a motion to pursue the balance of the options but also identify specifically a full service requirement option as part of the option assessment. Motion was seconded by Mellinger. Discussion before the vote was a request by Bissell to know what the balance of the options included. Cheves advised that it would include evaluating of the existing plant, evaluating our buying options and looking at the mix which included partial, full service, near term, and long term power purchase agreements. After discussion, the vote carried unanimously.

Public Comment

None

Board Announcements or Comments:

Westerberg questioned who was on the Committee after this meeting. Baker was advised he was termed out and would be off the Committee at the conclusion of the meeting. Westerberg was asked if he wanted to remain on the Committee as he had 1 more term available. Westerberg advised he would like to remain on the Committee. Members were advised that the election of officers would take place at the June meeting which would be held on June 13th.

Adjournment :

Meeting adjourned at 7:40pm

ATTACHMENT:

ESCANABA ENERGY SUPPLY PROJECT
CONSULTANT'S STATUS REPORT
FOR PERIOD ENDING 4/20/07

Key dates

7/20/06 – Escanaba City Council approves Cost Sharing Agreement with WPPI.
7/27/06 – WPPI Executive Committee approves Cost Sharing Agreement.
7/28/06 – Release for Proposals for Engineering Feasibility Study sent to seven firms.
9/15/06 – Feasibility Study Proposals received.
10/15/06 – Recommend Engineer selection for Feasibility Study.
10/25/06 – EAC meeting, Endorses S&L for approval of Engineer for Feasibility Study.
11/2/06 – City Council Approval of S&L for Feasibility Study.
11/10/06 – Chicago meeting with S&L, final draft on scope and agreement. S&L begins work.
12/1/06 – S&L final agreement approval.
1-25-07 – First public open house at City Council Chambers.
2-08-07 – Jointly sponsored forum, EAC and Commerce Center, Large Power Users Forum
2-22-07 - Jointly sponsored forum, EAC and Commerce Center, Hospitality Users Forum
3-14-07 – EAC meeting to discuss the energy supply options
3-22-07 – Council special meeting to discuss energy supply options
4-18-07 – Sargent and Lundy presentation of findings to-date
June, 07 – Completion of Feasibility Study.

General Comments

1. Base Load Engineering Feasibility Study – Sargent & Lundy has completed the Phase I part of the Engineering Feasibility Study. Phase I information provides sufficient information in discussion form to establish the primary technology, capacity and cost of energy to be used to establish and compare our energy supply options. Sargent and

Lundy's findings were presented to the EAC Board on April 18th, 2007. S&L's report will be formally issued the week of April 23rd. This information will now be used in the WPPI/Escaanaba Open Book Analysis, and will be presented as part of the discussion with the EAC.

2. WPPI/ Open Book Analysis - The Open Book Analysis of the study options is now being performed. The first draft parameters were reviewed with WPPI on Friday, April 20, 2007. WPPI will run the model based on our comments and publish a draft report for EAC discussion. The draft report should be issued the week of April 23rd. The Open Book is considered to be a work in progress until the final Study report is issued. The primary objective of the Open Book Analysis is to provide factual information on the various options in regards to ownership, near-term costs, long-term costs associated with the development of the Project, and basis for operating agreements between the City and WPPI. The Study will provide the City with information to decide how it will ultimately participate in the development.

WPPI has an Executive Committee scheduled for Thursday, April 26, 2007, they will discuss the report information submitted to-date and provide their comments on the proposed new plant construction.

3. Next Steps. The EAC will begin the evaluation of the S&L report and the Open Book Analysis as soon as they are received and distributed. The efforts of the sub-committee will be presented to the whole board at the May 9th meeting. The primary options for comparative evaluation are: 1) Continue to operate as-is. 2) Participate in the construction of a new base load plant, with no partners (30-40mw), WPPI (and/or others) as partners (160-300mw). 3) Not build a new plant and acquire energy supply by wholesale power purchase agreement. 4) Modify existing facility to update plant and allow for combustion of opportunity and lower cost fuels.

4. Public Affairs. The EAC public open house forums will start again when the energy cost information for each option can be assessed. A presentation was made to the Rotary Club on April 17, 2007.

5. The Public Affairs Issues Forum will continue to meet bi-weekly. The purpose of the forum is to discuss key issues that affect the City's overall energy program, including the generation project. The meeting will continue to include key individuals with associations that have considerable impact on community and business opinions. Pete Baker is the EAC member participating.

6. Conservation, Efficiency and Renewable Energy Initiatives Program. The development of this program includes the overall distribution strategy which is being developed by Mike Furmanski.

7. Current goals to maintain Project support are:

1. Participate in ongoing proceedings related to the development and completion of the Open Book Study and the Engineering Feasibility Study.

2. Work with WPPI, ATC, and MISO to coordinate the resolution of issues brought out in their respective studies.
3. Implement an ongoing communications program to develop public awareness and ultimately establish a public consensus in regards to the Project. Initiate a schedule for public forums in regards to the option selection process.
4. Evaluate data and reports collected to date in regards to the City self-constructing a facility up to 60 MW. This would include evaluating various options open to the City if WPPI participation is not possible. Add to this item the retrofitting of the existing plant to determine the comparative economics.

If you have any questions in regards to this status report, please contact me.

Yours truly,



Gilbert Cheves

President

Construction Consultants of Michigan, Inc.

APPROVED :

TONY WESTERBERG, CHAIRMAN

MIKE FURMANSKI, INTERIM SUPT.