

PUBLIC WORKS AND UTILITIES COMMITTEE

10-0333R

RESOLUTION OF INTENT TO SELL DSD NO. 1 TO VEOLIA ENERGY
NORTH AMERICA HOLDINGS, INC., SUBJECT TO CONDITIONS.

CITY PROPOSAL:

RESOLVED, that the city council of the city of Duluth hereby expresses its intention to approve the sale of the assets and business of the Duluth Steam District No. 1 owned by the city to Veolia Energy North America Holdings, Inc., for a gross sales price of \$7,350,000, plus or minus adjustments for net working capital (cash and cash equivalents less liabilities and debt), subject to reaching an acceptable agreement on terms, to be approved by said council, including but not limited to payment of debt, acceptable employment protections for existing employees and guaranties of long-term commitments to provide quality steam service at reasonable prices to district steam users.

Approved as to form:

Approved for presentation to council:

Attorney

Chief Administrative Officer

ADM/ATTY REA:cjk 6/9/2010

STATEMENT OF PURPOSE: The purpose of this resolution is to evidence the city's qualified commitment to sell the assets and business of Steam District No. 1 to Veolia Energy North America Holdings, Inc., for \$7.35 million, subject to acceptable agreement terms.

The city originally acquired Duluth Steam, what is now Steam District No. 1, in the 1970's. It facilitated the creation of a cooperative entity to act as the manager of the facility and its operator. The city is the sole owner of the steam plant. It acts as fiscal agent for the district and has been the primary source of capital financing for major needed improvements to it. Steam rates have been established by the steam coop board at a level only necessary to cover costs of operations and to amortize debt necessary to the maintenance and operation of it.

Ownership and financing of a steam heating district is not a core function of local government in Minnesota. In addition, the district is expected to require substantial infrastructure investment in the foreseeable future due to the age of the facility and due to expected changes in environmental regulations with the advent of concerns over climate change and the demand for reduction in carbon emissions. The sale of the district's assets will avoid significant future debt incurrence for steam plant investments and reduce the debt carried by the city by \$6.7 million. And, in this time of increasing budget constraints, the sale of the District's assets will free up the city's limited staff and financial resources to better focus on core city services.

The sale of the district's assets to an entity with a deep and long-term presence in the district heating and energy industry will also be in the best interests of the district's customers. Veolia will provide a long-term commitment to the steam plant and distribution system that will result in stability and predictability for the customers, allowing them to make long term energy cost planning decisions. Veolia is in a much stronger financial position to invest the significant amount of capital into steam plant operations that will provide the customers with improved efficiencies and long term dependability. Thus the city council last summer authorized the city to investigate the possibility of selling the business to a private sector entity that would be better equipped to own and operate it on a long-term basis and allow the city to concentrate its assets on its core responsibilities.

The city sent out a request for proposals to sell the facility to a large number of potential purchasers. The RFP expressly excluded bidders who were not in the energy business or who would not be long term investors, such as private equity funds who typically hold investments for only three to seven years. After an extensive filtration and a second submission process, the administration is recommending Veolia Energy, a company with vast experience with steam utilities and world-wide holdings, as the best qualified to take over the ownership and operations of the district, subject to reaching an acceptable agreement on terms. Veolia has indicated that their preliminary offer for the facilities is \$7.35 million but this is, of course, subject to successfully addressing the district's existing debt and other obligations as well as addressing such matters as the employment issues related to the district's employees and assurances that Veolia will be in the steam business in Duluth for the long haul. Additionally, the buy-in of a substantial portion of the customers will be necessary for the successful completion of an agreement.

We are now at the point in the process where extensive investments are going to be made in time and money by both the city and Veolia. Therefore, the administration is proposing that the council give both it and Veolia preliminary assurances that the proposal is worth exploring and that the resources to be expended by both sides will not be wasted.

As is clearly stated in the resolution, this is not an unqualified commitment and the deal will not be a "deal" until both the Veolia board of directors and the city council approve the agreements necessary to close the transaction.