

FOR BOARD ACTION

Agenda Item # 5

Meeting Date:

6/29/10

SUBJECT:

Approval to Purchase Approximately 30,000 Tons of Coal from SMMPA

PREPARED BY:

Walter Schlink
Director of Power Resources

ITEM DESCRIPTION:

The SMMPA Board of Directors has decided to terminate the Capacity Purchase Agreement between the Agency and Austin Utilities for the AU Northeast Plant effective September 1, 2010. There remains at the AU Northeast site approximately 30,000 tons of Illinois Basin coal which is the same type of coal used at RPU's Silver Lake Plant. The coal is owned by SMMPA but stored at AU NE Plant.

The coal is almost identical to our preferred coal with the exception of slightly higher sulfur content. Due to the installation of the emission reduction equipment that has been installed on SLP Unit 4, RPU has the ability to burn the slightly higher sulfur coal and remain within the permit parameters.

Due to the proximity to the SLP plant and the compliance with our coal specification, RPU staff began negotiations with SMMPA for the purchase of the coal and has reached an agreement that was approved by the SMMPA Board of Directors at the June 9th SMMPA meeting. RPU would take possession of the coal at the AU site and be responsible for the handling and transportation of the coal to SLP.


The negotiated price was established by using the Unit 4 operating characteristics and the actual MISO prices to establish a breakeven point that we would be willing to pay for the fuel that would assure a minimum of risk associated with the purchase. The final agreed upon price was \$43 per ton for the coal; adding on our handling and transportation costs would bring the FOB SLP price to \$51.50 per ton. The current market for Illinois Basin coal with transportation to Rochester is hovering at \$85 - \$90 per ton.

Minnesota Statute Section 471.345 allows for the direct negotiation of municipal power plant generation fuel and exempts it from competitive bidding requirements. Since this action proposes to purchase a specific volume of coal at a specific site, we were not able to get multiple quotes for the purchase. Our current coal supplier, Coal Sales Inc, has a right of first refusal that was approved by the RPU Board, giving them an opportunity to match these terms.

Finally, Austin Utilities also has a right of first refusal for the purchase of this coal so the execution of the order is contingent on whether they exercise that right.

FOR CAPITAL PURCHASES/BIDS/MAJOR PROJECTS:

This is not a budgeted item, but the expense will be directly offset by MISO revenues as the coal is received.


General Manager


Date

ROCHESTER PUBLIC UTILITIES

FOR BOARD ACTION

Agenda Item # 5

Meeting Date:

6/29/10

UTILITY BOARD ACTION REQUESTED:

The Board is requested to approve, and recommend that the Common Council approve, the purchase of the existing Austin Utilities NE Plant coal inventory for an amount not to exceed \$1,590,000. The price of the coal is locked in at \$43.00 per ton FOB Austin Utilities NE Plant and the balance of \$10.00 per ton is the staff estimate for handling and transportation.

General Manager

Date

ROCHESTER PUBLIC UTILITIES



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 the following coal purchase from the Austin Utilities coal inventory, subject to the rights of first refusal,

The existing Austin Utilities NE Plant Coal Inventory

The price of the coal is \$43.00 per ton

Staff estimate for handling and transportation is \$10.00 per ton.

The amount of the purchase agreement not to exceed ONE MILLION FIVE HUNDRED NINETY THOUSAND AND 00/100 DOLLARS (\$1,590,000.00).

Passed by the Public Utility Board of the City of Rochester, Minnesota, this 29th day of June, 2010.

President

Secretary