

FOR BOARD ACTION

Agenda Item # 6.

Meeting Date:

5/30/06

SUBJECT:

RPU / Olmsted Term Sheet for Power Supply Arrangement

PREPARED BY:

Wally Schlink, Director of Power Resources

ITEM DESCRIPTION:

Minnesota Statute 216B.1691 established a Renewable Energy Objective (REO) for Electric Utilities which set a good faith effort to generate or procure renewable energy to provide their retail customers commencing in 2005 of at least one percent of total retail electric sales. This amount increases by one percent of the utilities total retail electric sales each year until 2015. A section of this statute specifically identifies that a portion of the renewable energy must be generated by a biomass energy technology including a municipal solid waste facility.

The Southern Minnesota Municipal Power Agency is included in this legislation and must meet the objective, as well as file plans with the commission reporting on its efforts to meet the objective. Although it appears that municipalities are exempted by the statute it has been the policy of RPU to actively participate in providing renewable energy to our customers and to support local initiatives in our community.

The Olmsted County Waste to Energy Facility is in the process of installing a third burner in their plant that will increase the electrical output of their facility and meets the definition of biomass energy technology in the statute. RPU, SMMPA and OWEF have been in discussions to develop a mutually beneficial agreement that helps SMMPA meet the REO, supports RPU in supplying a significant amount of renewable energy to its retail customers and provides a dependable revenue stream to OWEF by agreeing to purchase all surplus generation from the OWEF facility.

The parties have reached an agreement and developed a term sheet that establishes the financial terms and obligations of the tentative agreement which is attached. The items of significance are:

- SMMPA will receive the available accredited capacity from OWEF Units 1 & 2
- SMMPA will receive the available accredited capacity from OWEF Unit 3 when completed
- SMMPA will purchase the surplus energy when we are below CROD for \$.0415 per kWh
- RPU will purchase the surplus energy when we are above CROD for \$.05 per kWh
- Energy prices will be escalated at the GDP Implicit Price Deflator for the first quarter of each year

The term of the agreement is ten years with a continuation clause unless notice of termination. The actual contract will be handled as an addendum to the August 8, 1994 Interconnect and Interchange Agreement between Olmsted County, Minnesota, the City of Rochester, Minnesota and Southern Minnesota Municipal Power Agency.


General Manager


Date

ROCHESTER PUBLIC UTILITIES

FOR BOARD ACTION

Agenda Item # 6.

Meeting Date:

5/30/06

UTILITY BOARD ACTION REQUESTED:

1. Staff requests Utility Board approval of the RPU / Olmsted Term Sheet for Power Supply Arrangement.
2. Staff recommends that the Utility Board approve the creation of an Addendum to the August 8, 1994 Interconnection and Interchange Agreement between Olmsted County, Minnesota, the City of Rochester, Minnesota and the Southern Minnesota Municipal Power Agency, contingent on the approval of the City Attorney and General Manager, and that the Board request the Mayor and City Clerk to execute the Addendum.

General Manager

Date

OLMSTED COUNTY

TERM SHEET FOR POWER SUPPLY ARRANGEMENTS BETWEEN OLMSTED COUNTY AND ROCHESTER PUBLIC UTILITIES

The following items represent an offer of terms for the sale of the surplus generation output of energy and capacity from the Olmsted County Waste-to-Energy Facility; the term sheet is presented as an addendum to the existing Interconnection and Interchange Agreement between Olmsted County Minnesota, the City of Rochester, Minnesota and Southern Minnesota Municipal Power Agency ("SMMPA").

