

CITY OF GREAT FALLS, MONTANA

AGENDA # 2

A G E N D A R E P O R T

DATE September 21, 2004

ITEM Wholesale Power Purchase Contract w/ Southern Montana Electric Generation & Transmission Co-Op

INITIATED BY Long-Term Stable Electric Supply Needs In Great Falls

ACTION REQUESTED Authorize the City Manager to Execute a Wholesale Power Purchase Contract with SME G&T Co-Op

PRESENTED BY John Lawton, City Manager

R*E*V*I*S*E*D

RECOMMENDATION: It is recommended that the City Commission authorize the City Manager to execute a wholesale power purchase contract with SME G&T.

MOTION: I move the City Commission authorize the City Manager to execute a wholesale power purchase contract with SME G&T.

SYNOPSIS: Southern Montana Electric G&T has been actively searching for favorable long-term electricity contracts on behalf of the City of Great Falls since April of 2004. The successful results of this search will allow the City to stabilize their electricity supply rates from October 2004 through December 2008. Upon completion of the final details of this power supply contract the City will have successfully completed this step in the process to acquire energy from SME G&T. Such a contract will allow the City to provide enough electricity to supply the City's needs, the needs of the School District, the Airport Authority and associated facilities at a peak demand rate that is 10% lower than what we are currently paying.

BACKGROUND: On Friday, September 17, Southern Montana Electric G & T announced that they will sell five megawatts of electricity to the City of Great Falls in the amount of \$36.00 per megawatt hour for a five year period. We are presently paying \$41.798. It is anticipated there will be additional savings for transmission costs, but we do not know the exact amount at this time.

The City of Great Falls will resell the electricity to meet the needs of our own operations, to the school district, and to the airport authority and associated facilities at \$37.60 per megawatt hour. The difference will go to recoup capital costs the City has put into the project so far at approximately \$119,000 with an additional \$323,000 due in the next few weeks. During the contract period we will recoup part, but not all, of these costs.

The School District and the Airport Authority are prepared to go through the necessary steps to authorize power purchase agreements with the City of Great Falls. Similarly, these agreements will have to be approved by their respective boards. An application submitted by the City last week is currently under review by the PSC to authorize the City to be an aggregator of electrical demand and we are developing "all requirements contracts" to be signed between the City and its new customers.

Part of the deal with SME will be to exchange a low price for electricity now for future consideration for water for the Highwood Station generating plant. We will work out the details later, but this approach is necessary to give us rates that are as close as possible to SME's other wholesale customers. That price differential will be offset in the future, on a dollar for dollar basis, by lower raw water prices SME will pay the City.

Several Commission actions and approvals will be necessary to formalize the various components. This is a very good deal for the city, the schools, and the airport. It will go a long way toward filling the existing power purchase gap until the Highwood Power Station is up and running.

