

FOR BOARD ACTION

Agenda Item # 8.

Meeting Date: 3/28/06

SUBJECT: Energy Sales Agreement for Cascade Creek Gas Turbines between the City of Rochester and Minnesota Municipal Power Agency

PREPARED BY: Wally Schlink, Director of Power Resources

ITEM DESCRIPTION:

In October, 2005 the City and the Minnesota Municipal Power Agency (MMPA) entered into an agreement for MMPA to provide Market Participant services for the SLP units in the Midwest Independent System Operator (MISO) market. These services have allowed RPU to sell energy into the wholesale market and to maximize the revenue from the SLP facilities.

Beginning April 1, 2006 due to SMMPA becoming a member of MISO, RPU will be required to register our other generating units, specifically the 2 Cascade Creek gas turbines, in MISO and participate in the wholesale energy market through that entity.

This will require the utility to either put the staff and procedures in place to participate with these units in the market or to contract these activities to a third party.

Staff has been pleased with the results of the marketing services that MMPA has provided for the SLP units and believes that this would be the most effective way of maximizing returns on the infrastructure investment we have at Cascade Creek.

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 to the market. Staff has negotiated an agreement with MMPA that defines the terms of this marketing relationship which mirrors our original agreement to provide the identical services for the SLP units and we feel that RPU should choose to participate in this joint venture.

Attached is a copy of the agreement.

UTILITY BOARD ACTION REQUESTED:

Staff recommends that the Board approve a resolution requesting the Mayor to approve Cascade Creek Gas Turbine Energy Sales Agreement between the City of Rochester and the Minnesota Municipal Power Agency.



General Manager



Date

ROCHESTER PUBLIC UTILITIES

Cascade Creek Gas Turbine Energy Sales Agreement

THIS AGREEMENT is made and entered into this _____ day of _____, 2006, by and between the Minnesota Municipal Power Agency (“MMPA”), 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.”

Sale of Energy from the Cascade Creek Gas Turbines (“Cascade Creek”). The MMPA agrees to market the energy from Cascade Creek.

MMPA Obligations. MMPA shall have the exclusive right to market the energy from Cascade Creek. MMPA will use its best efforts to market and sell the energy from Cascade Creek, and to maximize margins on energy sales. 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.

Exchange of Information. MMPA may sell Cascade Creek energy into the MISO day-ahead market, the MISO same-day market, or make bilateral sales. MMPA shall provide sales schedules to the City as soon as practicable after a sale is made. The Parties agree to develop procedures and protocols for operations, dispatching, and settlements.

Margins on Energy Purchases and Sales from Cascade Creek The City and MMPA shall share margins on all energy sales generated from Cascade Creek on the following basis: two-thirds to RPU and one-third to MMPA. For energy sales from Cascade Creek, 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.

Term MMPA’s exclusive right to market energy from Cascade Creek shall commence on April 1, 2006, and shall remain in effect through October 31, 2006.

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 a Cascade Creek Gas Turbine Energy Sales Agreement between the City of Rochester and the Minnesota Municipal Power Agency, and that the Board request the Mayor and City Clerk execute the Agreement.

Passed by the Public Utility Board of the City of Rochester, Minnesota, this 28th day of March, 2006.

President

Secretary