

FOR BOARD ACTION

Agenda Item # 6

Meeting Date:

11/25/08

SUBJECT: Change Order to Purchase Order 10425
Burns & McDonnell for Professional Services

PREPARED BY: Wally Schlink
Director of Power Resources

ITEM DESCRIPTION:

In June 2005 the Board was presented, and subsequently approved, the Electric Utility Baseline Strategy for 2005 – 2030 Electric Infrastructure Report that was developed by Burns & McDonnell. This document is used to plan the future infrastructure additions to the RPU system, identify the addition of transmission capabilities, identify the level of aggressive conservation activities, as well as establishing the most cost effective means of meeting our future obligations to our ratepayers.

Due to significant changes in the energy market, legislative and regulatory requirements, as well as the pending decision on the joint action agency contract extension, staff recommends that the infrastructure plan be updated to include the impacts of these changes and to provide the most current analysis and guidance to staff and the Board as both short and long term decisions are addressed. This study will also extend out the timeframe to address the infrastructure needs through 2040.

Attached is a copy of the proposal from Burns & McDonnell that defined the activities and provides the estimate of costs. This is a time and material activity with a not to exceed amount.

FOR CAPITAL PURCHASES/BIDS/MAJOR PROJECTS:

This activity is budgeted in the 2008 and 2009 budgets as a professional service.

UTILITY BOARD ACTION REQUESTED:

Staff recommends that the Utility Board approve a change order to Purchase Order 10425 in the amount of \$100,000 for professional services as defined in the Proposal for Infrastructure Plan Update.



General Manager



Date

ROCHESTER PUBLIC UTILITIES



November 6, 2008

Mr. Walter Schlink
Rochester Public Utilities
4000 East River Road
Rochester, MN

Proposal for Infrastructure Plan Update

Dear Mr. Schlink:

Burns & McDonnell was asked to assist RPU in reviewing its power supply infrastructure and update the plan previously prepared for RPU by Burns & McDonnell. The major focus on the update would be to provide information to RPU related to the contract extension of your current contract with SMMPA. Secondary to that would be to establish the expected investment needs for the period of the analysis and review renewable options available to RPU.

The update would include the following major tasks:

1. Development of study assumptions
2. Preparation and management of RFP for wind energy
3. Analysis of futures in Strategist
4. Prepare report and presentations

Development of Assumptions

There are several assumptions that need to be agreed to before the analysis of the futures can begin. The primary assumption is the load forecast(s) to be considered. The study period will extend to at least 2040 to provide futures that extend past any contract extension with SMMPA. Rates to be assumed for SMMPA are also a major consideration in developing the cost comparisons of the various options. Determining what might happen to the SMMPA rate structure post 2030 will be an important aspect of the study.

Other assumptions will include the expected life and investment in Silver Lake Units 1-4. The forecast for fuels for RPU delivered coal and gas will also be required. Burns & McDonnell will use the DOE EIA forecast for utility natural gas adjusted for the deliver basis. We will need to discuss the delivered price for coal at Silver Lake. Burns & McDonnell will provide the construction cost for various resource options to be considered as power supply options.



Mr. Walter Schlink
November 6, 2008
Page 2

We will need to discuss the expected transmission import capacity to the RPU MISO node. It appears from discussions with you that there are environmental groups against the construction of certain lines that would help support the firm import capacity to the RPU node. If these lines are not constructed, the need for internal generation increases as the amount of hours the RPU load is above your firm import capacity.

Another assumption that will need to be discussed is the projection of market energy at the RPU MISO node. We will review the historic values of energy at this node and develop scenarios about impacts due to issues such as additional wind being developed near RPU. The wind could have significant impacts to the off peak and shoulder hour LMP pricing.

Wind RFP

Burns & McDonnell is currently managing the wind RFP for RPU. The bids received from this effort will be used in the analysis to determine how much wind energy might be beneficial to RPU in meeting its renewable energy obligations. Due to wind typically being a shoulder and off peak energy source, the ability to bring in wind energy will be dependent on the energy provided by SMMPA under the CROD.

Analysis in Strategist

Burns & McDonnell has developed the Strategist model for the RPU system from previous analysis. This model is used to analyze various portfolios of resources that best fit the RPU needs. The model will be updated with the assumptions developed above. The model will be extended from its current 2030 end date to 2040.

The model will be used to evaluate a variety of futures for power supply. These will include two broad futures defined as:

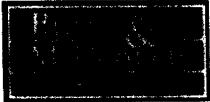
- “With SMMPA contract extension” and
- “Without SMMPA contract extension”.

Each of these main futures will have scenarios beneath them that will allow RPU to understand the risks and issues associated with the future. One uncertainty will be associated with future carbon regulation.

Report and Presentations

Burns & McDonnell is prepared to assist RPU with any presentations or workshops that might be scheduled with RPU staff and management on this important issue. As you make a determination on the contract extension, it will be important for the decision makers to understand the various issues associated with selection of a future.

We will provide a report at the end of the process for RPU’s ongoing reference to the assumptions used and analysis performed.



Mr. Walter Schlink
November 6, 2008
Page 3

Schedule

We understand that the information for RPU to make the decision on the contract extension is needed in the March 1 time frame. We are prepared to support that schedule to provide RPU with the results of the futures and various scenarios. We anticipate that the final report will be prepared subsequent to March 1.

Budget

We propose to perform this analysis as an adder to previous assignments requested of us in 2008. For the services to date we have expended about \$25,000. About a third of this is for the base load analysis to evaluate participation in a regional coal plant, half of the amount is for the development and issuance of the RFP and the remainder for the beginnings of the Infrastructure Plan review. In looking at the remaining effort, a budget of \$100,000 should be considered. This is not a guaranteed maximum. The advertising for the RFP is about \$6,000 and the Strategist license is \$7,500. With travel for presentations, etc. the expenses are a major portion of the budget.

We appreciate the opportunity to continue serving RPU in the area of power supply planning. As always, if there are any aspects of the above proposal that you have questions on, please contact Mr. Kiah Harris at 816-822-3174.

Sincerely,

A handwritten signature in black ink, appearing to read "J. Greig".

Jeffrey J. Greig
General Manager, Business & Technology Services



RESOLUTION

BE IT RESOLVED by the Public Utility Board of the City of Rochester, Minnesota, to approve a change order to Purchase Order 10425 with Burns & McDonnell in the amount of \$100,000 for professionals services as defined in the:

Proposal for Infrastructure Plan Update
Dated November 6, 2008

Passed by the Public Utility Board of the City of Rochester, Minnesota, this 25th day of November, 2008.

President

Secretary