

Escanaba, MI. If a City is to succeed, it must openly share information with the citizens of the community, be it good or bad news. This sharing of information involves both active listening and discussion. The upside to this policy is that we as a community can collectively grasp both the facts and feelings behind what is being said. However, the downside is of course, bad news does not get better no matter how well you listen.

In an effort to keep Escanaba citizens and business owners current on an electrical production situation that we as a community are facing, I bring to your attention the following scenario. As you have heard, maintaining the City of Escanaba's electrical power rates in this time of unprecedented change in the electric utility industry has become increasingly difficult and expensive. In today's energy world continual demand is being placed on American coal from countries like China and India, which in turn is causing the City of Escanaba difficulties in securing reliable and affordable coal for use in our power plant. As costs rise, the City's cost to produce power increases, which in turn could have an impact on the rates we charge to our customers. Additionally, the City of Escanaba has been recently notified by the American Transmission Company (ATC) and our Plant Operator that there is a good possibility the City of Escanaba is going to be required to pay a fee to use the ATC transmission system to buy and sell power from our existing facility. Should this requirement come to pass, there is a potential that we will be required, under the way we are currently doing business, to pay upwards of \$1,000,000 annually towards the installation costs associated with the ATC transmission system. With that said, based upon the latest information available to me at this time, the City of Escanaba is projecting a potential 38-45% increase in energy production costs beginning July 1, 2009.

To make matters worse, the City of Escanaba was recently notified of a potential force majeure condition (an event or effect that cannot be reasonably anticipated or controlled – Act of God) concerning the coal that we are currently under contract to receive. It appears the Westridge Mine has declared force majeure to the C. Reiss Coal Company and City of Escanaba due to unexpected and unforeseeable high levels of methane gas and unanticipated geologic conditions at the mine. The mine does not yet know the volume impact this will have to our outstanding coal balance, but they have assured us they are monitoring the situation closely and will contact us as soon as possible once more information is known. If you recall from last year the City of Escanaba was faced with force majeure from a different mine, which required that we find a different coal source, which in turn resulted in a higher coal purchase price.

The purpose in advising our customers of the current conditions is twofold: First, the City Administration wants to provide customers with a "Heads Up" on the situation as early as possible so that plans and necessary decisions and adjustments can be made within households and/or businesses. Second, The City Administration wants to invite our customers to participate in the decision making process to determine how we, as a community, will move forward in meeting our electrical demands for the existing customer base while at the same time promote the economic advancement of the community. As a community, it is important that everyone understands all the complexities of the issues we face and the potential costs associated with them. For that reason, all customers are invited and encouraged to participate in an upcoming Electrical Advisory Committee meeting scheduled for October 8, 2008 at 6:00 p.m., at City Hall. At this meeting, a full disclosure of facts will be made and discussed as they relate to various power options available to the community, coal pricing, availability and procurement of coal, load and transmission capacity issues, and energy conservation.

In the meantime, the City of Escanaba encourages you to visit our energy website at escanabaenergy.com, so that you can research the details and facts of Escanaba's energy situation for yourself. If you do not have access to the internet, contact the City and you will be provided with any information you desire.

Finally, as was previously stated, communication and information sharing involves both active listening and discussion. Please know that we at the City are listening and that your contributions are considered and valued. Open and honest communication ensures that all vital information is made available which in turn helps all of us do our jobs more efficiently and effectively.