1. Olmsted County will commit to the addition of a new 5,000 KW (nominal) electric power generating unit to operate as part of an existing combined heat and power (CHP) facility fueled with biomass fuel. The new unit will operate in parallel with existing CHP units #1 & #2, net-rated 1,421 KW and 2,260 KW respectively. The planned in-service date for the new unit is 2009.
2. Capacity.
 - a. Units 1 and 2. Olmsted County will make available capacity to SMMPA from units 1 and 2 both prior to and subsequent to startup of the new unit. SMMPA will seek to accredit the capacity for Units 1 and 2 under the Uniform Rating of Generating Equipment ("URGE") criteria of the Mid-Continent Area Power Pool ("MAPP"). In the alternative, SMMPA may accredit the capacity for Units 1 and 2 as variable capacity resources as described in Sec. 4.2.2.7.2.7 of the MAPP Generation Reserve Sharing Pool ("GSRP") Handbook.
 - b. Unit 3. Olmsted County will provide capacity and energy to SMMPA from unit 3 upon commercial operation. SMMPA will seek to accredit the capacity for Unit 3 under the URGE criteria of MAPP. In the alternative, SMMPA may accredit the capacity for Unit 3 as a variable capacity resource.
 - c. Olmsted County shall work with SMMPA to prepare and submit the proper forms to apply for accreditation. Failure to gain accreditation of at least 700 KW for Units 1 and 2 and at least 3,000 KW for Unit 3 for the MAPP summer season shall result in a reduction in the beginning energy charge in Section 4a below from \$.0415 per kilowatthour to \$.04 per kilowatthour until such accreditation is achieved for the MAPP summer season, unless such failure is caused by SMMPA.
3. Energy
 - a. RPU and SMMPA will purchase all surplus energy from the project. Energy will be broken down into two components:
 - i. Energy taken during periods in which RPU's load is less than its commitment to purchase capacity and energy from SMMPA ("Energy below CROD"), and
 - ii. Energy taken during periods in which RPU's load is higher than its commitment to purchase capacity and energy from SMMPA ("Energy above CROD").

RPU/Olmsted Terms Sheet for Power Supply Arrangement

4. For electricity purchased from Olmsted County, RPU and/or SMMPA will pay Olmsted County the following:
 - a. The price for all Energy below CROD will be \$.0415 per kWh, escalated at GDP, with the escalation adjustment made on May 1st of each year. The GDP escalator shall be the seasonally-adjusted GDP Implicit Price Deflator for the 1st quarter of the current calendar year, as reported by the U. S. Department of Commerce, Bureau of Economic Analysis, divided by the seasonally-adjusted GDP Implicit Price Deflator for the 1st quarter of the prior calendar year, as reported by the U. S. Department of Commerce, Bureau of Economic Analysis.
 - b. The price for all Energy above CROD shall be \$.05 per kWh, escalated at GDP, with the escalation adjustment made on May 1st of each year. The GDP escalator shall be the seasonally-adjusted GDP Implicit Price Deflator for the 1st quarter of the current calendar year, as reported by the U. S. Department of Commerce, Bureau of Economic Analysis, divided by the seasonally-adjusted GDP Implicit Price Deflator for the 1st quarter of the prior calendar year, as reported by the U. S. Department of Commerce, Bureau of Economic Analysis.
5. The County shall work with RPU and SMMPA to qualify for applicable renewable energy credits for the facilities and shall grant title and/or ownership of any and all credits and attributes to the energy purchaser, either SMMPA or RPU for the term of the agreement.
6. Olmsted County will coordinate its maintenance schedules with RPU, and will comply with all RPU standard conditions for interconnected facilities.
7. The term of this agreement shall be ten years from the date of execution. After the initial term of the agreement, the agreement shall continue in effect until 12 months notice of termination is given by either party.
8. It is the intent of the parties that all energy purchased or provided under this agreement shall be biomass energy as defined in and compliant with the Minnesota Renewable Energy Objective MN216b.1691. Any energy provided that does not comply with that definition shall be priced at avoided cost under the terms of the existing I&I Agreement.
9. Olmsted County will cooperate with SMMPA and RPU in registering the Olmsted County generation as an Intermittent Resource with the Midwest Independent System Operator (MISO) for the purposes of minimizing charges to SMMPA and RPU from MISO's Revenue Sufficiency Guarantee (RSG) charges and other like charges. In the event the Olmsted County generation does not qualify as an Intermittent Resource with MISO, and SMMPA and RPU are exposed to RSG and other like charges resulting from the variable nature of the Olmsted County net generation, the energy charges listed above in 4a. and 4b. will each be reduced by \$.003/kWh.



RESOLUTION

BE IT RESOLVED by the Public Utility Board of the City of Rochester, Minnesota, to approve a Term Sheet for Power Supply Arrangements Between Olmsted County, the City of Rochester and Southern Minnesota Municipal Power Agency (SMMPA).

BE IT FURTHER RESOLVED, that the Utility Board approve the creation of an Addendum to the August 8, 1994 Interconnection and Interchange Agreement between Olmsted County, Minnesota, the City of Rochester, Minnesota and the Southern Minnesota Municipal Power Agency, contingent on the approval of the City Attorney and General Manager, and that the Board request the Mayor and City Clerk to execute the Addendum.

Passed by the Public Utility Board of the City of Rochester, Minnesota, this 30th day of May, 2006.

President

Secretary