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Monday 17. June 2013

Board Minutes 8/1/07



Volney Q. Irwin of Crawfordsville bought a building on the old canal in Peru in 1886. In it he put a small boiler, an engine and a couple of dynamos to power the city's first 25 arc lights, he also took contracts to light stores and buildings.

The Peru Utilities Service Board held a meeting at the Peru office at 335 East Canal Street, Peru, Indiana, on August 1, 2007. The meeting was called to order by Mr. Richter at 4:00 p.m. pursuant to notice as required by law. Board members present: J. Richter, L. Lawrence, M. Costin, L. West and S. Akers. Others present: B. Embrey-City Attorney, R. Merriman, B. Tillett, J. Languell-City Council Liaison, L. Kiefaber-Peru Tribune, J. Beiseigel, K. Wheeler-IMPA.

1.) BOARD MINUTES OF JULY 11, 2007:

Mr. West moved that the July 11, 2007 minutes be accepted. The motion was seconded by Ms. Costin. All voted in favor of the motion.

2.) PAYMENT OF CLAIMS:

A motion was made by Mr. Lawrence to approve the claims for payment as presented. The motion was seconded by Mr. Akers. The motion carried unanimously.

3.) NEXT REGULAR MEETING:

The next regular meeting will be held Wednesday, August 15, 2007, at 4:00 p.m. in the Utility Service Boardroom.

Mr. Merriman informed the Board that he had scheduled vacation that week, which includes August 15th. Mr. Merriman asked the Board for permission to be excused from that meeting.

The agenda was amended to include consideration of increasing the purchase order amount to Alion Science and Technology.

4.) OLD BUSINESS: None**A.) CONSIDERATION TO INCREASE ALION SCIENCE TECHNOLOGY PURCHASE ORDER:**

Mr. Merriman explained that we retained the services of Alion Science Technology in August of 2006 regarding the applicability of the federal Clean Water Act, Section 316b, Phase II Rule to the Peru Power Plant. We have used up the full \$10,000 initial allotment. Next week Alion Science Technology will accompany us to meet with IDEM. Alion Science Technology is estimating their cost to accompany us to that meeting will total \$3,500. Mr. Merriman asked that an additional \$5,000 be added to the original purchase order.

Mr. Akers made a motion to add an additional \$5,000 to the original purchase order to Alion Science Technology. Mr. Lawrence seconded the motion. The motion carried by unanimous vote.

B.) EXTENSION OF IMPA PURCHASE POWER CONTRACT:

Ms. Wheeler, Indiana Municipal Power Agency attorney gave a brief explanation as to why the extension is being proposed.

Ms. Wheeler summarized that IMPA was created in 1980 by a group of municipally owned electric utilities that included Peru. They decided to band together for greater purchasing power. IMPA is a not-for-profit, political subdivision of Indiana. IMPA's goal is to provide Peru and its other members with low cost, reliable, environmentally responsible power. IMPA provides the generation and transmission of electricity; IMPA's members provide the distribution to local customers.

IMPA has 50 municipal members (cities and towns) in Indiana. IMPA also serves Blanchester, Ohio. Blanchester is a new member as of last year, but not a full voting member. Cities and towns of the State of Indiana are the only retainers of full voting rights.

Ms. Wheeler explained that IMPA is co-owner of two coal generation units and owns seven combustion turbine units, plus the joint-transmission system with Wabash Valley and Duke Energy. IMPA is currently constructing one new coal generation unit and is preparing to construct another. Currently under construction is Trimble County Unit 2. There is already an existing unit there. IMPA beginning this fall plans to build Prairie State Energy Campus. It will be located near Lively Grove, Illinois. It is a mine mouth plant; it literally sits on top of the coal mine. That is very important because one of the biggest costs in generating electricity is transporting coal. Also, very importantly, IMPA has a 20-year contract for coal prices set from

transporting coal. Also, very importantly IMPA has a 30-year contract for coal prices set from four years ago, which sets the price of the coal purchased out of that mine. The only variable will be the labor costs.

IMPA's goal is to own additional core members such as Prairie State and Trimble County. Ms. Wheeler summarized that if you own your own generation of electricity then you control more of your destiny.

Ms. Wheeler explained the IMPA's Power Sales Contract. Ms. Wheeler said IMPA has the obligation to supply the members' total energy needs. In return each member has the obligation to purchase its total energy needs from IMPA. The Power Sales Contract enables IMPA to plan for Members' long-term power supply and transmission needs. The original signed contract was a 50 year contract, 1982 – 2032. The contract provides collateral for tax-exempt bonds issued by IMPA to acquire generation and transmission projects. Member rates are based on IMPA's actual costs, no profit is added.

