

The Council of the City of Wellington, Kansas, met in a Work Session on March 27, 2017 at 6:00 p.m., in the City Council Room, City Administration Center, with Mayor Shelley Hansel presiding. The Pledge of Allegiance was led by Mayor Hansel.

Mayor Shelley Hansel and Council members Bill Butts, Jim Valentine, Kelly Hawley, and Jan Korte were present at roll call. Council members Kip Etter, and Vince Wetta were absent at roll call.

Members of the Staff present were, City Manager Shane Shields, Finance Director/City Clerk Carol Mericle, Utility Director Jason Newberry, and City Attorney Shawn DeJarnett.

REPORTS OF CITY OFFICIALS

Kansas Power Pool Purchase Contract. City manager Shields opened the meeting with some history regarding the KPP. The City of Wellington was one of the originating members in 2004. In 2009 the operating agreement became effective for a term of 10 years. In 2012 an agreement was entered into with a term of 20 years or until 2032. He continued the proposed agreement provides for a term that begins on the effective date and continues for a period ending on the later of 20 years from the effective date, or with a date upon which the principal and interest on all bonds are paid in full, and the bonds are retired. Terms shall continue until all are concurred with regard to any project that is paid in full, provided however the terms shall not exceed 40 years from the effective date. Manager Shields told the existing agreement, which terminates in 2032, does not provide for early termination and the new proposed agreement also does not provide for early termination. He added it was preferred that some method of early termination would be an option, as this was expressed to Mr. Chesney in a face to face meeting over the last couple of months. It was also suggested that any options for early termination would have to include the member paying any portion of any bond costs up front. The KPP membership decided not to include a termination clause in the new proposed agreement. With the current agreement, we are a member of KPP until 2032. Mayor Hansel asked the guests from KPP to introduce themselves. Those attending were Carl Myers, the first President of the Board to serve on the KPP, Larry Holloway, Assistant General Manager of the KPP, and James Ging, the Director of Engineering Services, were present at the meeting. Larry Holloway stated the state statute says no contract can be longer than 40 years. City manager Shields stated that the packet the council received explains the history of how KPP was brought about and why it was formed. Mr. Holloway shared that in the last few years there have been big changes within the market with more opportunities that have become increasingly complex. He explained that by the end of 2022, KPP has a large contract with Westar that will expire. At that point the KPP has to ask themselves do they want to renew or look at other purchase power agreements. At this time they have no flexibility and would have to look at lining up some power supply at the end of 2022 and it would narrow the options to look at nothing but shorter than 10 year agreements. James Ging added that KPP has always had the feeling that they want to own their assets similar to Wellington owning their generators. He stated that KPP is going down the same road once the Dogwood facility assets are paid for and they get to realize the benefits for the life of the plan. In order for this to happen it takes life-long membership. When you buy power from Westar or any other place you essentially have to pay with what they expect in a rate of return.

Mayor Hansel asked who has signed the contract at this time. Carl Myers stated that several towns have already signed the contract but Winfield has not. He said the trend that is being seen in the industry is the fact that people are getting rid of coal fired power plants. With the possible potential loss of the Jeffrey Energy contract, we are concerned with where we are going to get our power. There will be fewer coal plants and whoever owns Westar may draw on the Jeffrey Energy Center, so it's not available for KPP. Larry Holloway stated that in the news lately the current administration has stated they are not going to move forward with the current clean power plan, so some of the coal plants that were to retire

early will not. The position of the Jeffrey asset that KPP purchased in the market isn't near as strong as it used to be. That is due to the wind, a lot more could be coming in the next 4 to 5 years. Council member Butts asked where does coal rank in the price of power. Mr. Holloway stated that when KPP bought into Jeffrey Energy it was about 2.1 cents per kilowatt hour for energy cost, regardless what the market price is. He continued for that plant to be on, they have to self-commit into the market. Even though KPP is only paying 2.1 cents, the market is paying less than that due to the wind generation. The wind market gets a tax credit of about 2 cents per kilowatt hour. The market is favoring units that can respond very quickly. Council member Butts asked which is cheaper, wind, gas, or coal. Mr. Holloway said that coal is cheaper than the other two most of the time. He said he would rank them in this order - wind, hydro, nuclear, coal, very efficient combined cycle units, and the rest gas plants. Manager Shields asked about specific projects that are related to a single entity rather than the pool. Mr. Holloway said they had a couple of projects that have been done for just a specific city. They have issued the debt and just charged that individual city not the others in the pool. Projects similar to the Dogwood project, the charges have all been put onto all the membership.

