

COUNCIL ACTION FORM

**SUBJECT: WHOLESALE TRANSMISSION SERVICE AGREEMENT WITH
MIDAMERICAN ENERGY**

BACKGROUND:

This contract is for electric transmission service from the Ames Municipal Electric System (AMES), across the MidAmerican Energy sub-transmission system to the Midwest Independent Transmission System Operator (MISO) energy market system. Presently, AMES purchases transmission service from the Mid-Continent Area Power Pool (MAPP) to connect to the MISO energy market. It is from the MISO energy market that AMES is able to purchase excess economic energy, above that produced by our power plant, to serve the electric needs of our customers.

As of April 1, 2011, MAPP will no longer be providing transmission service. AMES must purchase MISO transmission service to continue to access the MISO energy market. However, MISO transmission within the MidAmerican Energy area exists only at transmission levels greater than 100 kV. AMES's current interconnection with MidAmerican energy is at 69 kV. So, until AMES completes its proposed AMES to N.E. Ankeny 161 kV line, AMES needs to purchase sub-transmission service from MidAmerican Energy. Once our 161 kV line is complete, this transmission service from MidAmerican Energy will no longer be needed and the contract will be terminated.

The Federal Energy Regulatory Commission (FERC) defines the standard method a utility must use in determining rates for this type of service. Staff has reviewed MidAmerican Energy's methodology and calculations and found their rate to follow FERC's methodology.

The FY2010/11 operating budget and the proposed FY2011/12 operating budget both take into account AMES's need to purchase this service. The actual amount charged for transmission services under this agreement will vary based on power purchased. An additional \$1.2 million in transmission costs was anticipated during the preparation of the 2011/12 Fuel and Purchased Power budget. Only a portion of that increased amount is attributable to this contract. Differences between actual bills for transmission service and the budgeted amount are accounted for within the calculation of the Energy Cost Adjustment.

ALTERNATIVES:

1. Approve the Contract with MidAmerican Energy for Wholesale Transmission Service.
2. Do not approve the contract with MidAmerican Energy.

MANAGER'S RECOMMENDED ACTION:

This contract will provide transmission services between AMES and MISO across the MidAmerican Energy sub-transmission system. This transmission service, together with MISO service, is necessary to continue to purchase economic energy from the MISO Energy Market. Without this service, AMES would not have access to the day-ahead and real-time markets and would have to generate more of our own energy and transact with other utilities outside the MISO market.

Therefore, it is the recommendation of the City Manager that the City Council adopt Alternative No. 1, thereby approving the contract with MidAmerican Energy for Wholesale Transmission service.