

Cuyahoga Falls City Council
Minutes of the Finance Committee Meeting
May 16, 2011

Members: Kathy Hummel, Chair
Don Walters
Carol Klinger

Mrs. Hummel called the meeting to order at 6:35 p.m. All members were present.

The minutes from the April 18, 2011 and April 25, 2011 Finance Committee meetings were approved as submitted.

Legislation Discussed:

Temp. Ord. B-49

Temp. Ord. B-50

Discussion

Temp. Ord. B-49

An ordinance authorizing the Director of Public Service to enter into a power sales contract known as the AMP Fremont Energy Center Power Sales Contract, with American Municipal Power, Inc., and declaring an emergency.

Mark Gerkin, President, and John Bentine, General Counsel, of AMP gave a presentation. This plant is located in Fremont, Ohio and referred to as the Fremont Project. It will be an intermediate resource project to help meet the City's needs during the 5x16 Monday thru Friday, 7:00 a.m. to 11:00 p.m. slot. It is a combined cycle plant currently owned by FirstEnergy with a 512 MW summer base capacity. It should be commercially available by the end of this year. It must generate 675 MW or the purchase price is partially refunded by FirstEnergy. The plant is designed for 707 MW total. There are incentives if FirstEnergy can reach 707 MW. AMP must close this deal by July 1, but can be granted an extension if they give notification by June 15. The plant is interconnected to FirstEnergy (ATSI) System to be part of PJM System on June 1. The Fremont facility would provide a cost effective, safe environmental joint asset-based alternative. It is an asset purchase, and AMP will own and operate the plant. The agreement allows the flexibility for AMP to hire current employees. The plant will have redundancy, which means if one turbine is down, the other will operate as a back-up. AMP will do performance testing beginning in August or September and be completed with that by December, 2011. They plan to be online by January, 2012. The total purchase price is \$510 million at 707 MW. This price include the base purchase price of \$485 million plus the cost reimbursement for February through July, 2011 at a not-to-exceed amount of \$25,300,000. The estimated cost of the project is approximately \$574,685,000. The total estimated bond amount is \$675 million and the annual debt service would be around \$48.7 million. AMP will use its line of credit to finance the project. Fixed bonds will be issued in 2012. The majority of the risk depends on how well the City manages its gas supply. They've been looking at this project since 2007. If they had purchased the plant in 2007, it would have been running at 38% for a \$68 million gross margin. In 2010, it would have been 57% and \$68 million gross margin. The reason is because the markets were low. He cautioned that this was based on spot market prices. There is minimal construction risk. Basically, (i) this will be a 35-year take-or-pay contract; (ii) participants subscribe for fixed shares; (iii) participants receive their shares of the project; (iv) there is a 25% step-up; (v) project costs and O&M expenses are paid by the members; (vi) members pledge rates to cover costs; and (vii) a committee of participants will have both decision making and advisory roles in decisions. Cuyahoga Falls' share is 34,919 kilowatts, which includes 26,256 kilowatts base and 8,663 kilowatts peak. Basically, this plant lowers cost and lowers risk.

Mrs. Hummel asked what the difference in cost was based on what it is using right now. It had been stated the City is currently at \$96.01 per MW and that the cost on this plant would be \$93.21. Mr. Gerkin replied that by

bringing this plant into the City's portfolio, it would reduce it to \$93.24. They did the analysis through 2041 because that is the period for the market forecast. It is not an indication on the life of the plant. Mrs. Hummel asked about the City's share. Mrs. Carr stated the ordinance mentions the City's participation to be 26,256 kilowatts for base and 8,663 kilowatts for peak. Mr. Gerkin added that this is the cheapest peaking you can get. The EPA is starting to require that generators and other expensive equipment be phased out. Mrs. Hummel asked about selling the intermediate contracts the City has now. Mr. Gerkin stated if the City stays on market, members spent \$500 million more on the market. If the City manages its gas, the \$500,000 number will be larger. Mr. Walters asked how gas prices can be predicted so far into the future. Mr. Gerkin indicated his people are meeting to set preliminary goals. Participants must determine how much risk they want to take in this. The City may say it might buy a block of gas for five years so the fixed price is 60%. He said a participant can prepay some gas, as well. Participants have to decide what level of risk they want to take. Mr. Walters asked why FirstEnergy wasn't interested in this plant. Mr. Gerkin stated the merger with Allegheny came with a plant similar to this so FirstEnergy's need for this plant is not that desirable. Mr. Walters asked if this had not come available, would AMP have built something similar? Mr. Gerkin stated they had looked at self-built but it was not as good as this project. The net present value of this plant was around \$2 million more. Two years ago, FirstEnergy wanted to sell the plant for \$760 million because the prices were higher. Mrs. Klinger asked what the status was of the other communities. Mr. Gerkin stated everyone is moving along. Some have already passed legislation, and a lot are in the first or second reading phase. Cuyahoga Falls is in the middle of the pack.

Mrs. Hummel asked what percentage the 26,256 kilowatts was of the total project. Mr. Gerkin indicated it was 5%. They have several participants in the 60 MW range. This puts the City in the top 5. This is a very flexible generating asset for Cuyahoga Falls. A coal plant has a heat rate at 9,200. This plant will run at 6,500. It is one of the lowest efficient plants. Mrs. Hummel asked how green it was. Mr. Gerkin replied that the rule of thumb is it is 50% of the carbon footprint of a coal plant. Mrs. Carr stated the chart she distributed is very important. This project will start filling in the gap of buying off the market but it also gives the City the flexibility to go back to the market if that would be cheaper. Some of the City's other contracts do not allow that. Mrs. Hummel asked Mrs. Carr if she concurred that this would be a good project to get into whether the City chooses to sell the other contracts it has or not. Mrs. Carr agreed and added that Mr. Brodzinski was looking at the numbers and, once he's done that, they will decide whether they want to sell off or not. Mrs. Hummel stated the City has taken Mr. Gerkin's advice for many years. She asked if there were any members of the Committee who needed more time to consider this. She felt the savings from \$96 to \$93 is clear but if anyone wanted this held, she would do so.

