



City of Grand Island

Tuesday, January 22, 2008

Council Session

Item G4

#2008-16 - Approving Amendment #2 to NPPD/GI Transformer Replacement Agreement

Staff Contact: Gary R. Mader;Dale Shotkoski

Council Agenda Memo

From: Gary R. Mader, Utilities Director
Dale Shotkoski, City Attorney

Meeting: January 22, 2008

Subject: Amendment No. 2 to NPPD/GI Transformer Replacement Agreement

Item #'s: G-4

Presenter(s): Gary R. Mader, Utilities Director

Background

In 1999, the City entered into the 230/115 kV Transformer Replacement Agreement with Nebraska Public Power District (NPPD). Under this agreement, Grand Island advanced funds to NPPD to be used to replace two, older substation 230/115 kV power transformers in the NPPD/WAPA (Western Area Power Administration) substation east of the City. This replacement was completed to increase the import/export capacity from the City's electric system to the regional grid in accordance with the 1988 Joint Transmission Study. The old transformers were undersized to provide industry standard service for a growing City electric demand.

In exchange for financing the transformer replacement, Grand Island received a transmission service credit account to be used by Grand Island for transmission service received from NPPD. That transmission service account was in the full amount of the cost of the transformers replacement, and is interest bearing. Grand Island continues to be repaid in the form of transmission service from NPPD. The agreement will expire on December 31, 2014, or when the funds are fully depleted. Grand Island continues to receive interest on the balance of the account.

There has been one previous amendment to this agreement; Amendment No. 1 was approved by Council in January, 2000 to change the interest rate on the account from the lowest prime rate to the interest rate of U.S. Treasuries.

Discussion

The agreement expiration date was established based upon projected need to receive electric power from the Whelan Energy Center Unit #2 (WEC2) power plant participation. That plant is south of Grand Island about 30 miles, requiring use of the regional electric transmission grid to move power from the plant to the City. WEC2 was originally planned for construction with an in service date of summer, 2007. Grand Island has a 15 MW participation level in this unit. The projected expense of transmission service on NPPD's system to receive the 15 MW from WEC2 would have fully depleted the transformer replacement account prior to the December 31, 2014 contract expiration. However, this project was delayed four years, with a new in service date of summer, 2011. Current projections of the account balance depletion, taking this delay into consideration, result in a remaining balance of approximately \$1,000,000 at the agreement's current expiration date. Discussions were held with NPPD in an effort to resolve this issue. Amendment No. 2 is the result of those discussions. The amendment provides for an extension of the expiration date from December 31, 2014 to December 31, 2020, and the amendment ceases interest payments on the account as of December 31, 2009. With the WEC2 power plant currently under construction, and the subsequent participation in a second power plant project, OPPD's Nebraska City Unit #2, revised projections of account balance depletion show the account funds to be used prior to the revised expiration date.

Alternatives

It appears that the Council has 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 future date
4. Take no action on the issue

Recommendation

City Administration recommends that the Council approve Amendment No. 2 to the NPPD/GI Transformer Replacement Agreement.

Sample Motion

Move to approve Amendment No. 2 to the 230/115 kV Transformer Agreement with NPPD.

**AMENDMENT NO. 2
to the
230/115 TRANSFORMER REPLACEMENT AGREEMENT
between
NEBRASKA PUBLIC POWER DISTRICT
and
GRAND ISLAND UTILITIES
CITY OF GRAND ISLAND, NEBRASKA**

AMENDMENT NO. 2
to the
230/115 TRANSFORMER REPLACEMENT AGREEMENT
between
NEBRASKA PUBLIC POWER DISTRICT
and
GRAND ISLAND UTILITIES,
CITY OF GRAND ISLAND, NEBRASKA

This Amendment No. 2 to the 230/115 Transformer Replacement Agreement (Agreement) is made and entered into effective this ____ day of January, 2008, by and between Nebraska Public Power District, a public corporation and political subdivision of the State of Nebraska, hereinafter called "NPPD", and the City of Grand Island, Nebraska, a municipal corporation and political subdivision of the State of Nebraska, doing business as Grand Island Utilities, hereinafter called "GRIS". NPPD and GRIS respectively hereinafter referred to at times individually as "Party" or collectively as "Parties".

