

MEMORANDUM

TO: MAYOR AND CITY COMMISSION

FROM: CITY ATTORNEY'S OFFICE

DATE: January 19, 2021

RE: Decommissioning of McIntosh Unit 3 and Power Purchase Agreement with Orlando Utilities Commission

On January 4, 2021, the City of Lakeland Utility Committee unanimously recommended approval to decommission McIntosh Unit 3. Lakeland Electric staff is now seeking the City Commission's formal approval to decommission McIntosh Unit 3 as of March 31, 2021, and permanently discontinue the City's coal operations. In addition, attached hereto for your consideration is a proposed Agreement with Orlando Utilities Commission (OUC) to provide "bridge" purchased power for Lakeland Electric between the "shuttering" of Unit 3, scheduled for March 31, 2021, and the new generation coming on line which is scheduled to occur in mid to late 2023. Following the decommissioning of Unit 3, Lakeland Electric will have a need for additional capacity and energy from time to time beyond the generation available from Unit 5 and the other Lakeland Units.

The purchased power from OUC will be accounted for through the Florida Municipal Power Pool (FMPP) software and data systems. Lakeland Units will continue to be economically dispatched and the energy purchases will only be in the amount necessary on an as-needed basis. After the fact accounting will determine the purchase price of energy through the normal process of the FMPP's Clearing House Pricing (CHP) software, with the energy pricing based on FMPP's hourly energy pricing methodology.

The City's Purchasing Department has approved OUC as a sole source supplier for this purchase of wholesale power. By using a FMPP member to supply wholesale power, the City will be able to pay for only the energy it uses. Moreover, OUC is the only member of the FMPP that has the capability to meet the capacity and transmission needs of Lakeland Electric. Upon approval by the City Commission, the initial term of the Agreement shall commence April 1, 2021 and continue through December 31, 2023. Upon mutual written agreement of the parties, the term of the Agreement may be extended for a one (1) year term through December 31, 2024. Alternatively, the parties may, upon mutual written agreement, elect to continue the Agreement on a month-to-month basis prior to the expiration of the initial term.

Pursuant to the Agreement, OUC will sell and deliver capacity and energy to the City on an as-needed basis beginning with the decommissioning of Unit 3. In accordance with the Agreement, OUC shall be responsible for the delivery of wholesale electric capacity and energy to the City at specified delivery points and will retain any risk of loss up to such delivery points. In addition, OUC will indemnify the City from any and all claims that may arise as a result of OUC's gross negligence or willful misconduct.

Accordingly, the City will be able to purchase up to 125 MW of firm capacity, energy and transmission. The City is under no obligation to purchase a minimum or maximum amount of energy during the term of the Agreement. The total cost for capacity and transmission during the three (3) year initial term of the Agreement is \$23,437,500 and is included in Lakeland Electric's FY21 budget. The cost of energy purchased by the City will be based on FMPP's CHP pricing methodology and is estimated to be \$650,000 in 2021, which is also included in Lakeland Electric's FY 2021 budget.

It is recommended that the City Commission approve the decommissioning of McIntosh Unit 3 and permanently discontinue the City's coal operations as of March 31, 2021. In addition, it is recommended that the City Commission approve the Agreement with OUC for the purchase of power and authorize the appropriate City officials to execute all corresponding documents to the Agreement on behalf of the City.

Attachment