

COUNCIL ACTION FORM

SUBJECT: ENERGY RESOURCE OPTIONS STUDY NEXT STEPS

BACKGROUND:

At a workshop on March 11, 2013, Electric Services staff and our consultant, Black & Veatch, met with the City Council to review the Energy Resource Options study. The Energy Resource Options study evaluates four basic power supply options to satisfy the City of Ames' (COA) future electrical power requirements. Special consideration was given to the following effects:

- The Environmental Protection Agency in the last few years has developed new environmental rules that are in various stages of adoption. The two recent environmental regulations with the most impact on the City's electric generation are the MATS and CSAPR (temporarily vacated) rules. The MATS rule, published on February 16, 2012, imposes emission limitations on mercury, acid gases, and other hazardous air pollutants that are emitted from coal fired steam units. The City has three years to comply (by April 16, 2015), with the options to seek extensions of one or two years.

No matter which generation option is eventually chosen, the City of Ames will need an extension. As part of the extension process, a letter must be written to the National Energy Regulatory Commission's planning authority (Mid-Continental Area Power Pool - MAPP) no later than April 16, 2013. Staff, together with our Washington attorney, is writing the required letter requesting the fifth year extension.

- In recent years, the price of natural gas has decreased, and the ability to extract more natural gas from the ground has increased through the process of fracking. Natural gas has become the most widely used fuel for new generating units, as well as for "fuel switching" in existing coal-fired boilers.

The study intentionally did not give a final recommendation so as to allow the City Council to consider other externalities not included in the study. **Staff is recommending the following process to assist the City Council in making a final decision regarding the preferred course of action:**

Step 1. Following the completion of additional analysis by the consultant and finalization of the report, Electric Services staff will make its recommendation to the City Council.

Step 2. The City Council will direct the City's Electric Utility Operations and Review Advisory Board, EUORAB, to hold a public meeting to gather input from Ames electric rate payers and citizens regarding the recommended option.

Step 3. EUORAB and staff will meet to review the public input and determine if the recommended option should be altered.

Step 4. Staff and EUORAB will return to the City Council with a final recommendation that considers the original consultant's report, the community's unique values and priorities, and the public input received. Council will then make a final decision regarding how the City's future electric generation needs will be met.

ALTERNATIVES:

1. The City Council can approve the four step process outlined above for arriving at a final decision regarding the City's preferred energy resource option.
2. The Council can reject the four step process highlighted above and direct staff to follow an alternative process.

MANAGER'S RECOMMENDED ACTION:

Changes in the electric utility industry are being brought about by new rules and regulations from the U.S. Environmental Protection Agency and the present abundance of low cost natural gas. To meet pending environmental limits will require making decisions that will chart a path for the next 20 years. Tens of millions of dollars in capital will be spent and future electric rates will be significantly impacted. In making this important decision, it is critical that we consider our community's own unique values and priorities, customer and citizen input, initial capital and ongoing costs, future rate impacts, and impacts on the environment.

Therefore, it is the recommendation of the City Manager that the City Council adopt Alternative No. 1, thereby directing staff to complete the study and follow the four step process outlined above.

It is important to note that, in addition to proceeding with the decision process, City staff will proceed with the submittal of a letter to the MAPP requesting the fifth year extension for compliance of the MATS rule.