

February 22, 2013

The Special Meeting of the Lehighon Borough Council was held in the Municipal Building on Friday, February 22, 2013. The meeting was called to order at 10 a.m. by President Grant Hunsicker. Members in attendance were: George Kogut, Bessie Bauchspies, John Kreitz, Darryl and Scott Rehrig. Late: John Bird.

Officials in attendance were: Borough Manager Nicole Beckett, Borough Secretary Brenda Koons and Solicitor James Nanovic.

Pledge of Allegiance

New Business

Discussion of the Hydro Electric Project

A. Comments from attending constituents

Nicole introduced Lonny Armbruster , Lehighon L&P Supervisor, Norm Barron and Jim Havrilla from Utility Engineers, Craig Engler with Summit, Ryan Emerson with DCED and Greg Snyder with Voith Hydro.

Mr. Engler started the meeting off. He is excited about this project. They have spent a fair amount of money so far to make this a profitable project for themselves and the borough. Summit and Gravity worked hard to get the grant approved and funding for this project. Greg Snyder from Voith is a Pennsylvania based hydro turbine manufacturer with experience in these types of projects.

Mr. Emerson who is with DCED and the Alternative & Clean Energy Program that awarded Lehighon Borough the grant for this project was next to speak. He gave some background on the Alternative & Clean Energy Program. It was set up in 2008 as part of the Energy Independence Act. There was \$165 million in the program and have award to date about \$67 million. The \$5.5 million grant is about 8% of what has been awarded. It is a fairly large investment from the Authority and the only hydro project they have awarded.

Councilor Kogut asked what kind of projects the rest of the awarded money went too. Mr. Emerson said it went to a wide variety of technologies like wind farms, fuel cells, combined heat and power. One of the main purposes of the program is to increase the use of alternative energy. This hydro project is also the 1<sup>st</sup> public/private partnership that they have done.

Councilor Rehrig asked how many are on his board and was told it is a 7 member board composed of the House & Senate Republicans, House & Senate Democrats and the 3 members from the Governor's office.

Mr. Snyder said his company is a family business based out of Germany. The kind of equipment you are buying is nothing different and lasts 50 years, some hydro lasts 100 years. They are doing a lot of work with AMP right now. They are building 400-500 MW of new hydro on the Ohio River. Voith also is doing a hydro project in PA. It is a 120 MW for Holt down along the Susquehanna River.

Mr. Snyder said that if you chose to use Voith equipment all the service for the lifecycle of the project would come from York, PA.

Councilor Kogut wanted to confirm that he heard correctly that once the turbine generator goes in it will last the life of the plant and was told yes. So over the 50 years we won't have to worry about it. Councilor Kogut was looking from an O&M point of view that if it needs to be changed out, what are we looking at in terms of cost, finance and things of that nature?

Mr. Snyder said that the manufactured equipment warranty period should cover initial defects. After the initial defects, you should see a decline in any problems, 20 plus years you shouldn't see any problems then you will start to see lifecycle defects. In terms of what the O&M costs are would be 1-2% of the project costs per year. The costs are fairly low it is just the initial costs that are high.

We don't typically see turbines being taken out. They are rebuilt and reused. Every 35-50 years you do an overhaul and rebuild. They last 50 and a lot of the last 100 years. There is a plant called York Haven down nears PMI that has been running since the 1920's.

Councilor Rehrig had a question. Why would we be interested in doing hydro after we have learned all these things and can buy power cheaper? Mr. Snyder said from what he has learned from AMP is that you can't look short term. If you look at it over 20 years the first few don't look so good but over 20 years it is going to turn around and look better than anything else you are going to get. That is not is end of the business though so the economic guys would be the ones to ask.

Councilor Rehrig brought up windmills. Mr. Engler said that the problem with that is the wind doesn't always blow. Hydro is considered base power. Councilor Rehrig asked what happens if the water doesn't always flow at full force and was told that water almost always flows at this site. Occasionally there will be down times when a generator needs some O&M compared to the wind that may not blow for a week at a time.

Mr. Engler said right now natural gas is at historic lows but it won't stay that way forever. Yes, some of the shale development is happening but at these prices a lot of drilling has stopped because the natural gas guys can't make money. In addition if you look at natural gas liquefying, LNG, over in Europe it is 4 or 5 times the price in the United States. That will change since we are starting to liquefy it and send it over there. You will see demand come back for natural gas and you will see the price go up over the next 5 to 20 years. It is important to think longer term relating to this project and what this plant can produce for the next 50 years.

