

FOR BOARD ACTION

Agenda Item # 6.

Meeting Date:

10/25/05

SUBJECT: Participation Sales Agreement between the City of Rochester and Minnesota Municipal Power Agency – Addendum No. 2

PREPARED BY: Wally Schlink, Director of Power Resources

ITEM DESCRIPTION: On June 19, 1992 the City and the Minnesota Municipal Power Agency (MMPA) entered into a Participation Sales Agreement to sell 100 megawatts of capacity and energy from the Silver Lake Power Plant. In 2000, the City notified the MMPA that it would exercise its option to reclaim 50 megawatts of that capacity and energy for its own uses effective November 1, 2005.

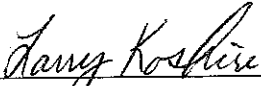
In March of 2005, the Board approved a capacity sale and purchase with MMPA for the 50 megawatts of capacity which put the utility in the position of having the associated energy available for wholesale sales as well as meeting RPU native load. In conjunction with this event the Midwest Independent System Operator (MISO) system has been implemented which controls the sale and transmission of energy in a multi-state region which includes the majority of Minnesota. This is critical due to the need to have both market access and transmission access to move energy into the market and maximize revenue opportunities.

Staff has been researching the potential for participating in this market as the most effective way of maximizing returns on the infrastructure investment and a method of offsetting increased in power supply purchases. Our recommendation is a partnership agreement with MMPA who are experienced wholesale energy traders, are Market Participants in the MISO and who have agreements giving them access to transmission from the SLP to the market. Staff has been negotiating an agreement addendum with MMPA that defines the terms of this marketing relationship as well as monitoring the market conditions and production costs and we feel that RPU should choose to participate in this joint venture.

Attached is a copy of the addendum. Staff will summarize this agreement at the meeting.

UTILITY BOARD ACTION REQUESTED:

Staff recommends that the Utility Board approve Addendum No. 2 to the Participation Sales Agreement between the City of Rochester and the Minnesota Municipal Power Agency, and request the Mayor and City Clerk to execute the Addendum.



General Manager



Date

ROCHESTER PUBLIC UTILITIES

ADDENDUM NO.2
to the
PARTICIPATION SALES AGREEMENT
Between
THE CITY OF ROCHESTER
and
MINNESOTA MUNICIPAL POWER AGENCY

THIS AGREEMENT is made and entered into this _____ day of _____, 2005, by and between Minnesota Municipal Power Agency (“MMPA”), a Minnesota municipal corporation, its successors and assigns; and the City of Rochester, Minnesota (“the City”), a Minnesota municipal corporation, its successors and assigns. Both MMPA and the City are sometimes hereinafter referred to individually as a “Party” and collectively as “Parties.”

WITNESSETH:

WHEREAS, on June 19, 1992, the Parties entered into a Participation Sales Agreement, dated June 19, 1992 (the “1992 Agreement”), and

WHEREAS, the 1992 Agreement provides for the purchase by MMPA of 100 MW of power and energy from the Silver Lake Plant through October 31, 2005, after which the purchase of power and energy drops to 50 MW for the period November 1, 2005 through October 31, 2010. The MMPA also has an option to purchase 25 MW of Silver Lake Plant power and energy for the period November 1, 2010 through October 31, 2015; and

WHEREAS, MMPA has agreed to purchase 50 MW of capacity from RPU for the period November 1, 2005 through at least October 31, 2006, with provisions for two one-year extensions upon mutual agreement (hereinafter referred to as “the Second 50 MW”), and

WHEREAS, the Parties have agreed that the MMPA will market the energy and arrange transmission for sales of energy from the Second 50 MW, upon the terms and conditions set forth herein, and;

WHEREAS, the Parties have agreed to share in the margins on energy sales from the Second 50 MW as provided herein, and

WHEREAS, the Parties have agreed upon a method for levelizing the payment for non-fuel FERC 501 costs as provided herein, and

WHEREAS, the Parties have agreed to eliminate the requirement that the MMPA pay monthly carrying charges on coal inventory that exceeds \$1 million:

NOW THEREFORE, in consideration of the premises and mutual agreements and covenants contained herein, the legal sufficiency of which is hereby acknowledged, the Parties agree to add the following to the 1992 Agreement

**ARTICLE X
SALE OF ENERGY FROM THE SECOND 50 MW**

10.01 Sale of Energy from the Second 50 MW The MMPA agrees to market the energy from the Second 50 MW. Except as modified by this addendum, the terms and conditions of the 1992 Agreement shall apply to energy sales from the Second 50 MW.

10.02 MMPA Obligations MMPA shall have the exclusive right to market the energy from the Second 50 MW. MMPA will use its best efforts to market and sell the energy from the Second 50 MW, and to maximize margins on energy sales. MMPA and RPU will share equally the net electrical output of each SLP Unit. MMPA will schedule, tag, arrange transmission service for energy sales and provide any other related administrative or similar services as might become necessary to carry out energy transactions. MMPA will also provide energy reconciliation and accounting services for energy sold. MMPA intends to utilize its grandfathered transmission service and its financial transmission rights to move energy to MMPA load when cost effective to do so.