The current contract expires in 2032. IMPA is preparing to finance the Prairie State Project. When construction is completed in 2012, the Prairie State Project will have a 50-year life. Ms. Wheeler stated the Power Sales Contract is the collateral for borrowing to finance the Prairie State Project. By the time Prairie State goes on line in 2012 the contract will only have 20 years remaining. If Prairie State is financed over 20 years, IMPA's members will pay approximately \$13 million more per year for power. After 20 years, the Prairie State Project has an economic life of 30 years, but IMPA's Members' contracts have expired. Based on annual IMPA revenues of \$300 million, a \$13 million savings would result in approximately a 4% reduction in average annual member rates.

Ms. Wheeler proposed IMPA's changes to the Power Sales Contract. Extension of initial term from April 1, 2032 to April 1, 2042. Beginning on April 1, 2032 the annual option to terminate agreement with a 10 year notice and also contract extends one additional year, if the option to terminate is not elected.

Mr. Embrey will prepare said ordinance for the September 4, 2007, City Council Meeting. Mr. Merriman asked for the Board to provide a positive recommendation to City Council when they take the attending ordinance under consideration.

Mr. Merriman explained that IMPA already owns a 12% share of the original New Unit #2, Trimble County 2. Enough property was purchased to accommodate a second unit when the initial investment was made. Trimble County #2 will be an efficient, economical unit. As part of the Prairie State investment IMPA is actually purchasing 30 years worth of coal reserves. Fuel is the single largest expense when operating a generating plant; essentially, the fuel costs are fixed for the life of the new unit. Even though the capital costs are higher than originally intended, over the life of the plant the low fuel costs will mean the price of power out of the new plant will be very competitive.

Mr. Merriman summarized that the capital costs are higher than originally anticipated due to the huge worldwide demand for structural steel, turbines, generator and boilers. The price of power from Prairie State will be competitive.

Mr. Akers asked if the Capacity Purchase Agreement and the Power Sales Contract were identical. Mr. Merriman explained the two contracts evolved at the same time. Had the same conditions existed with the Capacity Purchase Agreement as it did when the Power Coordination Agreement with PSI was signed in 1982, then we would never have to revisit that agreement. That ended June 1, 2007. In that agreement it stipulated that either party had a certain period of time to terminate. PSI chose to do so. IMPA tried to renegotiate that with new terms and conditions. Mr. Merriman stated that the only benchmark that now exists to compare our generation with is the MISO Market. Mr. Merriman explained that what triggered the renegotiation was the change in the underlying contracts between the Agency and Duke Energy. Mr. Akers inquired why the two separate agreements. Ms. Wheeler explained that only four IMPA members have their own generation; Peru, Richmond, Crawfordsville and Rensselaer. She explained it didn't make sense to incorporate the two contracts when the vast majority of IMPA members did not have their own generation and wouldn't need a separate contract. Mr. Merriman stated the Power Sales Contract stipulates that the member community must buy a 100% of its power requirements from the Agency. Therefore, member communities that had their own generation could not supply their own load. The Capacity Purchase Agreement was created to continue to allow the member communities to benefit from their own generation and to realize a return on that asset.

Mr. Merriman stated that there is know way of knowing what new legislation could come into play that will change how we do our business entirely. It may require Peru and the Agencies to re-negotiate a new contract with new accommodations.

Mr. Akers made a motion that the Board recommends the Common Council to extend the Power Sales Contract with IMPA. Mr. Lawrence seconded the motion. The motion was carried unanimously.

5.) CITY ADMINISTRATION UPDATE:

Mr. Embrey reported that the binder coat or the first layer of asphalt has been applied to the North side of Main Street. The amount of work is going to be less on the south side of Main Street, so the pace of work should be quicker. Mr. Embrey noted that growth within the West Main Street Project has expanded.

There was much discussion about the size of the tree lawn area on Main Street.

STORM WATER UPDATE:

Mr. Beiseigel summarized that in the next couple of days we should receive an answer as to whether or not financing for the Oakdale Project will be attached to the Wastewater Treatment Plant SRF Loan. Mr. Merriman said the real issue is whether the engineers did a good enough job of closely associating the project with the Wastewater Facility Plant Upgrade.

6.) CITY ATTORNEY'S UPDATE:

Mr. Embrey said City Administration was completing its budget. The Mayor and Ms. Gray have spent countless hours trimming the new budget. The creation of the fire territory will pay dividends for the City in terms of tax relief.

7.) MANAGER'S REPORT:

POWER PLANT UPDATE:

We are in the process of getting a new turbine made for Unit #3 and the issue of examining the generator rotor. Mr. Merriman pointed out that the whole Unit #3 suffered an overspeed. Visual examination doesn't indicate any problem with the retaining rings on the ends of the generator rotor. We feel it prudent to get that piece of equipment to a qualified shop and have them do an in depth analysis of the condition of those retaining rings before we put it into service. It would be foolish on our part to spend \$2 million dollars rebuilding a turbine and then six months later the generator rotor fails. Mr. Jernberg is busy getting proposals together for that work and should have them in by next Monday so we will know what the cost may be. We have contacted our insurance company in case there turns out to be some sort of a problem. We will be meeting with TGM to discuss some outstanding technical issues.

