

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

DATE November 15, 2005

ITEM Res. # 9528, Amending the Interlocal Agreement Creating Montana Public Power Authority

INITIATED BY Montana Public Power Authority

ACTION REQUESTED Approve Res. # 9528

PRESENTED BY Cheryl Patton, Assistant City Manager

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RECOMMENDATION: Staff recommends the City Commission approve the following motion.

MOTION: I move the City Commission adopt Resolution 9528 amending the Interlocal Agreement which created Montana Public Power Authority.

SYNOPSIS: Resolution 9528 approves an amendment to the Interlocal Agreement with the cities of Missoula, Helena, Bozeman and the city/county government of Butte-SilverBow, Montana which created Montana Public Power Authority. The purpose of the amendment is to authorize the City of Great Falls to invest an additional \$100,000 into the Montana Public Power Authority which will then loan the money to Montana Public Power, Inc. to assist MPPI in due diligence and other expenses related to the acquisition of NorthWestern.

NorthWestern Corp. owns the electric and gas transmission and distribution systems in Montana. MPPI intends to own and operate the utility for the benefit of Montana customers with stable transmission and distribution rates and by investing into the system to ensure reliable, essential, energy service for Montana customers.

The Amendment also acknowledges that the City of Great Falls, along with each of the other four cities, may assume a \$100,000 obligation to NorthWestern Corp. in the event that NorthWestern terminates the purchase agreement on the grounds that MPPI commits a willful breach of any representation, warranty, covenant or agreement that remains uncured for 30 days. This is known as a Reverse Breakup Fee.

BACKGROUND: In 1997 the Montana State Legislature deregulated the electricity industry in Montana. Montana Power sold its generation assets to Pennsylvania Power and Light. In 2001, Montana Power sold its transmission and distribution assets to NorthWestern Corporation.

In 2000-2001 the City of Great Falls participated with other cities in forming a non-profit organization called MEGA, Montana Electric and Gas Alliance. MEGA unsuccessfully bid to acquire the transmission and distribution assets of Montana Power. NorthWestern Corporation of South Dakota was the successful bidder and has owned the regulated utility for the past four years.

In June of 2003, NorthWestern Energy reneged on contracts with Montana cities and school districts. In September 2003, the City of Great Falls established its own electric utility by ordinance. Since then, staff has aggressively investigated both energy supply, through participation with Montana cooperatives in the Southern Montana Electric Generation and Transmission Cooperative

(SMEG&T); and now the T&D assets of poles and wires by cooperating with five larger Montana Cities through an Interlocal Agreement which created the Montana Public Power Authority, the sole member of Montana Public Power, Inc.

FINANCIAL INVOLVEMENT:

The City has previously contributed \$100,000 to pursue acquisition of NorthWestern's Montana assets first through the bankruptcy court and lately through a stock purchase offer of the whole company in conjunction with the cities in South Dakota.

By approving this resolution amending the Interlocal Agreement which created MPPA, the City of Great Falls will be committing financial resources of another \$100,000 to complete the acquisition of the NorthWestern Corporation once the company agrees to the deal.

MPPI is intending to finance the acquisition by issuing approximately \$2 Billion in revenue bonds pledging current and future rates to service the debt. Funds invested by the cities to close and finance the acquisition would be reimbursed by the bond issue. Therefore, if acquisition is completed, the cities will recover the \$200,000 investment from proceeds of the bond sale.

Attachments: Resolution 9528