

**MINUTES OF THE JOINT MEETING OF THE CITY COUNCIL
AND
BOUNTIFUL LIGHT AND POWER COMMISSION
October 3, 2000**

Those in Attendance

City Council

John R. Cushing, Mayor
Sam Fowler
Barbara Holt
Stewart Knowlton
John Pitt
Gordon Thomas

Power Department

Clifford Michaelis, Director
Jay Christensen
Gene Birkenfeld
Allen Johnson
Brent Thomas
Mike Velarde

Power Commission

H. Keith Barton, Chairman
Jack Barnett
Richard Foster
Sam Fowler, Council Representative
David Irvine
Lowell Leishman
Ralph Mabey

Recording Secretary

Nancy T. Lawrence

Visitors

Tom Hardy, City Manager
Russell Mahan, City Attorney
Kim Coleman, City Recorder
Doug Hunter, UAMPS
Jim Burr, Chapman and Cutler

WELCOME

Chairman Barton called the meeting to order at 6:30 p.m. and welcomed those in attendance.

INVOCATION

The invocation was offered by Commissioner Leishman.

**CONSIDERATION OF A RESOLUTION APPROVING THE FORM AND
AUTHORIZING THE EXECUTION OF A POWER SALES CONTRACT WITH
UTAH ASSOCIATED MUNICIPAL POWER SYSTEMS FOR THE RESOURCE
2000 PROJECT AND RELATED MATTERS**

Mr. Michaelis reviewed that the City's philosophy in acquiring resources is:

- 1) Acquire resources as needed
- 2) Seek out proven generating assets (coal has the best economics)

He said that the Resource 2000 Project (R2K) will replace existing market energy which has become too expensive and represents a much greater risk, and will provide the opportunity for additional long-term needs. He introduced Doug Hunter, from UAMPS, and Jim Burr, bond counsel for UAMPS from Chapman and Cutler. Mr. Hunter reviewed the recent history of power prices, noting that during the months of June, July and August, the market prices were very volatile (as high as \$.70/kWh), thus substantiating the need for firm resources and as little dependence as possible on the spot market. He explained that when UAMPS brings in new members, they must bring resources with them. He reviewed the projected fuel prices for oil, natural gas, and diesel and noted that coal remains the most cost efficient fuel.

Mr. Hunter reviewed how Bountiful would benefit from the R2K purchase, both with firm and peaking resources and that additional firm power would become available in the year 2013. Bountiful would be responsible for paying for their allocation of R2K whether they use it or not, but it could be left in the UAMPS pool to be sold to other entities. Mr. Hunter explained that the resource would be managed by a project management committee, made up of owner-members and a board of directors, designated as equity members.

The location of the resource and its capabilities were presented by Mr. Hunter. It is directly connected to bulk transmission facilities which have access to UAMPS and other markets. Eighty percent of the coal (transported by Union Pacific) is available through long-term contracts and there is sufficient coal to provide the remaining 20 percent from the spot market. It is composed of four units, all of which meet the demands of the Clean Air Act. Initially, three units will be used for firm resource, with the fourth available for peaking. The fourth unit becomes available as a firm resource in 2013. He discussed the book value of the capital assets, gave cost projections, and the projected pay-off for the resource. Mr. Hunter also shared his rationale for determining valuation of the project. Environmental issues (water/waste water) were also discussed and Mr. Hunter noted that bids from insurance companies had been requested.

Mr. Hunter referred to the reports which had been prepared by engineers and consultants retained by UAMPS (classified as "protected records") which included a detailed description of the physical assets included in the Project, together with discussions and analysis of:

- the past and projected operating performance of the Project;
- the operation and maintenance processes and procedures at the Project and the past and projected operation and maintenance expenditures at the Project;
- the fuel supply used to operate the Project and the past and projected costs of the fuel supply;
- the past and current staffing of the Project;
- various environmental and regulatory matters regarding the Project;
- the projected capital expenditures necessary for the continued operation of the Project and the remaining useful life of the Project; and

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- a comparison of the projected total costs of the Project and the projected market price of electric energy in the western U.S.

