



City of Grand Island

Tuesday, March 24, 2020

Council Session

Item G-6

#2020-70 - Approving Amendment #2 to the Agreement between the City of Grand Island Utilities Department and Tenaska Power Services

Staff Contact: Tim Luchsinger, Stacy Nonhof

Council Agenda Memo

From: Tim Luchsinger, Utilities Director
Stacy Nonhof, Interim City Attorney

Meeting: March 24, 2020

Subject: Second Amendment to Marketing Agreement with
Tenaska

Presenter(s): Tim Luchsinger, Utilities Director

Background

At the May 12, 2012 meeting, City Council approved a Marketing Agreement with Tenaska. This agreement provided a means for the Utilities Department to buy and sell power through the regional Southwest Power Pool (SPP) market. On September 11, 2018, the first amendment to the agreement was approved to transfer capacity related obligations including any penalties to the City of Grand Island's Market Participation registration.

Discussion

Tenaska has proposed an amendment to the original Marketing Agreement ARR/TCR Services. ARR (Auction Revenue Rights) and TCR (Transmission Congestion Rights) are components of our electric transmission transactions that we must regularly conduct to receive energy from our participation in generating facilities outside of Grand Island, and currently, our excess ARR/TCR's are not used. The Southwest Power Pool Transmission Congestion Rights Markets (TCR Markets) provide financial rights that can be used to hedge against the Day-Ahead Market transmission congestion between two settlement locations. The SPP TCR Markets process uses two forms of rights. First, the TCR is used to distribute the Day-Ahead congestion rents that occur each hour. Second, the Auction Revenue Rights (ARRs) are used for the distribution of the revenue generated in the auctioning and awarding of TCRs. TCRs and ARRs are source-to-sink (point-to-point) instruments that are awarded in 0.1 MW increments. The SPP TCR Markets process consists of an annual process followed by monthly processes to award Long-Term Congestion Rights (LTCRs) and On-Peak and Off-Peak ARRs and TCRs. The annual ARR and TCR process includes 14 distinct products, one product for each unique combination of On-Peak or Off-Peak Time of Use across the seven different periods that make up the TCR year (June through the following May). Those seven periods are: June, July, August, September, fall, winter and spring. The seasonal products are separated into monthly products before the applicable SPP TCR Markets monthly

process. These are speculative markets for and there can be monetary losses and our staff does not have the expertise to analyze these markets, nor do we want to be in a position where we are incurring avoidable risk.

Tenaska has proposed this amendment for which they will participate in the ARR/TCR market with our excess ARR/TCR's on a commission basis based on their acceptance of all risk and any financial loss. The Grand Island proceeds from revenue in this market under this agreement would have been around \$60,000 based on the results of the 2018-2019 market. Any revenues received by this agreement would be refunded directly to the ratepayers through the Power Cost Adjustment of the electric rate structure.

Alternatives

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

1. Move to approve
2. Refer the issue to a Committee
3. Postpone the issue to a future date
4. Take no action on the issue

Recommendation

City Administration recommends that the Council approve the Second Amendment to the Tenaska SPP Marketing Agreement.

Sample Motion

Move to approve the Second Amendment to the Tenaska SPP Marketing Agreement.

**SECOND AMENDMENT
TO THE ENERGY MANAGEMENT AND SETTLEMENT SERVICES AGREEMENT**

This Second Amendment to the Energy Management and Settlement Services Agreement (“Amendment”) is entered into as of [DATE] (the “Effective Date”) by and between The City of Grand Island, which through its Electric Division operates a municipal electric utility organized under the laws of Nebraska (“Customer”), and Tenaska Power Services Co. (“TPS”). Each of Customer and TPS may be referred to herein as a “Party” and collectively as the “Parties” to this Amendment.

WHEREAS, Customer and TPS are Parties to that certain Energy Management and Settlement Services Agreement dated as of May 22, 2012, as amended (the “Agreement”); and

WHEREAS, the Parties desire to amend the Agreement to add additional services and fees.

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged by both Parties, Customer and TPS hereby agree as follows:

AMENDMENT

1. Unless otherwise defined in this Amendment, capitalized terms used in this Amendment shall have the same meaning as that given to such terms in the Agreement.
2. The Parties agree to amend the Agreement to add the following definitions to Section 1 of the General Terms and Conditions in alphabetical order:

“Annual ARR Allocation Process” shall mean the process by which SPP awards ARRs, that entitles the holder to a share of the auction revenues generated in the applicable TCR Auction(s) and/or entitles the holder to self-covert the ARRs into TCRs.

“Annual Auction Revenue” shall mean the sum of the credits or charges associated with each path in the nomination portfolio, calculated as the TCR Auction Clearing Price per a given auction at the source minus the TCR auction clearing price per a given auction at the sink (each expressed in \$/MW-period), for the auction year multiplied by the MW volume awarded for the applicable period. A positive calculated amount shall mean a revenue and a negative calculated amount shall mean a charge.

