

**City of Martinsville  
AMP Projects  
Timeline and Update**

**August 2010**

# City's Goal...

***“Become less dependent on volatile power market.”***



# Market Power Purchases

- Market prices fluctuate daily.
- During prosperity, economic drivers make prices high, with sharp, unexpected increases that are unpredictable over time.
- Lately, market prices have been down, but who knows how long this trend will continue?
- Buying the entire electric load on the market is extremely risky!

# History

- City's Hydroelectric Dam built in 1905. The City assumed all the risk, cost, and benefits
- Self-build or joint owned generation assets have been a City goal for 30+ years
- Ridgeway Hydroelectric Project
- Army Corps Dams were studied to add or increase generation, 1980's
- Blue Ridge Power Agency joint venture with other municipals to study a waste to energy plant near Pittsylvania County line

# 2005 First Steps

- RFP issued (2-1-05) for a full requirements power supply contract effective July 1, 2006, 14 proposals received.
- Narrowed to four proposals, Cinergy, Constellation, AMP and AEP/APCo
- AEP/APCo and AMP proposals were selected for review due to lower cost
- AEP/APCo Formula Rate 20 year contract with yearly true up and monthly fuel factor adjustment, no right for customer cancellation
- AMP full requirements contract with block market purchases and ability to participate in future generation projects as a member

# Council's Goal

- In 2006 City Council made the decision to embark on a wholesale power supply philosophy that would limit its total dependence on power purchased from the electricity markets and reduce exposure to the volatility of those markets by securing a portfolio of power generation assets for future wholesale power needs.

# 2006

- City Council decided to contract with AMP as its power supplier based partly on it having the lowest price in the RFP and to gain control over its power purchasing from the market in the shorter term and to develop the City's asset base power portfolio to include projects proposed by AMP or self-build if opportunity exists
- In July Martinsville started receiving power from AMP purchased in blocks from the wholesale power market

# 2007 AMP Project Subscriptions

- Prairie State Energy Campus, 1600 MW coal fired plant under construction in southwest Illinois with AMP having 23% ownership
- Cannelton, Smithland and Willow Island hydroelectric projects on the Ohio River at existing Army Corps Dams totaling 208 MW
- American Municipal Power Generating Station (AMPGS), 960 MW coal fired plant proposed for construction in Meigs County, Ohio

# 2008 AMP Project Consideration

- GDS Consultants Inc., power advisory professionals, reviewed the three projects and provided an in-depth overview of the project and input on subscription levels.
- Brickfield, Burchette, Ritts and Stone PC, attorneys for the City, reviewed the AMP project contracts.

# 2008 Review of AMP Projects Continued

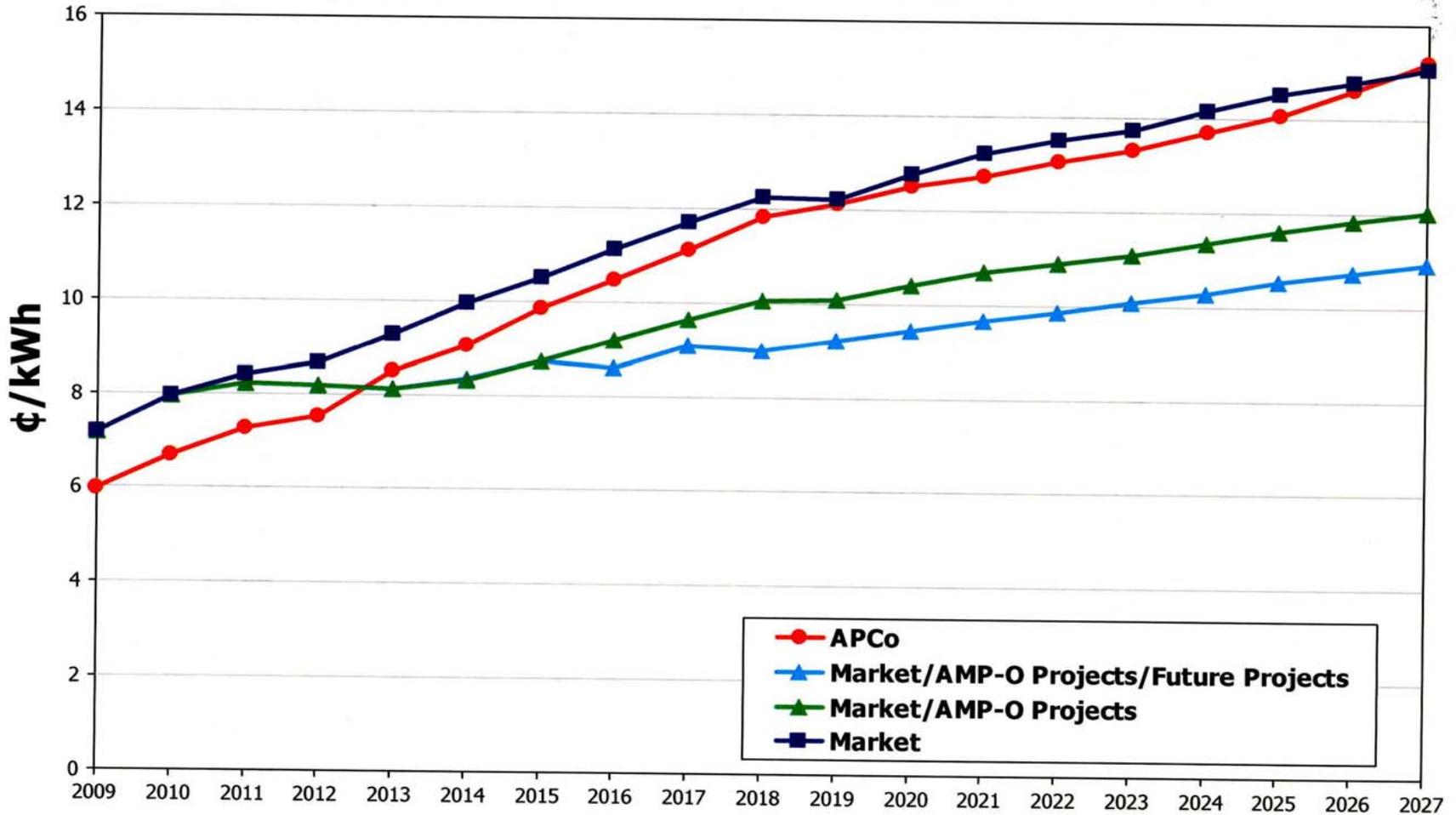
- AMP project participation was extended to March 1 and City Council requested alternatives to the projects be reviewed
- Staff and GDS Consultants approached AEP/APCo to negotiate contract terms similar to the 20 year offering in 2006 or other available power supply options

