

Timeline for City of Martinsville (“City”) Membership in American Municipal Power, Inc (“AMP”) and Participation in AMP Projects

March 24, 2011

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 the future wholesale power needs.

2005

- RFP issued (2-1-05) for full-requirements power supply to replace the American Electric Power (“AEP”) 1-year (7/1/2005 thru 6-30-2006) contract that yielded 19 interested suppliers out of which 14 actually submitted proposals.
- June 30, 2005--service under the 1998-2005 Cinergy fixed-price, market-based power supply contract ended. (\$28.00/MWh delivered—MWh = megawatt hour)
- July 1, 2005—service began under the AEP one-year, full requirements, fixed price, market-based contract completed in September 2004 as the result of a 2002 RFP issued by Blue Ridge on Martinsville’s behalf. (\$50.00/MWh delivered, a 79% increase)
- AMP and AEP/APCo were the finalists from the RFP from a short list of four (Cinergy and Constellation were the other two).
- AMP offered a strategy of market based block power purchases of varying terms for the near future and the development of an asset-based generation portfolio for long term, reducing market risk and stabilizing rates.
- AEP/APCo offered a 20 year, formula-rate, full requirements contract with no right for cancellation by City. The contract allowed for generation from our existing hydro and Southeastern Power Administration (SEPA) only and provided no avenue for development of future power assets. (The City’s current landfill methane generation project would not have been allowed).
 - It also allowed for a true up (power cost adjustment) each summer based on APCo’s costs to produce power during the prior calendar year.
 - The fuel factor clause could be adjusted monthly based on a largely coal based fuel supply.

2006

- Historically, self-built, jointly-owned opportunities to develop generation projects or long term power purchased from a generating unit have been a quest for the City. In 1905 the City self-built the Smith River Hydroelectric Dam and assumed all the risk, cost and benefits. Over the past 30 years, additional projects were reviewed by staff and/or Council:
 - Hydroelectric power generation development at existing Army Corps sites were explored in the 1980’s (Gathright Dam)
 - The Ridgeway Hydroelectric Project was studied in late 1970’s – early 1980’s

- With other fellow municipals in the APCO service territory a waste-to-energy generation plant near the Pittsylvania/Henry County line was studied and considered in the 1990's.
- The City started receiving power through AMP in the form of “blocks” (a portfolio of short term contracts of fixed price varying term lengths) on the wholesale power market (overall quoted price of (\$60.59/MWh “Megawatt hour = 1 million watt hours” delivered, 21% over AEP 2005-6 rate and 116% over Cinergy '98-'05 rate).

2007

- AMP offered members subscriptions in power generation projects, the first being AMP's 368 MW (“megawatt = 1 million watts”) share of the Prairie State Energy Campus, a 1,600 MW coal-fired, mine-mouth plant now under construction in southwest Illinois, a jointly-owned facility developed by Peabody Energy with AMP having 23% ownership.
- The next project was from AMP's three hydroelectric projects, totaling 208 MW, on the Ohio River at existing Army Corps dam and lock sites; Cannelton, Smithland and Willow Island.
- The third project was the 2-unit, 960 MW, coal-fired American Municipal Generating Station (AMPGS).
- GDS Consultants reviewed the three project offerings as they were presented.
- Brickfield, Burchette, Ritts and Stone, attorneys for the City reviewed the AMP contacts for the three projects.

2008

- AMP project participation deadline for the City was extended to March 1, 2008 and City Council requested alternatives to the projects be reviewed and instructed staff to negotiate with AEP/APCo for a contract for power in lieu of participation in the AMP projects.
- Staff and Consultants approached AEP/APCo asking for contract terms similar to the 20-year, formula-based, full requirements contract offered in 2006.
- AEP/APCo responded it would take some time to put together a contract and explore their ability to serve our load.
- The Power Advisory Committee was appointed in February 2008 and was comprised of citizens to review the AMP projects as compared to an AEP/APCo contract and provide input to Council.
- AEP/APCo was unable to provide a response on 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 to proceed with participation in the AMP generation projects securing 57% of future electric energy needs.
- On February 26, 2008, City Council, after conducting public hearings for citizen input, Council authorizing participation in the three AMP projects for a term of 50 years.

Prairie State Energy Campus

- 1,600 MW, 2-unit, mine-mouth coal-fired plant currently under construction in southwestern Illinois. AMP's share of the facility is 23% or 368 MW of the power output and the balance belongs to the other municipal and cooperative participants, except for the 5% owned by Peabody Energy.
- 2007 estimate for the engineering, procurement and construction (“EPC”) contract portion the plant costs was \$2.95 billion, representing approximately 75% of the total project capital costs.
- Ground breaking held in October 2007 and full construction ramped up in February 2008.
- “Mine Mouth” project meaning the coal used for power generation is on site at a mine owned by the owners group.
- The plant is 54% complete as of September 30, 2010
- The plant projected EPC costs have increased over the original estimate of \$2.95 billion. Owners cited general increases in industry construction costs as well as rising commodity prices and labor costs as reasons for the increase. The Prairie State Generating Company owners group has negotiated a lump sum turnkey agreement to hold the EPC costs to approximately \$4.0 billion.
- AMP’s total share of costs is \$1,292,889,960.00
- Unit 1 is scheduled to be online in December 2011 and Unit 2 in May 2012.
- City’s share is 5.77 MW.

