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Memorandum

TO: Public Utilities Commission

FROM: Steve Dupee, Electric Director

RE : Energy Attribute Sale Agreement/Sustainable Reserve Program

DATE: April 2, 2009

Purpose

The purpose of this memorandum is to provide an overview of the Energy Attributes Sale Agreement (copy attached) between the City and Oberlin College as well as a description of the companion program called the Sustainable Reserve Program.

Background

Energy Attribute Sale Agreement Impetus and Development

In early 2002, I was invited by Fran Baumann, City Council Chairperson, to participate in Oberlin College's, Environmental Policy Advisory Committee (EPAC) as an observer and to provide the committee with information related to the City's role in energy conservation, efficiency and renewable electricity. *For your information, EPAC was formed for the purpose of developing an energy policy statement for Oberlin College.* The EPAC meetings were interesting and informative and helped me understand Oberlin College's efforts to lower their green-house gas emissions.

It was during these meetings that I learned that the College was considering several options to help reduce their green-house gas emissions including the purchase of energy attributes (*commonly referred to as "renewable energy credits"*). EPAC inquired if OMLPS could sell energy attributes to Oberlin College. I advised EPAC that OMLPS was currently selling energy attributes from the City's hydro and landfill gas power supply resources to Green Mountain Energy through the end of 2002. In addition, I informed the group that Green Mountain Energy would also be purchasing wind energy attributes for a 5 year period beginning in 2003 from the City's ownership share of the OMEGA JV6 wind project in Bowling Green. This information was reviewed and discussed and led to a request of OMLPS to develop a proposal for selling energy attributes to Oberlin College after 2002.

In consultation with City Administration and the support of City Council, OMLPS developed a proposal whereby the City would agree to sell energy attributes from its two (2) renewable resources - the Belleville Hydro Plant and the EDI landfill gas generation project. OMLPS estimated that up to 12,875 megawatt-hours of energy attributes could be available for the College to purchase. OMLPS proposed to sell the energy attributes at a rate of \$2.00 per megawatt-hour. At the time, this was the same rate the City received from Green Mountain Energy.

In concert with this proposal, OMLPS also worked on a concept of establishing a Sustainable Reserve Fund. Using revenues from the energy attribute sale agreement, the fund would be used to stimulate and promote investment in local, environmentally-friendly initiatives. Examples of initiatives could include low-income housing insulation program, funding future renewable generation projects or purchasing and planting trees.

EPAC was receptive to the energy attribute sale agreement and the idea of developing a sustainable reserve fund. EPAC prepared and sent a recommendation to College Administration to purchase energy attributes from OMLPS. In addition, City Council Chair, Bill Jindra, sent a letter to College President, Nancy Dye, expressing City Council's overwhelming support for the agreement and the establishment of a sustainable reserve fund.

With the assistance of AMP-Ohio, an energy attributes sales agreement was drafted for the College's consideration. In early 2004, an energy attributes agreement was executed by the College and the City for a two year period beginning June 1, 2004.

Sustainable Reserve Fund Program

A Sustainable Reserve Fund program was established to utilize the revenues received from the energy attribute sale agreement to promote and stimulate investment into local community initiatives related to four key areas including:

- Energy Efficiency
- Energy Conservation
- Green-house Gas Reductions; and
- Renewable Generation Development.

Over the first two-year period of the energy attribute sale agreement, the PUC recommended that City Council financially support two (2) local initiatives. The first initiative, spearheaded by Oberlin College Professor, Mr. John Scofield, and one of his students Mr. Michael Roth, resulted in the purchase of wind monitoring equipment to monitor wind speeds and gather data to determine the technical and economic feasibility of installing a local wind turbine to provide renewable power for the community. OMLPS staff installed the monitoring equipment at the New Russia Township Nature Preserve and Oberlin College collected and analyzed the wind data. The second initiative spearheaded by former Oberlin College student, Mr. Sam Merrett, resulted in the conversion of a defunct gas station into the first ever bio-diesel and ethanol fueling station (Fuel Circle Fuels) in the community and one of just handful

of these type of stations across Ohio. Sustainable Reserve funds were used to perform testing on existing equipment, purchase the underground tank monitoring equipment and product dispensers as well as leverage an award of State grant funds to Mr. Merrett's business venture.