# Power Supply Options Examined

- **GDS Associates, Inc.**
  - #1: **APCo for long-term contract**
  - #2: **Market/AMP-O Projects & Future Projects**
  - #3: **Market/AMP-O with three proposed projects**
  - #4: **Market**

# City of Martinsville

## Projection of Power Cost Under Supply Scenarios



# 2008 continued

- Power Advisory Committee formed to review power supply options and provide input
- AEP/APCo was unable to provide a response regarding their ability to supply power to the City by the AMP participation deadline of March 1
- Council heard from GDS Consultants, the Power Advisory Committee, Blue Ridge Power Agency and staff each recommending participation in the AMP projects.
- Council authorized participation and contract execution agreeing to purchase power from the projects for 50 years
  - Terms were not negotiable.

# Power Sales Contract

- Localities, including Martinsville, signed contracts in 2008; term is 50 years.
- Prairie State, AMPGS, and Hydro all have the same contract structure.
- Contract was designed by AMP to obtain lowest cost financing.
- AMP owns facilities; participants have control and advisory roles directly or through the Participants Committee.
- Contract obligates participants to pay their share of construction and generation costs under all circumstances.
- Participants are obligated to pay even if they later withdraw from AMP or purchase power elsewhere.

# Prairie State Energy Campus

- 1600 MW mine mouth coal-fired plant of which AMP's share is 368 MW
- 2007 estimate for engineering, procurement and construction (EPC) contract \$2.95 billion representing 75% of total project capital costs.
- Projected EPC costs have increased over original estimate prompting the owners group to negotiate an agreement to hold costs to approximately \$4.0 billion
  - Target price contract was only option upon award bid since average construction costs were increasing 30% per year
- Plant construction is 50% complete
  - Turnkey contract now in place

# Hydro Projects

1. **Cannelton 88 MW**
  2. **Smithland 76 MW**
  3. **Willow Island 44 MW**
- **All 3 are run of the river projects on the Ohio River providing approximately 4.0 MW of power for the City**
  - **Original capital cost estimate was \$701 million, the projected cost has risen to \$989 million due to copper and steel price increases and redesign of equipment to increase power output**

# Cannelton Hydro Project Status

- Ground breaking was on August 5, 2009
- Cofferdam and powerhouse excavation are nearing completion
- Powerhouse construction bids are being reviewed and negotiations with the finalist are ongoing.

# **Smithland Hydro Project Status**

- **The contract for cofferdam and powerhouse excavation was completed in April 2010**
- **Construction has begun on the cofferdam**

# Willow Island Hydro Project Status

- Willow Island is still in the permitting stage awaiting final 404 and U.S. Section 408 permits

# American Municipal Power Generating Station (AMPGS)

- 960 MW 2 unit, coal fired plant which was slated for construction in Meigs County, Ohio
- January 2008 construction cost (not including financing) was \$2.95 billion
- City's share of power generation 8.059 MW
- Subscription level of approximately 750 MW secured, AMP solicitation of the remaining capacity was ongoing.
- November 2009, participants terminated the plant due to 37% increase in construction cost causing it to no longer be a feasible project
- AMP is exploring options for the Meigs County site

# AMPGS Sunk Costs

- Total sunk costs have not been determined; as of 3-31-10 AMP reported \$144.5 million
- Negotiations and/or litigation with contractors and suppliers is ongoing
- An accurate and complete accounting of the total amount due AMP will not be available for many months
- AMP is developing options for participants to deal with the unrecoverable expenditures that will be incurred.
- To date the City has not paid money toward the sunk costs.

# Next Council Meeting

- August 24, 2010, AMP representatives will be on hand to answer questions
- Blue Ridge Power Agency representative will also be available for comment and questions

# Our Future with AMP

- Landfill methane recovery and generation
- Solar power installation(s)
- Combined cycle natural gas-fired plant(s)
- Biomass or other advanced energy technologies
- “Local” participation in proposed generation projects
- Negotiations are on going for long term power contacts to fill capacity requirements
- **Our contract with AMP allows for consideration of diverse resources now and in the future**