

page 1 of 2
FOR BOARD ACTION

Agenda Item # 7.a.

Meeting Date:

3/29/05

SUBJECT:

Minnesota Municipal Power Agency (MMPA)
Confirmation Agreement – Sale of Capacity
Confirmation Agreement – Purchase of Capacity

PREPARED BY:

Wally Schlink, Director of Power Resources

ITEM DESCRIPTION:

RPU and MMPA have been participating in discussions concerning the MAPP accredited capacity from the Silver Lake Power Plant that becomes available November 1, 2005. This is a result of RPU previously providing notice to retain 50MW effective that date.

There are mutually beneficial reasons to consider executing a sales agreement for the capacity; a revenue stream for RPU and the establishment of transmission rights from the SLP to the grid for both RPU and MMPA. The transmission arrangement resulted in RPU selling the 50MW available and purchasing back what it needs for 2006. The establishment of the Midwest Independent System Operator and the start of operation under that system beginning April 1, 2005 make it critical that access to the rest of the grid is established for both organizations.

The tariffs and rules established by the Mid-Continent Energy Marketing Association and by the Mid-Continent Area Power Pool establishes the rules and regulations that will control any transaction between the parties. RPU and MMPA are members of the MAPP Pool.

To establish the fair market value of the SLP capacity, RPU staff accessed our marketing partners, Omaha Public Power District which markets energy & capacity for both RPU and SMMPA, to verify market prices in this region. Staff also considered the market price we were able to receive in 2002 and 2003 when we sold capacity from Cascade Creek to the Central Minnesota Municipal Power Agency. These market prices are on the basis of a short term (one year) capacity arrangement with no energy attached.

Staff used this data to negotiate a market value of \$20.25 per kilowatt year for both the sale and the purchase of the capacity for 2006 and an escalator for option years 2007 & 2008 if exercised.

The revenue generated by the sale of SLP capacity from RPU to MMPA is \$1,012,500 for the period November 1, 2005 through October 31, 2006. The cost of the capacity purchased by RPU from MMPA is \$202,500 for the same time period. Staff recommends approval of the capacity sale, and purchase agreements.


General Manager


Date

ROCHESTER PUBLIC UTILITIES

FOR BOARD ACTION

Agenda Item # 7.a.

Meeting Date:

3/29/05

UTILITY BOARD ACTION REQUESTED:

Staff recommends that the Board approve the two Confirmation Agreements; Sale of Capacity and Purchase of Capacity, with the Minnesota Municipal Power Agency and request approval of the City Council and Mayor to execute the Confirmation Agreements with the Minnesota Municipal Power Agency.

General Manager

Date

CONFIRMATION AGREEMENT

Sale of Capacity

This Confirmation Agreement (“Agreement”) shall confirm the agreement reached on _____ by and between the Minnesota Municipal Power Agency (“MMPA”) and the City of Rochester Minnesota acting through its Public Utility Board (“RPU”), hereinafter MMPA and RPU are sometimes referred to singly as “Party” and collectively as “Parties”, with respect to the purchase of Firm Capacity/Energy under the terms and conditions as set forth below.

Presently MMPA is purchasing 100 MW of Participation Power from RPU pursuant to a 1992 agreement. That purchase is scheduled to drop from 100 MW to 50 MW on November 1, 2005. The Parties have entered into this Agreement to keep MMPA’s purchase of capacity at 100 MW for the term of this Agreement.

Seller: RPU

Buyer: MMPA

Governing Agreement: Mid-Continent Energy Marketers Association Capacity and Energy Tariff, effective December 2, 2003 (“MEMA Agreement”).

Contract Term: November 1, 2005 through October 31, 2006 (see Renewal Options, below).

Commodity: MAPP Product A: Participation Power Interchange Service

Contract Quantity: 50 MW of capacity, and associated energy available during the Contract Term.

Capacity Price: The capacity price shall be \$20.25 per kilowatt/year for the Contract Term. The total capacity payment under this Agreement shall be \$1,012,500, payable in 12 monthly installments of \$84,375 per month. (See Renewal Options below for pricing of option years).

Energy Price: Energy delivered shall be at prices equal to market prices. Market price will be the Megawatt Daily MAPP North Index price, unless otherwise mutually agreed by the Parties.