Mrs. Klinger moved to bring out B-49 with a favorable recommendation, second by Mr. Walters. Motion passed (3-0).

Temp. Ord. B-50

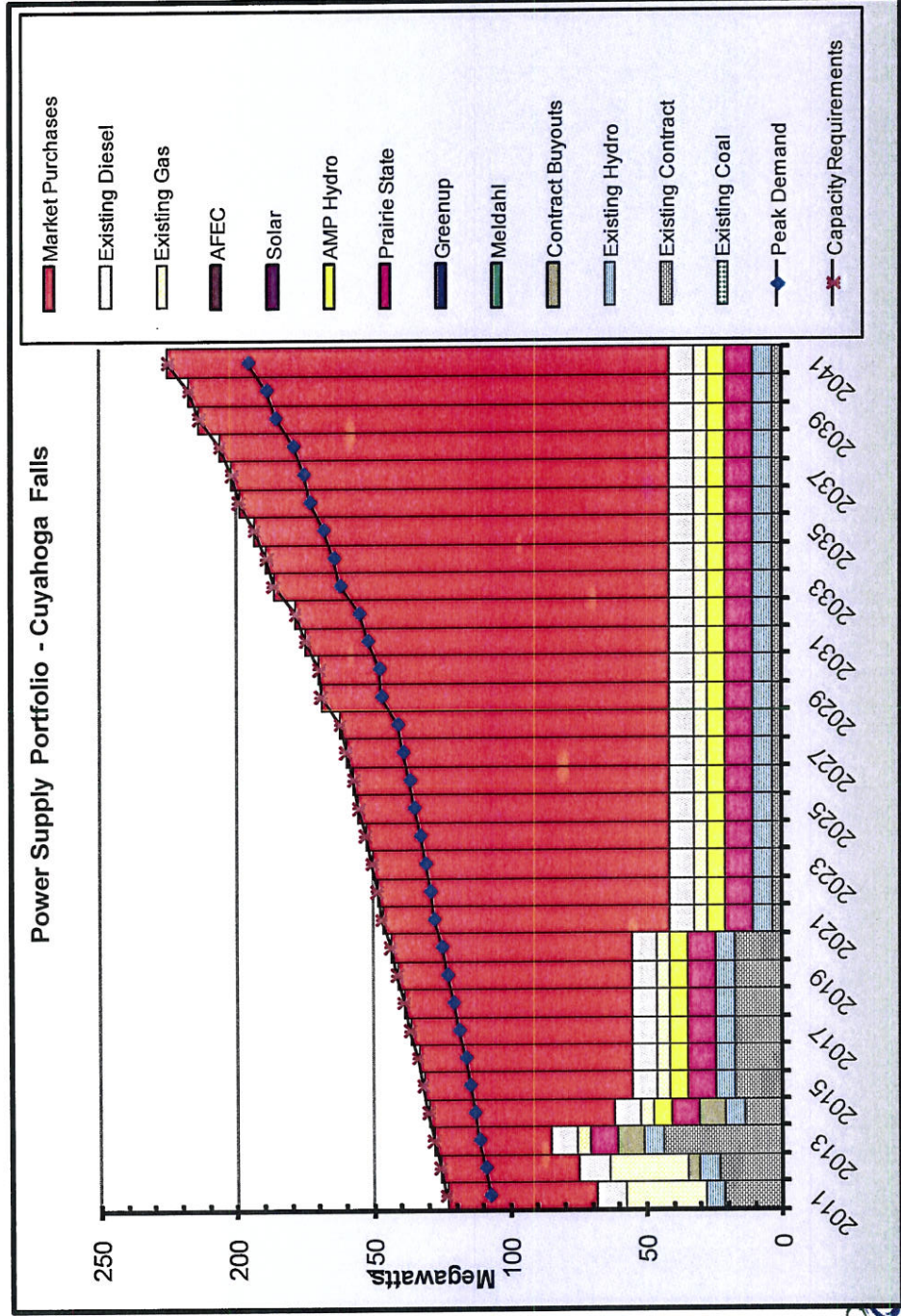
An ordinance authorizing the Director of Public Service to enter into a power scheduling agreement to be known as the Northern Pool Participant Schedule, with American Municipal Power, Inc., and declaring an emergency.

Mrs. Carr stated this is a housekeeping ordinance. Mr. McHugh stated that the City is in a group known as Northeast Area Service Group. There is also a Northwest Area Service Group. The two groups are merging which will allow the members to do more pool purchasing. There will be a total of 42 participants in the pool. Currently, each group has around 21 members. It will cost no additional money for the merger. Mark Gerkin, President of AMP, stated this will streamline things and give the City more flexibility down the line.

Mrs. Klinger moved to bring out B-50 with a favorable recommendation, second by Mr. Walters. Motion passed (3-0).

The Committee meeting adjourned at 7:30 p.m.

RW Beck Beneficial Use Analysis – base Case



RW Beck Beneficial Use Analysis