Recognizing the value and importance of the Sustainable Reserve Fund and to ensure fair and equitable treatment of future funding requests, City Council asked OMLPS staff to formalize the Sustainable Reserve Program by ordinance and establish a set guidelines and criteria for the program along with the development of an application process and a participant agreement. The Sustainable Reserve Program was formally established by City Council in May of 2007.

Energy Attributes Agreement Renewal

As I indicated previously, the first energy attribute sale agreement executed with Oberlin College was for a two year period ending in June, 2006. Following the formal establishment of the Sustainable Reserve Fund, City Council gave OMLPS the green light to negotiate a new energy attribute sale agreement. In October of 2007, City Council authorized executing a new energy attribute sale agreement.

Highlights of the new agreement included:

- Set the initial term of the agreement for a 3 year period. (Note: execution of agreement in 2007 covered the period from June, 2006 through June, 2009.
- Provided an automatic renewal provision for successive one year periods unless terminated by either party in accordance with the provisions of the agreement and by not giving less than 30 days written notice.
- Set the purchase price for energy attributes at \$2.00 per megawatt-hour.
- Created a cap on the number of attributes Oberlin College would be obligated to purchase. The cap is 12,500 megawatt-hours of energy attributes or \$25,000 per year. (For your information, the number of available energy attributes to the City were reduced following a settlement with Energy Developments Inc.)
- AMP-Ohio would serve as the agent to the agreement.

Financial Milestones

Over the past 5 years, Oberlin College has paid \$89,164 into the sustainable reserve fund for the purchase of 44,582 energy attributes. City Council has authorized funding for three (3) projects from the Sustainable Reserve Program providing grants totaling \$35,496.85. Today, the current fund balance in the Sustainable Reserve Fund is \$53,667.15.

March 3rd PUC Discussion

I have had an opportunity to listen to the PUC meeting discussion related to the agreement terms and thought it was important to clarify several misperceptions which permeated the discussion.

Misperception #1 - OMLPS has sold energy attributes below “market” value for many years.

To address this misperception, it is first important to understand what are the main drivers affecting the market value of energy attributes. The market value of energy attributes are driven mainly by supply and demand, renewable portfolio standards, the type of renewable resource, the age of the resource and the environmental impacts associated with the resource. OMLPS began selling renewable energy credits in 2001, first to Green Mountain Energy for \$2.00 per mwh which included energy attributes from the City’s landfill gas and hydro resources. Typically, the market value of hydro energy attributes has remained steady in the \$1.00 to \$1.50 range. In 2006, OMLPS was offered an opportunity to sell hydro energy attributes for \$1.25 to a broker for a 3 year period. OMLPS declined the offer opting instead to sell the energy attributes for a higher value to Oberlin College. In 2003, OMLPS began selling wind energy attributes for \$32.00 per mwh as part of the City’s ownership requirements in the OMEGA JV6 wind project. This price was well above market. Green Mountain Energy was willing pay this price in order to have naming rights for the OMEGA JV6 wind project and to be associated with the first utility scale wind project in Ohio to support and enhance their business plan. The Green Mountain Energy contract with OMEGA JV6 expired in 2008. OMEGA JV6 offered the wind energy attributes to Oberlin College for \$7.00 per mwh (approximate market value in 2008). The offer was declined, in part, due to timing of the offer and in part, due to the fact that the College was in the midst of a climate neutrality study which included an analysis on numerous options to assist the College with meeting their climate goals.

Finally, in 2008, OMLPS sold the College 7,011 megawatt-hours of hydro energy attributes and 2,278 landfill gas energy attributes for \$2.00 per megawatt-hour yielding \$18,524 for the Sustainable Reserve Program. As a comparison, AMP-Ohio sold energy attributes to the market and received \$1.25 per megawatt-hour for hydro attributes and \$4.20 per megawatt-hour for landfill gas attributes. If we apply these rates to the energy attributes OMLPS sold Oberlin College under the current agreement, the revenues OMLPS would have received through a market sale transaction would have totaled \$18,331.25. Therefore, there is no disparity between energy attribute sale revenues received from Oberlin College vs. the market. In addition, it is important to note that the City receives the added benefit of keeping the energy attributes sold with the City’s overall power supply portfolio and helping the City’s largest customer meet its climate neutrality goals.

Misperception #2 - Other utilities sell energy attributes for a much higher rate and therefore the City is missing out on an opportunity for significant revenues.