Scheduling: Schedules shall be submitted to RPU no later than 12:00 pm Central Prevailing Time of the prior Business Day, unless otherwise mutually agreed.

Delivery Point: The Cascade Creek Substation input to the one hundred sixty-one thousand (161,000) volt transmission system and/or the Chester Substation input to the one hundred sixty-one thousand (161,000) volt transmission system. Notwithstanding the

Point of Delivery, the amount of capacity and energy delivered to MMPA shall be as metered at SLP.

Transmission and Losses: RPU shall be responsible for any transmission and ancillary service charges, and transmission energy losses, associated with transmitting energy to the Delivery Point. MMPA shall be responsible for any transmission and ancillary service charges, and transmission energy losses, associated with transmitting energy from the Delivery Point.

Curtailment: When scheduled, RPU shall be obligated to deliver energy to MMPA at the Delivery Point and MMPA shall be obligated to accept delivery of the energy at the Delivery Point, except in the event of (i) Uncontrollable Forces as defined by the Governing Agreement; or, (ii) firm transmission is curtailed by a FERC approved process for any transmission loading relief and/or line loading relief event.

Conditions Precedent: This Agreement is contingent upon (i) MMPA securing confirmed firm transmission service from the Delivery Point to the MMPA system, and (ii) the Commodity purchased and sold hereunder being approved as Accredited Capacity in accordance with MAPP procedures governing the accreditation of capacity (together, the Conditions Precedent"). MMPA will be responsible for submitting all necessary documentation to MAPP for accreditation. If for any reason any of the Conditions Precedent is not satisfied before November 1, 2005, then this Agreement, in its entirety, shall automatically terminate as to the Parties' commitments hereunder without liability of either Party. Each Party agrees to use commercially reasonable efforts to cause the Conditions Precedent to be satisfied.

Renewal Options: There shall be an opportunity to renew this Agreement for two additional one-year terms upon mutual agreement by the parties. MMPA must give RPU written notice on or before May 1, 2006, that it will request its option to extend this Agreement for an additional one-year term at a capacity price of \$21.25 per kilowatt/year, from November 1, 2006 to October 31, 2007. RPU shall have 60 days to respond to MMPA. MMPA must give RPU written notice on or before May 1, 2007, that it will request its option to extend this Agreement at a price of \$22.25 per kilowatt/year for an additional one-year term, from November 1, 2007 to October 31, 2008. Only if the Parties have agreed on the option for the first one-year extension will this second one-year extension option be available.

Confidentiality: Except as required by state or federal data practices laws, neither Party shall disclose the terms and provisions of this Agreement, except to the extent required in order to satisfy the Conditions Precedent; provided, that if a Party is required by law to make such a disclosure, it shall first notify the other Party, and shall use commercially reasonable efforts to attempt, at its own expense, to restrict or prevent such disclosure, and shall allow the other Party to participate in such attempt, should it choose to do so.

IN WITNESS WHEREOF the parties executed this Agreement as of the date first written above.

Dated: _____

ROCHESTER PUBLIC UTILITIES

General Manager

CITY OF ROCHESTER

Mayor

Attest:

City Clerk

Reviewed By:

City Attorney

MINESOTA MUNICIPAL POWER AGENCY

By: _____
David Pokorney

Title: _____
Chairman

CONFIRMATION AGREEMENT

Purchase of Capacity

This Confirmation Agreement ("Agreement") shall confirm the agreement reached on _____ by and between the Minnesota Municipal Power Agency ("MMPA") and the City of Rochester Minnesota acting through it's Public Utility Board ("RPU"), hereinafter MMPA and RPU are sometimes referred to singly as "Party" and collectively as "Parties", with respect to the purchase of Firm Capacity/Energy under the terms and conditions as set forth below.

Seller: MMPA

Buyer: RPU

Governing Agreement: Mid-Continent Energy Marketers Association Capacity and Energy Tariff, effective December 2, 2003 ("MEMA Agreement").

Contract Term: November 1, 2005 through October 31, 2006 (see Renewal Options, below).

Commodity: MAPP Product K: System Participation Power Interchange Service

Contract Quantity: 10 MW of capacity, and associated energy available during the Contract Term.