10.03 Margins on Energy Purchases and Sales from the Second 50 MW The City and MMPA shall share margins on all energy sales generated from the Second 50 MW on the following basis: two-thirds to RPU and one-third to MMPA. For energy sales from the Second 50 MW, the margin on each megawatt-hour sold shall be the difference between the total production cost and the net revenue from MISO (adjusted for MISO administration expenses) for the hour(s) of the sale. The City will include three components of production costs for all generating units: the cost of fuel, FERC 501 costs, and an additional one dollar and fifty cents per megawatt-hour (\$1.50/mWh) for hard-to-quantify variable costs. In addition, for SLP Unit 4 only, the City will also include a fourth production cost component which is the market value of SO₂ emissions allowances foregone as a result of their consumption for associated unit sales. The value of such allowances shall be based upon the previous month's average of the daily SO₂ index value as published in Platts Megawatt Daily.

10.04 Term MMPA's exclusive right to market energy from the Second 50 MW shall commence on November 1, 2005 and shall remain in effect through at least October 31, 2007; and if not then terminated by twelve months prior written notice given by either party to the other, it shall continue in full force and effect until so terminated.

**ARTICLE XI
LEVELIZING OF COAL HANDLING AND ASH DISPOSAL COSTS**

11.01 Levelizing of Coal Handling Costs The City and MMPA have agreed to change the method by which the City is reimbursed for non-fuel FERC Account 501 coal

handling expenses, in order to levelize the collection of these costs over the year. The City and MMPA will agree on an estimate of MMPA's share of the City's annual coal handling expenses, excluding ash disposal costs. The City will invoice MMPA each month for one-twelfth of MMPA's share of said estimated annual coal handling expenses, excluding the cost of ash disposal. The basis for calculating MMPA's share of said coal handling expenses shall be the Capacity Ratio as defined in the Agreement, Articles 1.03 and 4.01. MMPA's one-twelfth share of the annual coal handling expenses, excluding ash disposal costs, will be recalculated annually on or before November 15th, to take effect for invoices issued in the succeeding calendar year.

11.02 Levelizing of Ash Disposal Costs. MMPA and the City agree to annually estimate the City's total SLP annual ash disposal costs. From said annual estimate of SLP ash disposal costs and MMPA's annual energy forecast developed pursuant to Article 9.01 of the Agreement (Addendum One), the Parties will agree upon an annual ash disposal rate per ton of coal burned by MMPA. This annual rate per ton will be applied each month against the tons of coal actually burned for MMPA in the month to determine the ash disposal costs to be billed to MMPA for the month. This annual ash disposal rate will be recalculated annually on or before November 15th, to take effect for invoices issued in the succeeding calendar year.

11.03 Reconciliation of Invoiced Amounts to Actual Costs. For each month starting with the month of November, 2005, the City will compute the difference between actual non-fuel FERC Account 501 expenses attributable to MMPA in the month and the non-fuel FERC Account 501 expenses included in the MMPA invoice in the same month. These differences will be accumulated, and when the accumulated difference exceeds \$50,000 in either direction, the accumulated difference will be reconciled on the next monthly invoice by the appropriate charge or credit. If the application of the reconciliation amount results in a negative invoice for MMPA, RPU will pay MMPA the amount of the negative invoice by the 25th of the month. Each year the accumulated difference will be reduced to zero as of October 31, regardless of amount, according to the reconciliation process described herein.

11.04 Term This agreement to levelize non-fuel FERC Account 501 expenses shall continue for the remaining term of the 1992 Agreement.

The parties further agree to amend Section 9.02 of the 1992 Agreement (added by Addendum dated December 3, 2003) to read as follows:

9.02 Coal Inventory. City will make every effort to achieve a maximum inventory of 100,000 tons of coal by December 31, maintaining up to 70,000 tons at Silver Lake Plant and up to 30,000 tons at the Winona Storage Facility. MMPA will pay handling and storage charges for the storage of the coal at the Winona Storage Facility.

IN WITNESS WHEREOF, the Parties have caused this Agreement to be executed the day and year first above written.

MINNESOTA MUNICIPAL POWER AGENCY

By: _____

Title: _____

Date: _____

Dated: _____

ROCHESTER PUBLIC UTILITIES

General Manager

CITY OF ROCHESTER

Mayor

Attest:

City Clerk

Reviewed By:

City Attorney



RESOLUTION

BE IT RESOLVED by the Public Utility Board of the City of Rochester, Minnesota, to approve Addendum No. 2 to the Participation Sales Agreement with the Minnesota Municipal Power Agency (MMPA) and to request the Mayor and the City Clerk to execute the Addendum.

Passed by the Public Utility Board of the City of Rochester, Minnesota, this 25th day of October, 2005.

President

Secretary