“Annual ARR Allocation Round Three Net Economic Benefit (Annual ARR Rd 3 NEB)” shall mean for any Annual TCR Auction an amount equal to the Annual Auction Revenue received by Customer from SPP in the Annual TCR Auction associated with paths awarded in round three of the Annual ARR Allocation Process where such paths were recommended by TPS.

“Annual TCR Auction” shall mean the process held each May by SPP whereby ARR holders can bid to purchase and self-convert their ARRs to TCRs.

“ARR/TCR Services” shall have the meaning given this term in Section 3.9 of this Agreement.

“TCR Auction Clearing Price” shall mean the prices generated at each source and sink settlement location in each round of the Annual TCR Auction and monthly TCR Auction based upon the TCR offers and bids submitted.

3. The Parties agree to amend the Agreement by deleting the existing Section 3.9. The following shall be inserted as the new Section 3.9:

“3.9. ARR/TCR Services (“ARR/TCR Services”). TPS shall be the exclusive provider of ARR/TCR Services to Customer. ARR/TCR Services shall consist of the following activities. TPS shall provide analysis and assist with the SPP ARR/TCR process to include one (1) annual-auction report and eleven (11) monthly-auction ARR/TCR reports for paths from Customer’s Resource(s) to Customer’s load. In round three of the SPP Annual ARR Allocation Process, TPS will provide Customer with a nomination strategy, including eligible ARR paths and volumes, for any remaining volumes up to Customer’s round three nomination cap for each time of use.

Any transmission or ARR paths identified by TPS and communicated to Customer shall remain confidential. Customer shall nominate all of the paths identified by TPS or no paths in round three. If Customer agrees to nominate all paths and volumes identified by TPS, all awarded volumes on these paths will be included in the Annual ARR Rd 3 NEB. TPS and Customer agree to collect the Annual Auction Revenue for all awarded volumes and not self-convert any awarded volumes to TCRs.”

4. The Parties agree to amend the Agreement to add the following language to Section 5. The following shall be inserted as Section 5.10:

“5.10 ARR/TCR Services Fees. Customer shall pay TPS seventy percent (70%) of the Annual ARR Rd 3 NEB and Customer shall retain thirty percent (30%). TPS will invoice Customer each month during the auction year for the seventy percent (70%) share of the Annual ARR Rd 3 NEB in accordance with Section 10 of this Agreement. If the net value of the Annual ARR Rd 3 NEB for the auction year is negative, TPS will reimburse Customer for such losses as invoiced to Customer by SPP and verified by TPS.”

5. Unless expressly changed by this Amendment, all other terms of the Agreement shall remain in full force and effect.

6. This Amendment may be executed in multiple counterparts, including facsimile(s) or emails, each one of which will be considered an original Agreement, but all of which together will constitute one and the same instrument.

7. This Amendment contains the entire agreement between the Parties with respect to the subject matter of this Amendment and supersedes any previous understandings,

commitments, or agreements, oral or written, with respect to such subject matter of this Amendment.

WHEREFORE, the Parties acknowledge and agree to this Amendment effective as of the Effective Date.

TENASKA POWER SERVICES CO.

THE CITY OF GRAND ISLAND

By: _____

By: _____

Name: _____

Name: _____

Title: _____

Title: _____

Signature Page to Second Amendment

RESOLUTION 2020-70

WHEREAS, At the May 22, 2012 meeting, Council approved a Marketing Agreement with Tenaska to provide a means for the Utilities Department to buy and sell power through the regional Southwest Power Pool (SPP) market; and

WHEREAS, at the September 11, 2018 meeting, Council approved Amendment #1 to the original Marketing Agreement to transfer capacity related obligations including any penalties to the City of Grand Island's Market Participation registration and this ensures the City is treated fairly when it comes to capacity requirements; and

WHEREAS, Auction Revenue Rights (ARR) and Transmission Congestion Rights (TCR) are components of our electric transmission transactions that we must regularly conduct to receive energy from our participation in generating facilities outside of Grand Island, and currently, our excess ARR/TCR's are not used; and

WHEREAS, there are speculative markets for excess ARR's and TCR's that can incur monetary losses and Tenaska has the expertise to analyze these markets, thus avoid incurring an unnecessary risk; and

WHEREAS, Tenaska has proposed Amendment #2 for which they will participate in the ARR/TCR market with our excess ARR/TCR's on a commission basis based on their acceptance of all risk and financial loss; and

WHEREAS, the Legal Department has reviewed and approved the Amendment between the City of Grand Utilities Department and Tenaska.

NOW, THEREFORE, BE IT RESOLVED BY THE MAYOR AND COUNCIL OF THE CITY OF GRAND ISLAND, NEBRASKA, that Amendment #2 to the Marketing Agreement with Tenaska is approved, and the Mayor is hereby authorized to sign the agreement on behalf of the City of Grand Island.

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Adopted by the City Council of the City of Grand Island, Nebraska, March 24, 2020.

Roger G. Steele, Mayor

Attest:

RaNae Edwards, City Clerk

Approved as to Form ☐ _____
March 20, 2020 ☐ City Attorney