

FOR BOARD ACTION

Agenda Item # 7

Meeting Date:

5/26/09

SUBJECT: Renewable Energy Power Purchase Agreement
Request for Rejection of Proposals

PREPARED BY: Walter Schlink
Director of Power Resources

ITEM DESCRIPTION:

Beginning in July 2008, staff selected Burns & McDonnell to assist with the development and processing of a request for proposals for the purchase of the energy from a renewable energy resource sized between 25 and 100 megawatts. The purpose of the request was an attempt by staff to expand the utilities' renewable energy portfolio to include a significantly larger percentage of renewable energy than is required by the Renewable Energy Standard (RES). Currently, the existing RPU assets, which include hydro and biomass, will meet the Minnesota RES through approximately 2025.

We received 26 responses to the RFP and Burns & McDonnell evaluated the proposals based on pricing and price structure, development and in-service date, location, operating history, projected energy and capacity factor, requests for special commercial terms and then compiled a short list of six proposals for further consideration. Concurrent with this effort, a significant evaluation of the MISO market value of the energy and environmental attributes was performed and compared with the costs contained in the most attractive proposals.

The results of this comparison were extremely disappointing to staff. Currently the market value of the energy is not remotely sufficient to cover the expenses the utility would incur to expand their renewable resource portfolio. Our analysis of a 50 megawatt power purchase agreement reflects that under current MISO market prices, we could lose up to \$2,000,000 annually. Investigation into the economic performance of existing renewable power purchase agreements confirms our analysis in real life conditions. Although staff is still dedicated to an expansion of renewable assets we believe that the current market conditions make this an unsound economic decision at this time. Staff will continue to monitor and evaluate market conditions and will pursue appropriate actions when those conditions present a more reasonable risk to the ratepayer.

FOR CAPITAL PURCHASES/BIDS/MAJOR PROJECTS:

Not Applicable

UTILITY BOARD ACTION REQUESTED:

Staff recommends that the Board reject all proposals received in response to the Request for Proposals for Renewable Energy Power Purchase Agreement due to the economic analysis of the proposals, market conditions, and potential risk to the RPU ratepayers at this time.



General Manager

5/21/09
Date

ROCHESTER PUBLIC UTILITIES



RESOLUTION

BE IT RESOLVED by the Public Utility Board of the City of Rochester, Minnesota, to reject all proposals received in response to the Request for Proposals for Renewable Energy Power Purchase Agreement issued in July 2008 due to the economic analysis of the proposals, market conditions, and potential risk to the RPU ratepayers at this time.

Passed by the Public Utility Board of the City of Rochester, Minnesota, this 26th day of May, 2009.

President

Secretary