

## FOR BOARD ACTION

Agenda Item # 7

Meeting Date:

9/30/08

**SUBJECT:** Participation Sales Agreement between the City of Rochester and Minnesota Municipal Power Agency – Addendum No. 3

**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 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.

RPU has been actively participating in the MISO market since November 1, 2005 through a series of professional services agreements for marketing services. Staff recommends that we continue this strategy by executing an addendum to the Participation Sales Agreement for the period November 1, 2008 through October 31, 2010 for the following services:

- Dispatch of SLP and Cascade Creek generating resources into the MISO energy market
- Dispatch of SLP and Cascade Creek generating resources into the MISO Ancillary Services market
- Provide MISO market participant services to RPU
- Provide back office accounting, settlement and margin accounting for SLP and Cascade Creek market transactions
- Monitor and respond to MISO tariffs, business practices and FERC filings affecting the MISO market and MMPA / RPU transactions
- Provide technical support to RPU regarding energy market processes and procedures
- Provide strategic recommendations regarding the positioning of RPU assets in the MISO market

  
General Manager

  
Date

**ROCHESTER PUBLIC UTILITIES**

## FOR BOARD ACTION

Agenda Item # 7

Meeting Date:

9/30/08

Addendum 3 will also make the following changes in our existing marketing services agreements with MPA that terminates on October 31, 2008:

- Reimburse RPU for the cost of spinning reserves in the amount of \$62,883
- Revise the calculation of SO2 emission allowance reimbursement calculation
- Revise the Operating Cost calculation
- Revise the margin sharing arrangement from a 66% - 33% arrangement to a 75% - 25% ratio
- Establish a capacity sale of 15,000 kW for a period of November 1, 2008 through October 31, 2009 for the amount of \$225,000

Attached is a copy of the addendum.

### UTILITY BOARD ACTION REQUESTED:

Staff recommends that the Board approve a resolution requesting the Mayor to approve Addendum No. 3 to the Participation Sales Agreement between the City of Rochester and the Minnesota Municipal Power Agency.

\_\_\_\_\_  
General Manager

\_\_\_\_\_  
Date

**ROCHESTER PUBLIC UTILITIES**

**ADDENDUM NO.3**  
**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 \_\_\_\_\_, 2008, 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**, on \_\_\_\_\_, the Parties agreed to amend the 1992 Agreement to reflect an agreement to permit MMPA to market RPU's Silver Lake energy and to provide compensation to MMPA for marketing RPU's energy, which marketing agreement was set forth in Addendum #2 to the 1992 Agreement, and

**WHEREAS**, the Parties now wish to further amend the 1992 Agreement and Addendum No. 2 to reflect changes in the agreement for marketing RPU's energy,

**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 as follows:

1. **Spinning Reserves.** MMPA will reimburse RPU in the amount of \$62, 883 representing 50% of RPU's cost of purchasing spinning reserves from SMMPA for the period July 1, 2007 through April 30, 2008.
2. **Difficult to Quantify SLP Operating Costs.** RPU and MMPA agree that RPU may recover an SLP monthly production cost of \$0.30 per megawatt-hour for all electric energy generated under both the 1992 Participation Sales Agreement ("the Agreement") and the Addendum No. 2 to the 1992 Participation Sales Agreement ("Addendum #2").
3. **Compensation for Foregone SO2 Emissions Allowances.** RPU and MMPA presently have an agreement providing that

RPU may include as a monthly SLP Unit #4 production cost component the market value of SO2 emissions allowances RPU foregoes by running RPU's 50% of SLP Unit #4 for market sales pursuant to Addendum #2.

RPU and MMPA agree to modify the treatment of SO2 emissions allowances in the following manner: (a) in the accounting for SLP Unit #4 monthly production costs, the market value of SO2 emissions credits will be included as a production cost component on all SLP Unit #4 electric energy sales made pursuant to both the Agreement and Addendum #2; and (b) the dollar amount of SO2 emissions credits included in the monthly production costs for SLP Unit #4, as described in (a) above, attributable to electric energy sales under only the Agreement, shall be deducted from the monthly capacity payment made by MMPA to RPU pursuant to the Agreement.

4. **Margin Sharing.** RPU and MMPA shall share margins on all energy sales generated from RPU's 50% share of the Silver Lake Plant, from Cascade Creek generation, and from sales from SLP and Cascade Creek into the MISO Ancillary Services Market on the following basis: 75% to RPU and 25% to MMPA. For energy sales from RPU's 50% share of Silver Lake Plant, 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, and RPU will include in total production cost a production cost adder as set forth in Paragraph 2. above, as well as a production cost adder for reduced SO2 emission credit sales as set forth in Paragraph 3. above.
5. **Capacity Purchase.** MMPA will purchase a net 15MW of SLP capacity for the period 11-1-08 through 10-31-09 at a price of \$15/kw/year. The form of the purchase will be a 50 MW purchase by MMPA and a 35 MW sale back to RPU in the same fashion as the existing sale of 15 MW was structured.
6. **Term.** The term of this agreement shall be from November 1, 2008 through October 31, 2010, and shall continue thereafter until canceled by either party by at least six (6) months prior written notice. Notwithstanding the foregoing, the payment set forth in Paragraph 1 shall be billable by RPU upon execution of this agreement by both Parties.

**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. 3 to the Participation Sales Agreement between the City of Rochester and the Minnesota Municipal Power Agency, and that the Mayor and City Clerk execute the agreement.

The term of the agreement to be November 1, 2008 through October 31, 2010.

Passed by the Public Utility Board of the City of Rochester, Minnesota, this 30<sup>th</sup> day of September, 2008.

---

President

---

Secretary