Over the years, energy attribute programs have become a popular way for utilities to offer renewable electricity to customers without making the significant capital investment in developing, constructing and operating renewable generation resources. In fact, this is how a couple of AMP-Ohio member utilities offered renewable electricity to their customers. A

program called the Nature's Choice program was offered through AMP-Ohio and Green Mountain Energy for a 5 year period beginning in 2003. The Cities of Westerville, Ohio and Wyandotte, Michigan participated in the Nature's Choice program. Both cities had no renewable power in their power supply portfolios and wanted to offer a renewable alternative to business and residential customers through the purchase of energy attributes for 1.3 cents per kwh. Green Mountain Energy marketed the program to the City's customers and were responsible for customer sign-ups. The cities provided billing for the program and were responsible for collecting and sending the revenues generated by the program to Green Mountain Energy. The 1.3 cents fee was based on a combination of Green Mountain's cost of their energy attribute portfolio, the cost of overhead including marketing, staffing and operations and profit margin.

What I have described above is counter-intuitive to the local energy attribute sale agreement and Sustainable Reserve Program for the City. These efforts were never about making money, generating profits or attempting to satisfy the City's renewable generation goals by purchasing and re-selling energy attributes to residential and business customers. This initiative was about how the City and its electric customers could leverage its investment in renewable generation resources to improve the environment, promote energy efficiency and conservation and reduce green-house gas emissions.

In addition, there is no overhead for our local arrangement. AMP-Ohio serves as the agent to the agreement at no cost. Each quarter, AMP-Ohio prepares attestation forms for OMLPS's and College's signature and forwards the documents to OMLPS. The documents are executed by OMLPS and the College. OMLPS prepares and sends an invoice to the College for payment.

Misperception #3 - selling all energy attributes to Oberlin College is unfair to some residential electric customers who are willing to pay more for renewable generation.

To address this misperception, it is important to restate our governance and ownership as a public power utility. The City's electric customers are the owners of OMLPS. Through local ownership and local control, the City's electric customers have a stake in the utility operation including its power generation resources. Each electric customer has an ownership stake in the City's hydro resources and wind resources since these are assets owned by the City. Through a purchase power agreement, each electric customer has a stake in the landfill gas generation resource. Whether the City is an owner or taker of power generation, the costs associated with those power supplies are inclusive in our customers' electricity costs. If a renewable power supply is more expensive than a traditional fossil-fuel supply, the customer will pay a little more for their electricity.

What is important to note for the agreement with Oberlin College is that the generation resources that are supplying the energy attributes are below the average cost of generation for the City in 2009. The City's average cost of generation in 2009 is approximately 6.8 cents per kilowatt-hour. The cost of the landfill gas generation resource cost is 3.8 cents per kilowatt-hour and the Belleville Hydro Project is 6.1 cents per kilowatt-hour. What this means is that we are receiving a premium from Oberlin College for these resources when they actually cost less than the City's average cost of generation.

Both the Public Utilities Commission and City Council have recommended and approved the execution of an energy attributes agreement on two (2) separate occasions. Other than Mr. Scofield, I have received no negative comments or concerns of fairness regarding the terms of the agreement.

Misperception #4 - Oberlin College will pay more for energy attributes and therefore we should charge more. OMLPS has received no indication from Oberlin College that they are willing to pay more for energy attributes. In fact, as stated before, the OMEGA JV6 participants made a verbal offer to Oberlin College to sell all energy attributes from the Bowling Green wind generation project. The offer was declined. Oberlin College is studying a variety of alternatives to meet their climate neutrality goals. Those alternatives could include the purchase of energy attributes or it may not. It is important to note that Oberlin College is under no regulatory requirement to purchase energy attributes.

Conclusion

This mutually-beneficial partnership has been supported at the highest levels within the College, City Administration and City Council. It is a well-respected and highly-regarded arrangement amongst our municipal peers. To my knowledge, we are the only municipality within the entire AMP-Ohio membership that has a 100% local participation rate for an energy attribute program. We are the envy of many in this regard. In 2007, Oberlin College and OMLPS received the first-ever “Clean Community of the Year” award, in part for the environmental and sustainable contributions that this agreement has made to the community.

This agreement has exceeded our expectations in terms of the role it has played to rally community volunteers, to stimulate investment in local environmentally-friendly and civic-minded projects and supporting the climate goals of our largest electric customer. It is certainly one of OMLPS’s crowning achievements and something we are extremely proud to be a part of.

I will be happy to discuss at our meeting on April 7th.

/sd

C: Jack Baumann, PUC Liaison
Eric Norenberg, City Manager