AMP Hydroelectric Projects

1. Cannelton 88 MW
 2. Smithland 76 MW
 3. Willow Island 44 MW
- Cannelton, Smithland and Willow Island are run of the river hydro projects being developed on the Ohio River and will provide approximately 4.0 MW of power as the City’s share. Martinsville’s original share was 4.3 MW, the difference of which, for all participants, was offered for replacement by participation in AMP’s Meldahl/Greenup hydro project. This occurred because Central Virginia Electric Coop became a participant in the Cannelton and Smithland projects. The City chose not to participate in the Meldahl project due to the hydro portion of the City’s portfolio being fulfilled.
 - AMP awarded the turbine/generator contracts for the three plants to Voith Hydro in June 2008 which represents the largest order in the company’s 131 year history
 - Original capital cost estimate (not including financing cost) to construct the three projects was \$701 million. The projected capital cost has risen to approximately \$989 million. Reasons cited for this are increases in commodity prices, particularly steel and copper for the turbine-generator units, and new design aspects that increased power output by 17 MW and 141,000 MWh as well as overall escalation and unforeseen contractor risk premiums. The total cost,

including financing, will increase to a lesser extent due to lower interest rates for bonds that have been issued and the securing of Federal Clean Renewable Energy Bonds (“CREBs”).

Cannelton

- Cannelton ground breaking was on August 5, 2009 for the 88 MW plant and to date the coffer dam construction is complete and excavation for the powerhouse is also complete.
- Powerhouse construction bids have been reviewed and AMP issued a contract during the week of September 10, 2010 to Walsh Construction Group for the construction of the powerhouse and appurtenances.
- The contract is valued at approximately \$192,000,000.00.

Smithland

- Contract for the cofferdam and power house excavation was completed in April 2010 and construction has begun on the cofferdam.
- Ground breaking held September 1, 2010

Willow Island

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

American Municipal Power Generating Station (AMPGS)

- A 960 MW 2-unit, coal-fired plant slated for construction in Meigs County, Ohio utilizing new clean coal technology called PowerSpan and estimated in January 2008 to having a total construction cost (not including financing) of \$2.95 billion.
- Approximately 750 MW of the 960 MW was subscribed by AMP members and AMP was actively seeking subscriptions for the remaining power.
- The City subscribed to 8.059 MW from the facility in February 2008.
- AMP offered an additional opportunity to increase subscription levels but recommendations from GDS Consulting and Blue Ridge advised the City to decline the offer.
- On November 24, 2009, participants voted to terminate the coal-fired project due to the EPC contractor suddenly increasing the construction cost estimate by 37% causing it to no longer be a feasible project.
- On August 19, 2010 AMP membership voted to proceed with a self-build 600 MW Natural Gas Combined Cycle (NGCC) plant on the Meigs County site under a lump sum, turnkey fixed price contract.
- February 9, 2011, AMP membership authorized AMP officials to sign a memorandum of understanding (MOU) to negotiate purchase of the Fremont Energy Center, a 707 MW natural gas combined cycle generation plant currently

under construction in Fremont Ohio. The Fremont Energy Center is owned by FirstEnergy Generation Corp.

- AMP has suspended plans to pursue a self build NGCC plant at the Meigs County site in lieu of ongoing negotiations for purchase of the Fremont Energy Center.
- February 11, 2011, AMP filed a complaint against Bechtel Power Cooperation in U. S District Court stemming from the cancellation of the proposed AMPGS project. AMP is seeking \$97 million in damages.
- In the complaint, AMP alleges breach of contract, gross negligence and breach of fiduciary duty on the part of Bechtel.

AMPGS Sunk Costs

- As of September 30, 2010, AMP reported \$112,000,000 as remaining costs previously incurred for the AMPGS Project; (source, American Municipal Power, Inc. Interim Consolidated Financial Statements, September 30 , 2010 page 10, Plant Held for Future Use).
- The City's share of the AMPGS sunk costs are approximately 1.04% of the total remaining costs and options are available for repayment of net sunk costs (which have yet to be determined as negotiations and/or litigation with contractors and suppliers are not yet completed and will not be finalized for many months) as follows:
 1. Participate in a power purchase agreement
 2. Participate in a NGCC project by agreeing to purchase power from the project
 3. Pay back the development (sunk) costs over a period of time

To date, the City has not been invoiced nor has it paid money toward the sunk costs.

American Municipal Power is a nonprofit organization offering wholesale power supply and services for municipal electric systems and they help member communities control their destinies in the volatile world of power supply.

It is owned and governed by the members and they purchase, generate and distribute electrical power for 128 publicly owned utilities serving more than 570,000 customers in six states — Ohio, Pennsylvania, Michigan, Virginia, Kentucky and West Virginia