

ROCHESTER PUBLIC UTILITIES
BOARD MEETING MINUTES
August 7, 2012

Members Present: Mr. Williams, Mr. Reichert, Mr. Stahl, Mr. Wojcik and Mr. Browning
Absent:
Also Present: Mr. Adkins, City Attorney

Board President Williams called the meeting to order at 4:00 PM.

1. Mr. Williams opened the meeting for comments from the public relative to the 2012 Infrastructure Plan Update (Agenda item #2).
 - a. Wishing to be heard was Sister Joy Barth, Sisters of St. Francis. She expressed concern for the environment regarding pollution created by gas fracking to produce gas fuel when coal was no longer burned at the plant.
 - b. Wishing to be heard was Genny Rice. She said the paper had said that RPU would not be doing what the state wanted at the plant because it costs too much. She lives near the power plant and wanted to learn more about it.
 - c. Wishing to be heard was Rick Musser. He wants the plant decommissioned to reduce harmful emissions and ensure legal compliance.

Mr. Williams thanked the individuals for their comments.

2. Mr. Schlink, Director of Power Resources, said the Board has approved a power supply plan since the late 1990's. In 2005, a long-term infrastructure plan was created. This plan was updated in 2009 and again in 2012. He also said that the potential litigation between the EPA and RPU is a driver in the 2012 plan recommendations, but is covered by attorney-client privilege and would not be part of this discussion. He introduced Mr. Kiah Harris from Burns & McDonnell to the Board.

Mr. Harris said that several changes have occurred since the 2005 Electric System Infrastructure Plan was issued. The key changes during his presentation are highlighted below. A scenario analysis was prepared by Burns & McDonnell through 2044 to update the 2012 version of the Electric System Infrastructure Plan. Mr. Harris' presentation can be found on the RPU Web site (<http://www.rpu.org/about-rpu/board/2012/aug/>). The complete 2012 study presented to the Utility Board is also posted on this web page.

- a. The Midwest Independent System Operator (MISO) market was just getting started at that time of the 2005 plan. Today the market has matured and provides energy to 98,000MW load, resources of 131,000MW and over 7,000MW of wind resources. RPU is a market participant in this market and MISO provides energy to RPU above the contract rate of delivery (CROD) from the Southern Minnesota

Municipal Power Agency (SMMPA), RPU's wholesale power supplier.

- b. RPU is required to maintain certain electrical energy reserve requirements in the MISO market. RPU's generating units at Silver Lake, Cascade Creek, etc. and the CROD capacity from SMMPA are used for this purpose. RPU's renewable energy sources include the Zumbro Hydro, Olmsted Waste to Energy facility and distributed generation.
- c. The economic downturn from 2005 to 2011 has caused the hours of energy dispatched from coal-fired units at the Silver Lake Plant to drop off while the Cascade Creek combustion turbine units are able to get in and out of the markets quickly.
- d. Fuel costs have changed significantly. Energy information forecasts for gas from the Department of Energy in 2005 were \$7.93 per mmBtu for 2016. Current forecast is \$4.71. Coal for the Silver Lake Plant was forecast at \$2.35 per mmBtu. Current pricing is at \$4.62 per mmBtu.
- e. Transmission system upgrades like the CapX2020 project will increase RPU's ability to rely more on the market for capacity. This means we can import more energy from the market and rely less on local generation.
- f. There are numerous federal Environmental Protection Agency (EPA) regulations in force and being proposed that are affecting all utilities. Mr. Harris provided several examples of these regulations. The timeframe affecting many coal plants is in the 2015 to 2017 range. At the state level, the Minnesota Public Utilities Commission is requiring investor-owned utilities to perform "base load diversification studies" that have caused some to convert some smaller coal units to gas. Throughout the country, many utilities are deciding to retire older coal units due to EPA requirements.
- h. In November, 2010, the EPA notified RPU of a potential violation of the Clean Air Act under the Prevention of Significant Deterioration/New Source Review regulations and delivered a Section 114 Information Request to RPU on November 18, 2010. RPU proposed a settlement to the EPA and the EPA provided a settlement counter offer which is estimated to cost RPU about \$90 million for both units 3 and 4 at the Silver Lake Plant. Converting these units to only gas operation would require significant upgrades to interstate and local gas systems.
- i. Three final scenarios for RPU were discussed with the assumption that the SMMPA CROD would expire in 2030. The cost of options 1 or 2 would range between \$50 million and \$90 million to accomplish.
 - 1) Keep all of SLP operational which would involve a high investment cost;

- 2) Retrofit unit 4 at SLP and retire units 1, 2 and 3 which would also involve high investment costs;
 - 3) Retire SLP and rely on the market and gas turbines like the ones at Cascade Creek.
- j. RPU resource deficits occur in approximately 2021 or 2022. RPU has several options to obtain capacity to fill this deficit at a reasonable cost.
- k. In summary, Mr. Harris stated that based on the analysis developed by Burns & McDonnell and discussion with RPU management, the recommendation is that the RPU Board direct management to develop plans to decommission the Silver Lake Power Plant on or before December 31, 2015.