Mr. Holloway said at the present time there are technologies that are very interesting to KPP, such as highly efficient gas units that you can fire up and down very quickly. Mr. Myers shared that there have been 4 projects since the Dogwood project for which bonds have been issued, none of the terms of those has extended beyond the initial Dogwood term. Manager Shields stated that there are risks involved either way we go and he has a list of those concerns and questions. Council member Hawley recommended that we go down the list and talk about the concerns. Manager Shields shared the list of concerns and questions he had starting with the never ending contract as long as they keep incurring debt, projects or debt as a natural benefit to the whole pool not just the City of Wellington, and capacity payment issues. Mr. Holloway stated that they did increase the capacity payment to 7.36 per kilowatt per year. On the market today you might be able to sell capacity for about 15 per kilowatt per year. When gathering it together and trying to sell that capacity it is hard to sell what capacity the members have for what the market will bear. They have to piece it together for transmission. Utility director Newberry stated that we have approximately 40 MW capacity in Wellington. Mr. Holloway shared that one disadvantage is that any generator over 10 megawatts has to be offered in the market. If your generators are registered into the market, when you dispatch them if you want to self-commit, you have to take market price and your load has to clear the market.

Council member Kip Etter entered the meeting at 6:30 pm.

City Manager Shields continued with the list of questions. He read an estimated \$400,000-500,000 could be saved during the summer over three months with peak shaving and ask Mr. Holloway for a reply. He explained that if you have a demand charge that covers the fixed cost of the organization, then if half the organization does something to avoid those fixed costs then the charges double. It has to be recovered somehow. Mr. Holloway continued that back in 2009 when he came on board, KPP use to allow peak shaving for a couple of years. The members saw what it was doing to other members and they stopped it. Mr. Myers said you have to have your units registered in the market now and that means the market is going to tell you what you're going to get paid. He continued to explain how the KPP offered to install catalytic converters on member's R.I.C.E units (Reciprocating Internal Combustion Engines). Director Newberry said Wellington decided not to be included in this project.

Mr. Holloway stated the diesel units in some of the smaller facilities are really great as a back-up for emergency only but they are very expensive to run and not as efficient as others are. Mr. Ging stated a lot of these R.I.C.E. units start on oil and then run on natural gas. If they are straight diesel fuel then they are definitely not efficient. The energy equivalent of 8 gallons of diesel fuel for every one MBTU of

natural gas is \$8.00, and you would have to have diesel as \$1.00 to be as cheap. So it is about an 8 to 1 ratio. It's really important to have but you wouldn't want to run it all the time. Manager Shields asked for Mr. Holloway to explain the rate design, and the point made is that it is structured such a way that causes cities with poor load factors to pay a higher cost per kilowatt. There was more discussion on costs and rates.

Council member Etter asked if we were on the track with the water meters and electric meters to be remotely read. Manager Shields stated the City was setting back funds yearly to accomplish the plan, but had to put the money back in the fund for other uses and was no longer available. The total cost was estimated at 1.2-1.4 million dollars. Manager Shields also told that if our city was no longer a part of KPP, we would have to do our own negotiating of the power contract in house. He added this is not an impossibility, but what leverage as a single entity would we have to negotiate the best deal possible. James Ging said that KPP goes to the market with about 215 megawatts to negotiate a purchase, and that Wellington would have about 30 megawatts to negotiate with. The volume in numbers is pretty powerful during the negotiating process. Mr. Holloway stated that the KPP works for the cities that are members, and they are not profit oriented.