Capacity Price: The capacity price shall be \$20.25 per kilowatt/year for the Contract Term. The total capacity payment under this Agreement shall be \$202,500, payable in 12 monthly installments of \$16,875 per month. (See Renewal Options below for pricing of option years).

Energy Price: Energy delivered shall be at prices equal to market prices. Market Price will be the Megawatt Daily MAPP North Index price, unless otherwise mutually agreed by the Parties.

Scheduling: Schedules shall be submitted to MMPA no later than 12:00 pm Central Prevailing Time of the prior Business Day, unless otherwise mutually agreed.

Delivery Point: The Silver Lake Plant

Transmission and Losses: MMPA shall be responsible for any transmission and ancillary service charges, and transmission energy losses, associated with transmitting energy to the Delivery Point. RPU shall be responsible for any transmission and ancillary service charges, and transmission energy losses, associated with transmitting energy from the Delivery Point.

Curtailement: When scheduled, MMPA shall be obligated to deliver energy to RPU at the Delivery Point and RPU shall be obligated to accept delivery of the energy at the Delivery Point, except in the event of (i) Uncontrollable Forces as defined by the Governing Agreement; or, (ii) firm transmission is curtailed by a FERC approved process for any transmission loading relief and/or line loading relief event.

Condition Precedent: This Agreement is contingent upon the Commodity purchased and sold hereunder being approved as Accredited Capacity in accordance with MAPP procedures governing the accreditation of capacity. RPU will be responsible for submitting all necessary documentation to MAPP for accreditation. If for any reason the Condition Precedent is not satisfied before November 1, 2005, then this Agreement, in its entirety, shall automatically terminate as to the Parties' commitments hereunder without liability of either Party. Each Party agrees to use commercially reasonable efforts to cause the Conditions Precedent to be satisfied.

Renewal Options: There shall be an opportunity to renew this Agreement for two additional one-year terms. RPU must give MMPA written notice on or before June 1, 2006, that it will exercise its option to extend this Agreement for an additional one-year term for a capacity amount of 12 MW at a capacity price of \$21.25 per kilowatt/year, from November 1, 2006 to October 31, 2007. MMPA shall have 60 days to respond to RPU. RPU must give MMPA written notice on or before June 1, 2007, that it will exercise its option to extend this Agreement for a capacity amount of 20 MW at a price of \$22.25 per kilowatt/year for an additional one-year term, from November 1, 2007 to October 31, 2008. Only if the Parties have agreed to the extension of MMPA's 50 MW Participation Power Agreement for the first one-year extension will a one-year extension option be available to RPU under this agreement. Only if the Parties have agreed to the extension of MMPA's 50 MW Participation Power Agreement for the second one-year extension will a second one-year extension option be available to RPU under this agreement.

Confidentiality: Except as required by state or federal data practices laws, neither Party shall disclose the terms and provisions of this Agreement, except to the extent required in order to satisfy the Conditions Precedent; provided, that if a Party is required by law to make such a disclosure, it shall first notify the other Party, and shall use commercially reasonable efforts to attempt, at its own expense, to restrict or prevent such disclosure, and shall allow the other Party to participate in such attempt, should it choose to do so.

IN WITNESS WHEREOF the parties executed this Agreement as of the date first written above.

Dated: _____

ROCHESTER PUBLIC UTILITIES

General Manager

CITY OF ROCHESTER

Mayor

Attest:

City Clerk

Reviewed By:

City Attorney

MINESOTA MUNICIPAL POWER AGENCY

By: _____
David Pokorney

Title: _____
Chairman



RESOLUTION

BE IT RESOLVED by the Public Utility Board of the City of Rochester, Minnesota, that the Common Council of the said City is requested to approve two Confirmation Agreements with the Minnesota Municipal Power Agency, and that the Common Council authorize the Mayor and City Clerk execute the agreements for

Confirmation Agreement – Sale of Capacity (50 MW)
Confirmation Agreement – Purchase of Capacity (10 MW)

The contract term to be November 1, 2005 through October 31, 2006 with renewal options as specified in the Agreements.

Passed by the Public Utility Board of the City of Rochester, Minnesota, 29th day of March, 2005.

President

Secretary