



# City of Grand Island

Tuesday, April 12, 2016

Council Session

## Item G-11

**#2016-85 - Approving Letter of Credit for Southwest Power Pool, Inc.**

Staff Contact: Renae Griffiths

# Council Agenda Memo

**From:** Renae Griffiths, Finance Director

**Meeting:** April 12, 2016

**Subject:** Approving Letter of Credit for Southwest Power Pool, Inc. (SPP)

**Presenter(s):** Renae Griffiths, Finance Director

## Background

Southwest Power Pool, Inc. requires the City to put into place an approved financial assurance mechanism to cover the costs of the power transactions conducted by SPP and billed to the City. This is pursuant to Southwest Power Pool Appendix “B” – Credit and Security Agreement. The cost for this letter of credit was \$6,975 in 2015 and we received notice from Wells Fargo that the cost was increasing to a fee of 1% of the \$2 million so the cost will now be \$20,000. This isn’t due until August 1, 2016, however if we intend to increase, decrease, or cancel we must let Wells Fargo know by April 19, 2016.

## Discussion

Due to this increase in cost, we tried to obtain quotes for other options. The issue we ran into was that the SPP agreement requires that the bank issuing the letter of credit have a rating from “any rating agency that is a ‘nationally recognized statistical rating organization’ as defined by the US Securities Exchanges Commission. Currently there are four – Dominion Bond Rating Service Ltd., Fitch, Inc., Moody’s Investors Service, and the Standard & Poor’s Division of the McGraw Hill Companies Inc.” Of the banks we tried here are the results:

- Wells Fargo – 1%
- Bank of America – would not bid as it wasn’t at least an \$8 million letter of credit
- Great Western Bank – did not have a rating from required agency(ies)
- Union Bank & Trust – no rating
- Cornerstone – no rating

Based on those results, Wells Fargo is the only option the City has to comply with our SPP agreement.

## **Alternatives**

It appears that the Council has the following alternatives concerning the issue at hand. The Council may:

1. Approve the commitment for letter of credit with Wells Fargo
2. Disapprove or deny agreement
3. Refer to a committee

## **Recommendation**

City Administration recommends that the Council approve the letter of credit with Wells Fargo to cover the security requirement for SPP.

## **Sample Motion**

Move to approve the letter of credit with Wells Fargo.



City of Grand Island  
Standby Letter of Credit IS00540254  
\$2,000,000.00  
8/1/2016 Maturity Date  
4/19/2016 Notification Date  
Beneficiary: Southwest Power Pool, Inc.

The above mentioned Standby Letter of Credit held by Wells Fargo Bank, N.A. is scheduled to renew on August 1, 2016. If your desire is to alter the terms of the Letter of Credit: increase, decrease, or cancel, the bank will need to be notified prior to April 19, 2016. The Letter of Credit will renew with a fee of 1.00% of the Letter of Credit amount.

Approved: \_\_\_\_\_  
Date: \_\_\_\_\_

RESOLUTION 2016-85

WHEREAS, Southwest Power Pool, Inc. (SPP) is a regional transmission operator that provides a real-time energy market to the City Of Grand Island; and

WHEREAS, SPP requires the City to put into place an approved financial assurance mechanism in the amount of \$2,000,000 to cover the costs of the power transactions; and

WHEREAS, a Letter of Credit naming SPP as the beneficiary would be an acceptable form of financial assurance; and

WHEREAS, Wells Fargo Bank can provide the necessary Letter of Credit to the City of Grand Island; and

WHEREAS, the Letter of Credit from Wells Fargo will be issued for one year for a fee of 1.0% (\$20,000) of \$2,000,000.

NOW, THEREFORE, BE IT RESOLVED BY THE MAYOR AND COUNCIL OF THE CITY OF GRAND ISLAND, NEBRASKA, that the Mayor is hereby authorized to, on behalf of the City, execute the Letter of Credit between the City of Grand Island and Wells Fargo naming SPP as the beneficiary for the cost of \$20,000.

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Adopted by the City Council of the City of Grand Island, Nebraska, April 12, 2016

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Jeremy L. Jensen, Mayor

Attest:

\_\_\_\_\_  
RaNae Edwards, City Clerk

Approved as to Form    ✕ \_\_\_\_\_  
April 8, 2016            ✕ City Attorney