Council member Etter asked if we were the top producing member in the KPP. Mr. Ging stated that we were #2 at 15%, and Winfield was #1 at 33%. Council member Korte asked when the KPP approves bond, how long do they approve them for. Mr. Holloway answered the bond market requires that they have a commitment from its members for the duration of the bonds. The longest term bond today and the longest term commitment is to 2032. The cities that have all signed the new contract could potentially be the only ones standing at the end of 2032. He stated that the longest term is 20 years and the shortest term is 10 years. There is a potential that it could be 15 years as well. Council member Korte stated she is having trouble with the rolling 40 year contract, but the agreement states that the term will not exceed 40 years. City Attorney DeJarnett stated that 20 years is the maximum or whenever the debt is serviced rolling up to 40 years maximum. He shared the 40 year clause and that if in 2020 they issued a new 20 year bond then it would extend it to 2040 until that bond was serviced. The KPP would have to come back to us if they needed more in 20 years, not infinity. Mr. Holloway stated that a lot of times cities miss opportunities because with the low cost of municipal financing, is that it is going to be about 3.5% for a 20 year agreement. You can work together with other cities you are going to be able to leverage your ability to keep the cost down through municipal debt. Director Newberry stated that he feels the City of Wellington needs to obtain representation on the Board of Directors of the KPP. Mr. Holloway stated that the KPP board has three members whose terms will expire this year. Council member Korte stated that if the city pulls out in 2032, we would lose our investment. Mr. Holloway shared the point that if the contract were to perpetuate with the cities that have signed before then, he doesn't know what would happen.

Council member Butts stated that if we had a chance to have a representative on the KPP Board of Directors, he would feel better with this contract. Manager Shields stated that if there is a vacancy, the Board fills the spot. If the term has expired, the full membership votes to fill the new term at the annual meeting in December. Mr. Holloway said he realizes this is a very important topic, and would like to take that back to the Board. Currently, this is a 9 member Board made up out of the current membership of 24. A discussion was held regarding the Board members and the options surrounding our City signing the contract. Mr. Holloway shared some of the cost savings and positive things they have to offer our City. As members of KPP they cover the KMU cost as well as the APPA membership.

Manager Shields stated if we were to have projects of our own it might be an option they would wish to consider bonding. Council member Hawley asked what the KPP was doing to plan for a possible

terrorist attack if it was to hit our area. Mr. Holloway shared that KPP works with the South West Power Pool with rules in place to make sure that every entity has enough reserve capacity, and enough generators in the 14 state region to keep us from having a black out momentarily. These groups are also very tied into Cyber Security. Mr. Holloway is a member of the SWPP who votes on policies of this type. Council member Korte would like some kind of assurance that someone from our city will be a member on the board of the KPP. Mr. Myers asked if the membership ultimately says no we don't want to make it formal that Wellington or Winfield has to have a member on the Board, is it a deal breaker for you. Even though Wellington is the second biggest in the pool that doesn't mean we have any more pull or anything more to lose. Council member Butts stated that a Board representative will make a difference to him on how he votes.

Manager Shields stated that he wants to make sure the majority of the council is on board with a collection agency for utility bills. City manager Shields stated that in the past there was an agency that pulled out. The Council consensus is go with the process of obtaining a new collection agency.

Manager Shields stated that this morning a Council member asked to verify the motion that was made in the minutes from the special SRMC meeting to guarantee the \$150,000 loan. The minutes prepared indicate that the motion was for Impact Bank. He continued in listening to the recording that Impact Bank was not in the Council motion. Impact bank was discussed earlier in the conversation by Mr Hinman. The conclusion was that's why the motion was worded that way. As of today, Impact bank is not an option so the hospital is looking at other sources for the loan. SRMC has asked that we provide a letter to them stating that the City of Wellington will be a guarantor of a loan to them for \$150,000. City attorney DeJarnett stated the previously approved minutes of the March 16th meeting need to be amended to correct this wording.

A motion to adjourn was made, seconded and carried.

Mayor

City Clerk