

JOURNAL OF COMMISSION WORK SESSION
April 21, 2009

City Commission Work Session

Mayor Stebbins presiding

CALL TO ORDER: 5:15 p.m.

ROLL CALL: City Commissioners present: Dona Stebbins, Bill Bronson, John Rosenbaum and Mary Jolley. Also present were the City Manager, Assistant City Manager, City Attorney, Directors of Community Development, Fiscal Services, Park and Recreation, Planning, Public Works, the Assistant Library Director, Fire Chief, Police Chief, and the City Clerk.

1. EMPLOYEE ORIENTATION

Chief McCamley introduced Nick Damyanovich, Devon Hagen, J.D. Kulbeck, Tyler Loney and Colten Walter; Chief Grove introduced Michael Holmes; Public Works Director Jim Rearden introduced Tony Osterman, Eric Boyd, Jeremiah Williams and Dale Sappington; Assistant Library Director Kathy Mora introduced Donica Marler; and Neighborhood Council Coordinator Patty Cadwell introduced Jim Kjeldsen as the new Weed & Seed Director.

2. SME UPDATE – PROJECT AND RATES

Southern Montana Electric G&T General Manager Tim Gregori provided a PowerPoint presentation update on the request for proposals that SME believes will provide a quality, affordable and reliable source of wholesale power for the next 10 years, as well as the status of the City's \$2 million dollars invested in the project.

Mr. Gregori reported that an alternative evaluation study was completed in 2004 as part of the RUS's loan application process. The most recent application to the RUS, which is SME's business plan, weighed 37 pounds. Subsequent to the completion of the study, the Southern and SME Boards continually revisited the alternatives. The business assumptions that SME was using to move forward with the coal plant changed over time. It ultimately reached the point where SME is today due to the nation's attitudes and concerns with the use of coal as a fuel for electric generation.

Mr. Gregori stated that it was incumbent upon SME to honor its fiduciary responsibility to the member system that it serves to take a look at the other alternatives and to put in place generation to meet the member systems needs. SME has continued its due diligence activities. He reminded the Commission that what SME is trying to do at the local level is look for synergies with national, regional and local energy initiatives. Mr. Gregori believes the location of the Highwood Generating Station will play an important role in Montana's energy future.

Mr. Gregori showed maps of gas lines in proximity to Montana and gas pricing graphs. Last year, he explained that natural gas was \$13 to \$14 a mcf, and now it is below \$3.50 a mcf. There has been a tremendous transition in the supply of natural gas and the reasonableness of using natural gas as a fuel.

As directed by the Boards of Southern Montana and SME, he reported that they have now focused on an analysis of a 120 megawatt combined cycle natural gas generating facility. It would consist of two 40 megawatt simple cycle units and one 40 megawatt HRS generator.

Mr. Gregori explained slides depicting what had been invested in the coal plant, and what is not useful for the gas plant. He showed an artist rendering of the proposed site from Salem Road in conformance with the County's landscaping plan.

He explained due diligence and project financing, as well as the potential to compliment other supply visions. With the passage of the Energy Policy Act of 1992, wholesale power transactions are not regulated. He stated that power purchase agreements are in place at a predictable and fixed price to 2019. He forecasted the average price between now and 2019 will be competitive with NorthWestern Energy's price today without any escalators.

Great Falls is very well positioned in terms of pipelines coming into the area, supply, and producers willing to sign moderately termed contracts. Mr. Gregori discussed wind power and that transmission is still an issue. After having a fully developed financial plan for the project, SME will provide the appropriate level of project announcements.

Mr. Gregori reported that this project would qualify for financing from the Rural Utility Service. SME believes there are opportunities in the commercial finance market.

Mr. Gregori stated that he believes all supply options have a level of risk. Southern has added some price certainty in meeting the needs of the customers it serves. He believes the natural gas and electric markets right now are deceptively low. He concluded that Southern's goal is to protect the investments in the Highwood Station.

With regard to the investment in the HGS site, Commissioner Jolley commented that the Commissioners voted over a number of years, have agreements in place, and invested in the 250 megawatt coal plant. If Southern was considering building a gas plant, she doesn't believe it was up to Southern's or SME's Board to decide where the City's investment goes. Mr. Gregori responded that the City of Great Falls invested in generation capacity. He explained that the ultimate goal of that investment was to be able to buy a certain amount of generation capacity at cost. The investment was in the development of the generation facility. Commissioner Jolley disagreed, citing resolutions, ordinances and agreements.

Commissioner Rosenbaum commented that the value of the project also included firming up water reservations. If the water isn't put to use, it will be lost. He explained that at the time the Commission decided to participate in this project, moving some of the economy east of Great Falls was a consideration. In terms of the water reservation, Mr. Gregori stated that the project contemplated right now will use approximately one-third to one-half the amount of water that the coal fired facility would have used. A good portion of the water reservation will be proved up on. Commissioner Rosenbaum discussed pumped storage.

Commissioner Bronson inquired the status of the fire services agreement. Mr. Gregori responded that a letter requesting consideration for a few months is forthcoming.

3. ENERGY CONSULTANT RFP UPDATE

City Manager Gregory T. Doyon discussed his recommendation for a Request for Proposals for an Energy Industry Consultant. He explained concerns about the structure the City has into the relationship with SME, and the City's organizational capacity to run an electric utility. Commissioner Bronson provided an action outline memo in November, which Mr. Doyon responded to. The intent was to have an ECP Board and City Commission work shop session to discuss the direction to go. After the filing of YVEC's lawsuit, counsel advised against such a meeting. Mr. Doyon advised that the City needs to move forward in a way that is clear to the Commission and the community about what the goals are in this. He discussed the legislative changes, changes to whom the City could sell power to and financing changes. His goal has been that if the City is in this enterprise, then it is in the best interest of the City. It will take some time to review the options and determine the best options. There are some ordinances that need to be revised. Mr. Doyon discussed the draft RFP setting forth four tasks: Task 1: Perform an organizational and operational assessment of ECP; Task 2: Perform a comprehensive financial analysis of ECP; Task 3: Evaluate Risk; and, Task 4: Identify Alternatives. He proposed that a workshop be held after tasks one through three were completed to get a direction from the consultant with regard to task four.

Mr. Doyon reported that he sent the draft RFP out to the ECP Board members and Commissioners in advance in hopes they would have had a chance to look at it. He requested feedback of issues or concerns, as he plans to issue the RFP as soon as possible.

When Mr. Doyon was discussing directives, Commissioner Bronson clarified that was coming from a majority of the Commission and was a consensus viewpoint. Commissioner Bronson agreed that what Mr. Doyon set forth here is consistent with the directives from the budget session. He pointed out a typographical error on page 2 of the RFP.

ECP Director Bob Pancich commented that his observation of the RFP doesn't show where the City has turned over some authority to the Electric City Power Board in the introduction. His question after reading task 3 is whether the language should state should ECP be in this. Mr. Pancich thinks there will be a lot of good information that will come out of this, and where the City and ECP should be going in the process.

Commissioner Rosenbaum added that when this began there was a bigger scope of work and results than just getting electricity.

ADJOURN

There being no further discussion, Mayor Stebbins adjourned the work session of April 21, 2009, at 6:40 p.m.