Councilor Kogut asked Mr. Engler if he looked at the forward curve on gas prices and the CME from now to 2021 and he said he did but can't remember how recently. Councilor Kogut said it is not a dramatic increase. It is a steady flow upward. Granted we are looking at a point in time. The traders are trading 12 months our usually but they have gone out 10 years and there is some play in 10 years but the prices are not exploding which is kind of interesting. It is probably because of the Marcellus Shale and now there's talk of the Monterey Shale. There are discoveries out there in the future that could still have an impact. Once the price starts to elevate a little bit you will get the gas drillers back.

Councilor Bird asked how much more efficient the new technology is compared to 60 years ago? Mr. Emerson said it is very efficient but the turbines pretty much always were. They are now about to 92-95% efficient. From what he understands the system will be pressurized allowing for a better percentage even when the water flow would be lower than average.

Mr. Engler said from looking over the last 50 year's data there has always been a decent flow of water at the dam. Councilor Rehrig asked if Summit would still make money if no energy was being produced and Mr. Engler said he thinks they would not. Councilor Kogut said they would through an RPM payment in the Capacity Market. You will get that in the capacity market whether it runs or not you will get a capacity payment. Mr. Engler was not sure that was true. Councilor Kogut said you are going to commit to that and say you have 2.5 Megawatts of capacity and put it into the PJM'S Reliability Pricing Model (RPM). Whether they accept you or not they will accept you for that 3 year time period so you will lock in with the capacity payment. So whether you produce or not you are locking in capacity payments. Mr. Engler said he will have to look into that further.

Councilor Rehrig said if the borough buys 100% of the hydro power and the plant goes down for O&M we will have to buy power at possibly a higher rate on the open market than we are with you. Mr. Engler said that as he understands it that if for some reason we are down for O&M but have this relationship with AMP you would not pay more than the normal prices would be. Mr. Havrilla said that whenever a power resource is not available and it is one that you did anticipate previously to have, you have a duty to cover for that because your loads are still there. Certainly you'd be subject to market conditions but it could be more or it could be less depending on what the market is at on that particular day.

Councilor Rehrig deferred to Lonny Armbruster and his team to state what they like and dislike about this. Their first question was what is the life expectancy of the dam? Mr. Engler said it is classified as a D-SAC Certified 3 which means it's in good shape. He is not sure if they ever put a life expectancy on a dam. It will probably be there forever.

Mr. Havrilla questioned the cost per megawatt hours. In terms of the price proposed is \$75 mWh/hr with a 3% escalation. This is too high to be a realistic price for anybody to buy and if the borough were to buy the full outtake of it, it represents a price that is fairly above market to the tune of a large chunk of change. The price for this project came down to \$90 from \$95 mWh. The market price for a project like this is \$55 mWh with perhaps 2% increase for inflation specifically for renewable hydro energy which would be in a higher field to begin with. Hydro electric has more value because it is more reliable.

Mr. Havrilla said the other concern is the agreement itself with the terms provided for. We would like to think that the Borough is the Borough and the Authority is the Authority but there is language in the agreement whereas the Borough will make the Authority whole and stand in the shoes of the Authority for specific obligations should the Authority not perform. There is also specific language in the agreement whereas the Authority and hence the Borough

would be responsible for financial short falls. Mr. Havrilla went on to say that there are a lot of issues and can appreciate the latest letter that pretty much says those won't be issues upfront. From where Mr. Havrilla sits, any agreement the borough enters into should be reflected by the agreement itself. Not by some letter later on. He feels a fundamental change needs to be made to the letter of intent of to reflect the understanding of what the Borough will and will not be responsible for as well as what the Authority will and will not be responsible for. The thought that the lease payments are an absolute obligation for the borough despite the fact that it says in that agreement and the fact that we have a different agreement doesn't really fly. We have to know as the borough what we are getting into and our specific obligations and then we have to consider the specific benefits the project has. Only when you can reconcile those two can council make a full determination of if it's in their best interest or not. Absent that it is pretty much guess work. We seriously can't go by a letter clarifying something if the agreement says something else. It must be cleaned up. These terms and these specific points that we raised have such a specific ability to make the project not feasible later on so we have to deal with it up front.

Mr. Engler said this was a first draft meant to have discussions back and forth. We in no way want nor foresee the borough having any financial obligation to this project. We have that covered. We have \$8 million in the bank, we have the grant from the state for \$5.5 million we have built in all the contingencies and we will absolutely make sure the document says what the borough wants it to say. We just need some help as to what the borough wants it to say.

B. Board comments/thoughts and recommendations

C. Next steps/proposal

After more discussion, Councilor Rehrig said he would like to have another special meeting with as many of the players together as possible to get the needed answers to our questions answered and make a decision. A meeting will be scheduled for the very near future.

Adjournment

Councilors Rehrig/Kreitz made the motions to adjourn at 11:30 a.m. and all were in favor.

Brenda L. Koons  
Borough Secretary