Mr. Burr discussed matters related to the bond issue and the proposed Asset Sale Agreement and Transitional Power Purchase Agreement and Participation Agreement were reviewed. It was emphasized that purchase of another firm resource would allow Bountiful Power to control costs up front, and not be a victim of spot market prices.

The form of the Power Sales Contract was then presented to the Council and the principal terms and provisions of the Power Sales Contract were discussed, the same having been previously reviewed in detail by the Council and Power Commission. It was observed that, under the Power Sales Contract, BCL&P could lay-off any portion of the firm electric energy attributable to its Entitlement Share that may be surplus to the City's requirements during the initial years of the ownership of the Project and that UAMPS had agreed to use its best efforts to market any such surplus. The Council noted that BCL&P would remain obligated to pay its share of the costs of the Project, but would receive a credit for any revenues produced by the marketing of surplus energy by UAMPS under the lay-off provisions of the Power Sales Contract. Finally, the Council noted that, in the event that UAMPS was not successful in its efforts to acquire the Project, BCL&P would be obligated to pay its share of the costs and expenses incurred by UAMPS in its investigation of the Project that exceeded the amounts previously appropriated for that purpose by UAMPS.

Mr. Johnson narrated a presentation which showed how this resource would relate to existing firm and non-firm resources. He explained that the market should determine availability and costs of power; however, the recent volatility in costs leaves a question of whether or not the market is working properly. Present and future costs of Bountiful's resources were presented and it was noted that an increase in rates is eminent in the near future.

Mr. Michaelis recommended that 17MW of firm power be purchased from the R2K project, with 10 MW being firm by 2003 and the additional 7 MW as a firm resource in 2013. It was also recommended that an additional natural gas 5.2 MW engine be purchased for use at the Power Plant in 2001. (He noted that there is also the possibility of adding an additional 10MW of firm power from the Idaho Power resource). The possibility of adding new generating facilities at the Echo Hydro plant was also discussed.

Mr. Johnson explained that the proposed gas turbine engine would be located north of the existing power plant in a self-contained enclosure. There would be minor changes to air quality issues which would be handled prior to installation of the engine. The intent would be to have this resource available by May 2001. The gas turbine unit that is available was ordered by another company and then the order was cancelled after the engine was manufactured, tested, and ready for shipment. Bountiful has the opportunity to purchase it for \$1.7 million, plus additional equipment and transportation and installation, totaling \$2,934,890.00. If this engine had been available this past summer, Bountiful could have saved \$500,000.00 used for spot

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market resources. The approximate cost of this resource will be 60 mills. One of the advantages of this unit is a rebuild program which permits it to be up and running within 48-72 hours if there is a problem. Quentin Stewart, representative from Solar Turbines Inc stated that the engine comes with full new unit warranty.

Mr. Hardy summarized that the recommendations to the Council are to (1) approve the power sales contract (to be self-financed) and (2) to consider a rate increase. He noted that prior to making a firm recommendation on the rate increase, costs should be reviewed thoroughly, and 10 percent should be the highest increase considered. Bountiful needs to remain competitive. Discussion focused on establishing different rates for peak hours. It was noted, however, that the system is not presently equipped to differentiate time of day usage.

Mr. Mahan stated that he has reviewed the proposed agreements with UAMPS and he emphasized that Bountiful must still perform if UAMPS fails and be prepared to pick up any defaulting member of UAMPS. He said "the agreements do what they are intended to do". Following discussion by the Council and Power Commission, Councilman Fowler made a motion that the Power Commission recommend approval of the Power Resource Sales contract and TPPA Agreement with UAMPS regarding the R2K resource. Commissioner Foster seconded the motion and voting was unanimous.

Commissioner Leishman motioned that the Power Commission give a favorable recommendation to the City Council to purchase the 5.2 MW engine (originally priced at \$2.2 million) for \$1.7 million, plus transportation, additional equipment, and installation. Commissioner Foster seconded the motion and voting was unanimous.

Councilman Fowler motioned to approve the purchase, by adoption of Resolution No. 2000-06. Councilwoman Holt seconded the motion and voting was unanimous, with Councilpersons Fowler, Holt, Knowlton, Pitt and Thomas voting "Aye".

The Council was excused from the meeting at this time (10:20 p.m.)

JOHN R. CUSHING, Mayor

KIM J. COLEMAN, City Recorder

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