316b UPDATE:

Mr. Merriman briefed the Board that last year we retained the services of Alion Science & Technology to help us with the analysis of the cooling water system at the power plant with the idea that we could convince IDEM that the true design flow capability of the cooling water system was in reality less than 50 gallons a day capacity. If you look at the circulating water pumps and you add up a name plate capacity, it's over 50 million gallons a day. That's not a true designator or indicator of how much water you can actually flow through the system, because you have piping you have head wash, you have resistance. Even though you may have pumps that can pump 100 million gallons a day, physically, hydraulically, you can't actually move that amount of water through the system. They did that analysis and it turns out that our original suspicions were correct. The entire circulating water facility will not flow 50 million gallons a day, even the pumps are rated collectively for more than that. We submitted that information to IDEM and they replied that since our pumps are rated at 62 million gallons a day, we are still a Phase II Unit. In 2002 IDEM sent us a letter stating we are classified as a small community for the Long-Term CSO Control Plan.

The courts now have vacated the 316b Rule that was written, because the environmentalists sued the EPA saying the Rule as it was written was too lenient. It allowed too many ways to circumvent the Rule. So the courts agreed and remanded it back to the EPA for a rewrite, so at this point we don't know what the new rule will be.

We will meet with IDEM on August 10th, to discuss our proposal and try to convince them to forget about the name plate rating on the pumps, but to emphasize the total capacity of the system. The EPA is now in the process of rewriting the Rule.

There was much discussion about the Phase III Rules. The Phase III Rules apply to every facility that has a daily pumping capacity or a daily maximum flow capacity of less than 50 million gallons. If you read the Rule then basically no changes are required. We are also working on the Boiler Mact Rule, taking the option of the Synthetic Minor. We have since used more recent coal analysis data. Without performing a stack test to know exactly how much you are emitting, the only way you can project how much of these various constituents you are going to emit is to perform an analysis of the coal. We analyzed our recent coal purchases and unfortunately the chlorine levels are considerably higher than the previous samples. We thought under the Synthetic Minor that we would get to burn 59,000 tons of coal a year, now it looks like 30,000 tons a year. It makes it impossible to do what we need to do.

Our stack test is scheduled for August 13th. The flue gas will be tested in order to determine the various pollutants that are entrained in the flue gas. We hope that the hazardous air pollutants bond themselves to the fly ash. We remove most of that through the precipitators. We hope that we get a substantial amount of removal of those pollutants. Maybe then we can come into compliance with the Rule with the equipment that we have. The synthetic minor then wouldn't apply and we could generate as much as we wanted.

Ms. Costin inquired how mine mouth power plants analyzed their coal for pollutants. Mr. Merriman explained that those types of power plants have sophisticated pollution removal equipment. Peru does not have the space to install such devices, which are extremely expensive. It is now a requirement for all newly constructed power plants to have pollution control equipment.

Ms. Costin asked if Peru had purchased the smallest or largest pumps for the power plant. Mr. Merriman explained that a pump is purchased to provide the flow of water that is required by the system. There was much discussion about the units in the power plant and the required gallons of flow per minute for adequate steam condensation.

ELECTRIC METER TEST UPDATE:

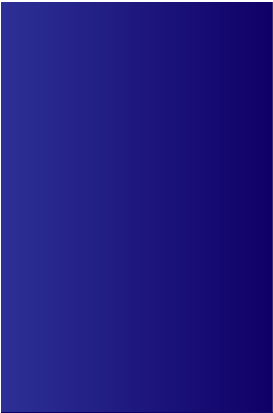
This year we purchased a device for the electric metering department so we can test our three-phase power meter installations without taking them out of service. We can actually

test the meters while they are in service to determine whether or not they are reading accurately. We found several primary metering installations on large customers where the metering error in some case has been 100%. We have addressed those issues and estimated that collectively we will recover an additional \$46,000 in revenues from the thirteen services we've tested so far. It will more than pay for the \$15,500 that we paid for the device, plus almost pay for the meter tester's wages.

Mr. Merriman explained that in some cases the metering instrumentation has been damaged or failed, or when the meter was installed the wrong multiplier was put on the meter. By law we can collect the last 12 months, but in the interest of good public relations we thought it was only appropriate that we waive that bill. We have one commercial customer that will pay a \$10,000 increase in its electric bill. We paid them a personal visit so that they will not be surprised. Mr. West inquired with the new data can we catch those kind of errors sooner. Mr. Merriman explained that part of the errors were incorrect multipliers on the meters. We now have a new baseline for consumption, so if a CT or PT fails on a primary installation it will show up right away. In the handheld units we program in parameters. A reading that is either above or below the set points will activate an audible alarm to notify the meter reader on the spot that the reading may be questionable. There was much discussion about the meter reading technology. Mr. Merriman said to be out of tolerance just 1% can really add up.

8.) ADJOURNMENT:

There being no further business to bring before the Board, Mr. Akers made a motion to adjourn. It was seconded by Mr. Lawrence. The motion carried.



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