RECITALS

WHEREAS, NPPD and GRIS have entered into a 230/115 Transformer Replacement Agreement dated January 1, 2000, and as amended by Amendment No. 1 dated February 1, 2000 (the Agreement), which provides the terms for replacement of two transformers in NPPD's 230/115 kV Grand Island substation, and

WHEREAS, the Agreement provides for the payment of interest on funds advanced by GRIS to NPPD for the replacement of said transformers; and NPPD and GRIS would like to revise the period of time for which interest is applied to the advance of funds, and

WHEREAS, the Agreement provides a compensation term that defines the amount of time allowed where monthly GRIS transmission service costs under NPPD's transmission system rate is credited against the advance of funds; and GRIS and NPPD would like to revise the compensation term time period, and

NOW, THEREFORE, in consideration of the mutual covenants and agreements herein contained, the Parties hereto agree as follows:

Article 2 – Compensation, Section 2.2 – Compensation Term, Paragraph 2 and Paragraph 3, shall be deleted in their entirety and the following Paragraphs inserted in their place:

The Compensation Term of this Agreement shall begin on the effective date of this Agreement and end at the close of business on December 31, 2020, or when the Advance of Funds Account reaches a balance of zero, whichever occurs first.

GRIS and NPPD agree that any balances remaining in the Advance of Funds Account at the close of business on December 31, 2020, shall be waived and the balance of the account shall be set to zero; and NPPD

shall have no further obligation to reimburse or compensate GRIS for the GRIS Advance of Funds Account.

Article 2 – Compensation, Section 2.3 – Interest Applied, Paragraph 1, shall be deleted in its entirety and the following Paragraph inserted in its place:

Interest shall begin to be applied to the balance of the Advance of Funds Account following receipt of the funds identified in 1.4 above. Interest shall be applied in accordance with this Section 2.3 and shall be applied monthly through the close of business on December 31, 2009; and after December 31, 2009 NPPD shall have no further obligation to apply interest to the Advance of Funds Account.

The Agreement shall continue in full force and effect except as amended herein.

IN WITNESS WHEREOF, the Parties hereto have caused Amendment No. 2 to the Agreement to be executed in duplicate by their duly authorized officers or representatives as of the dates indicated below.

NEBRASKA PUBLIC POWER DISTRICT

By _____

Printed Name: _____

Title _____

Date _____

GRAND ISLAND UTILITIES,
CITY OF GRAND ISLAND, NEBRASKA

By _____

Printed Name: _____

Title _____

Date _____

RESOLUTION 2008-16

WHEREAS, on November 22, 1999, by Resolution 99-372, the City of Grand Island approved a 230/115 KV Transformer Replacement Agreement by and between the City of Grand Island and Nebraska Public Power District (NPPD) to ensure compliance with MAPP regulations and to have adequate resources to provide sound electrical service to the City; and

WHEREAS, on January 24, 2000, by Resolution No. 27, Amendment No. 1 to the Transformer Replacement Agreement reflecting a change in interest rate computation was approved; and

WHEREAS, the cost of the transformer replacement project cost was paid by Grand Island, with such amount of payment being credited for use by Grand Island for transmission service from NPPD, to receive electric power and energy from a power plant being built at Hastings Nebraska.

WHEREAS That power plant construction project was delayed requiring an extension of the expiration date of the Transformer Replacement Agreement from December 31, 2014 to December 31, 2020; and

WHEREAS, Amendment No. 2 to the Transformer Replacement Agreement which reflects an extension of the contract expiration date to December 31, 2020, has been reviewed and approved by the City Attorney's Office.

NOW, THEREFORE, BE IT RESOLVED BY THE MAYOR AND COUNCIL OF THE CITY OF GRAND ISLAND, NEBRASKA, that Amendment No. 2 to the Transformer Replacement Agreement by and between the City and Nebraska Public Power District is hereby approved; and the Mayor is hereby authorized and directed to execute such amendment on behalf of the City of Grand Island.

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Adopted by the City Council of the City of Grand Island, Nebraska, January 22, 2008.

Margaret Hornady, Mayor

Attest:

RaNae Edwards, City Clerk

Approved as to Form January 17, 2008	_____ City Attorney
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