



November 25, 2009

TO: Council President
City Councilmembers
Council Appointees

FROM: Eric Norenberg

SUBJECT: City Manager's Update

Following are updates on various topics for your information. Please let me know if you have any questions. Thank you!

OMLPS

- AMP Releases News on the AMPGS Project: Yesterday, Steve Dupee attended a special meeting of the AMPGS Board of Participants and the AMP Board of Directors. These groups met to discuss the AMPGS project. The following summary of the meeting and the results was prepared by Steve:

The purpose of the participants meeting was to receive an update on the Engineer/Procure/ Construction or (EPC) Target Price from the project contractor, Bechtel Inc. The AMPGS Board of Participants learned that the EPC target price for the project had risen by 37% over the target price that was indicated in May of 2009. The two primary drivers for the price increase were primarily labor costs and costs associated with the Powerspan ammonia scrubbing technology for SO₂.

An analysis prepared by R.W. Beck on behalf of the AMPGS participants showed that when considering this 37% increase, the electricity costs out of plant would exceed market power costs making the project uneconomical for members. The extreme softening of the wholesale power market, in particular in the Midwest, has had a significant impact on wholesale power costs in the near term. In addition, participants in the AMPGS project have seen double digit load losses; therefore, creating an over abundance of baseload power supply in the participants power portfolios.

Based on this information, the AMPGS participants recommended termination of contracts with Bechtel (EPC contractor), Powerspan (SO₂ emissions technology contractor) and Hitachi (turbine and boiler manufacturer). The AMPGS participants did **not** recommend termination of the power sales contract. Instead, the AMPGS participants recommended and authorized AMP to immediately begin technical and economic feasibility planning to convert the AMPGS project from a pulverized coal station to a combined cycle natural gas station that would provide intermediate power needs for the members. In addition, the AMPGS participants recommended that AMP pursue market power purchases on behalf of the participants to meet their baseload needs between 2014 and 2020.

As a result, the AMPGS project will be reconfigured as a natural gas combined cycle plant coupled with a market power purchase arrangement (similar to our Belleville Hydro Project where AMP supplements the project with market power purchases to deliver a round-the-clock baseload power resource). There are multiple benefits to this reconfiguration in terms of addressing the sunk costs in the AMPGS project, including meeting the intermediate and baseload needs of the participants at a lower cost than the AMPGS project, mitigating carbon impacts associated with future cap and trade legislation, maintaining an asset-based strategy with a focus on lower carbon-emitting and other emission resources and allowing participants to reduce their megawatt stake in the project to address load losses. It is important to note that reconfigured project would require a modification to the power sales contract by all participants. The AMP Board passed a resolution ratifying the AMPGS participant's decision.

So, what does this mean for Oberlin? Since Oberlin is not a participant in the project, we will have no exposure to the sunk costs in the AMPGS project. Our only expense is related to the developmental costs that occurred over the six year development period which was approximately \$65,000. The environmental benefits of transitioning this project from pulverized coal to natural gas align well with our local environmental goals. Approximately 500 mw of baseload power supply will need to be acquired on behalf of the AMPGS participants in early 2010 to take advantage of softening wholesale market. Therefore, we now have more competition for baseload power than previously expected. Staff can discuss with Black and Veatch to determine what the impacts of this might be for us as we continue working on addressing our local baseload need. AMP has indicated a desire to look at various biomass technologies that could be coupled with the natural gas combined cycle plant, giving us potential biomass options in the future.