Mr. Browning asked about the dates for CapX2020 implementation. Mr. Kotschevar, Director of Core Services, said the first transmission line would be installed in June 2014, and the second one would be installed by the end of 2015. Mr. Wojcik asked about the status of large customer contracts. Mr. Harris said that RPU staff would be meeting with Mayo Clinic staff on RPU's agreement to provide steam to the Mayo Clinic. Mr. Wojcik asked what timeframe is needed to complete new resources. Mr. Harris said that it takes 12 months to 18 months for permitting and another 12 months to 18 months after that for the actual construction. Mr. Reichert said the regulations appear to be unclear about keeping the units online. Mr. Harris said that there is no guarantee that future retrofits to the Silver Lake Plant units will be approved by the EPA.

Mr. Williams asked if demand side management (DSM) had been considered in the 2012 Infrastructure Plan Update. Mr. Harris said DSM was used in the load forecast that was in the Plan. Mr. Williams said DSM can help lower energy requirements and that RPU has done a good job of conserving energy. Mr. Harris said the continued decline of DSM will prolong the need for additional capacity. Mr. Williams said the customer also plays an important role in this.

Mr. Koshire said that this has been a long-term process for staff and consultants and reflects the changing market. The three year plan to 2015 will give staff an opportunity to work out all the options. Mr. Reichert asked if RPU would keep something running at Silver Lake Plant. Mr. Koshire said the coal operation at the plant would cease, but the plant could continue to serve steam to Mayo with limited staff.

Mr. Stahl said people are concerned about natural gas and natural gas drilling. Mr. Harris said he looked at the price of natural gas in the forecast. The price was increased significantly in the beginning of the study in order to do the forecast. He also said that companies cannot build new coal plants and that gas is the only fuel we have left. If gas prices increase, Mr. Harris said that RPU can increase its use of renewable energy sources like solar and wind.

Mr. Schlink said that the media comment about the ERP investment not being first class was a misnomer. The emission reduction project at Silver Lake Plant controlled emission

particulates and other pollutants such as NOX and SO2 using the best technology at the time. The project also met the demands of the Minnesota Pollution Control Agency and environmental group the Minnesota Center for Environmental Advocacy. He also said that we feel that no technology exists today that would meet the increasing regulations of the EPA.

Mr. Williams asked if the public had any further comments. A member of the audience asked, "What if we went green in Rochester and built wind farms?" Mr. Schlink replied that RPU already does this now with our Lake Zumbro hydro, the SMMPA wind farm and the Olmsted Waste to Energy Facility. He also said that the Mayo Clinic uses our steam very efficiently.

Mr. Musser asked what would happen to the Silver Lake Plant. Mr. Williams said that this is the part of the plan that RPU staff will work on. Mr. Koshire said there will still be Power Resources staff for the hydro, and Cascade Creek gas turbines at that location.

Mr. Williams explained the two parts of the proposed resolution to the audience. The first part involved adopting the 2012 Infrastructure Plan update as presented, and the second part uses the update to decommission the Silver Lake Power Plant by December 31, 2015 or sooner. Mr. Reichert asked if the December 31, 2015 date was too restrictive. Mr. Koshire said it was not because it affected coal operation. Mr. Wojcik moved to approve the resolution, seconded by Mr. Stahl.

All voting "AYE"

Mr. Wojcik said ceasing electric operation at the plant is environmentally sustainable as well as socially and financially sustainable. He also acknowledged the Silver Lake Plant staff for their contributions and service to the City of Rochester. Mr. Reichert said these folks work 24 hours a day to keep the lights on. Mr. Browning asked that the minutes read: *"Decommissioning or to 'decommission the Silver Lake Plant' as used in the Board's resolution means to cease coal burning and electric generation, while retaining the potential to generate steam for Mayo using natural gas until 2025."* Mr. Williams said that the Silver Lake Plant has been part of the community for over 60 years. While he respects the economics of the decision, the emotional aspect is another piece.

WHEREAS, the Public Utility Board of the City of Rochester, Minnesota, reviewed the 2012 Infrastructure Update to Electric Utility Baseline Strategy for 2005 – 2030 Electric Infrastructure; and

WHEREAS, Rochester Public Utilities is the subject of potential or threatened litigation by the Environmental Protection Agency under the New Source Review section of the Clean Air Act as part of the Coal Fired Power Plant Enforcement Initiative; and

WHEREAS, the Silver Lake Power Plant is subject to a significant number of future restrictive environmental regulations that will substantially affect the ability to operate the facility; and

WHEREAS, economic analysis of the cost of settlement, additional compliance measures and existing power supply options are found to be prohibitive; then

BE IT RESOLVED by the Public Utility Board of the City of Rochester, Minnesota, to accept and places on file the 2012 Infrastructure Update to Electric Utility Baseline Strategy for 2005 – 2030 Electric Infrastructure; and


BE IT FURTHER RESOLVED the Public Utility Board of the City of Rochester, Minnesota directs staff to develop, implement and execute a plan, using the 2012 Update as a guideline, to decommission the Silver Lake Power Plant by December 31, 2015 or sooner.

3. Mr. Reichert moved to adjourn the meeting, seconded by Mr. Stahl.

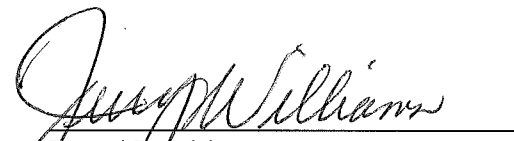
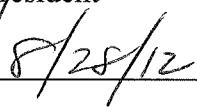
All voting "AYE"

The meeting adjourned at 5:00 p.m.

Submitted by:


Secretary

Approved by the Board:


Board President

Date