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MEMO TO: Austin Energy Resource Planning Task Force
CC: Pat Sweeney, John Wester, Chris Smith, Austin Energy
FROM: Pat Augustine, Gary Vicinus, Michael Korschek, Pace Global Energy Services
DATE: October 6, 2009
SUBJECT: Responses to Task Force Questions

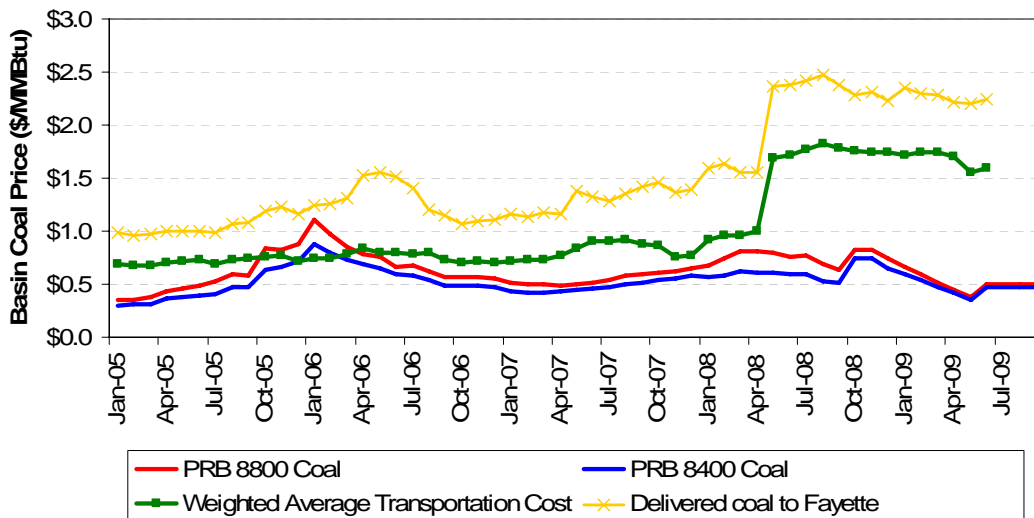
1. Short explanation of projected drop in coal pricing after 2009

Pace developed delivered coal price expectations for the Fayette Power Plant in early 2009 based upon its current coal and rail contracts and forecasts of future market-based basin and transportation rates once existing contracts expire.

In the past year, delivered prices of Austin Energy's coal deliveries increased significantly, due principally to the negotiation of transportation agreements during market peaks. Decreases are likely to occur, however, when existing rail contracts expire over the next two years in a more depressed market environment. Exhibit 1 displays historical PRB coal basin prices, along with weighted average reported transportation costs to Fayette and the delivered price (representative of the sum of the two).

In the West, transportation dominates delivered prices. In the eastern U.S., coal suppliers have a greater ability to take advantage of tight market conditions, but in the West, the railroads have been better able to take advantage of tight market conditions. Austin Energy's delivered coal prices increased due to a rail contract expiration that was timed during a high-priced period in early 2008.

Exhibit 1: Historical Basin, Transportation, and Delivered Coal Prices



Source: Pace analysis and Energy Velocity

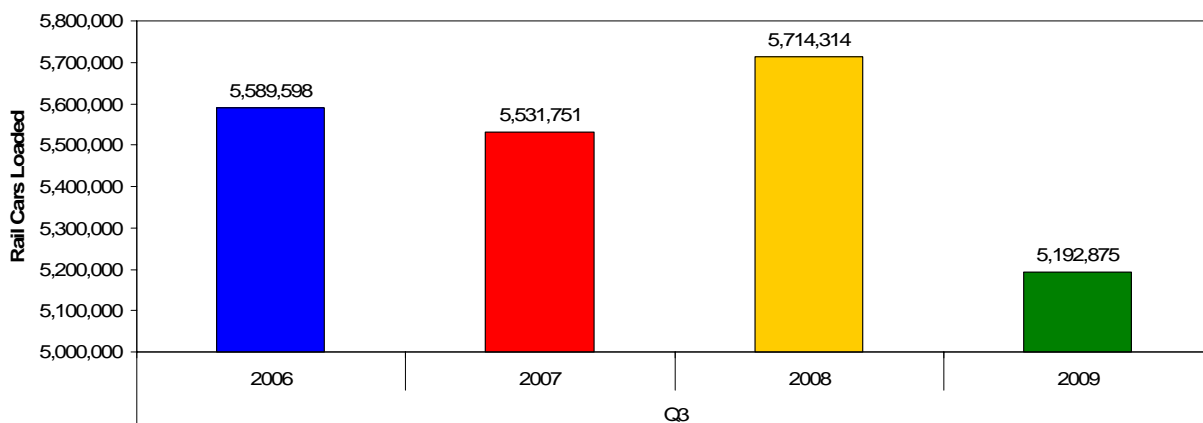


Over the long run, delivered prices are expected to return from above \$2/MMBtu to levels closer to \$1.50/MMBtu. (In the risk analysis, we introduced uncertainty around the price projection based on measurements of historical price volatility.) The market for coal in the U.S. has softened dramatically due to the recession and overall softness in coal demand. In addition premiums in rail rates due to oil price adders have diminished during this period. Assuming the softness in the market remains, long run PRB prices will be generally in the \$0.60/MMBtu range (for a blend of 8400 and 8800 Btu/lb coal), which is considerably lower than prices observed during 2008.

For the transportation component, Pace projected Fayette to face a transportation rate on the order of \$0.85/MMBtu (in real 2007\$), which is very reflective of the average cost between 2005 and 2007. Transportation costs increased in 2008 due to high demand for coal and fuel surcharges associated with very high prices for fuel oil. In 2009, economic recession has contributed to lower prices for oil and significantly reduced power generation and coal demand. Exhibit 2 displays rail car loadings for the first nine months of each of the last four years, indicating significantly reduced demand in 2009. Shown alternatively, Exhibit 3 displays the change in year-over-year car loadings for the past twelve quarters, indicating that 2009 has resulted in annual decline rates between 7 and 9 percent.

Since Fayette has competitive rail access, Pace believes that current high contract rate that resulted from negotiations during a peak market period cannot be sustained in the next round of negotiations and resulting transportation rates will decline in real terms towards levels more reflective of longer term average rates.

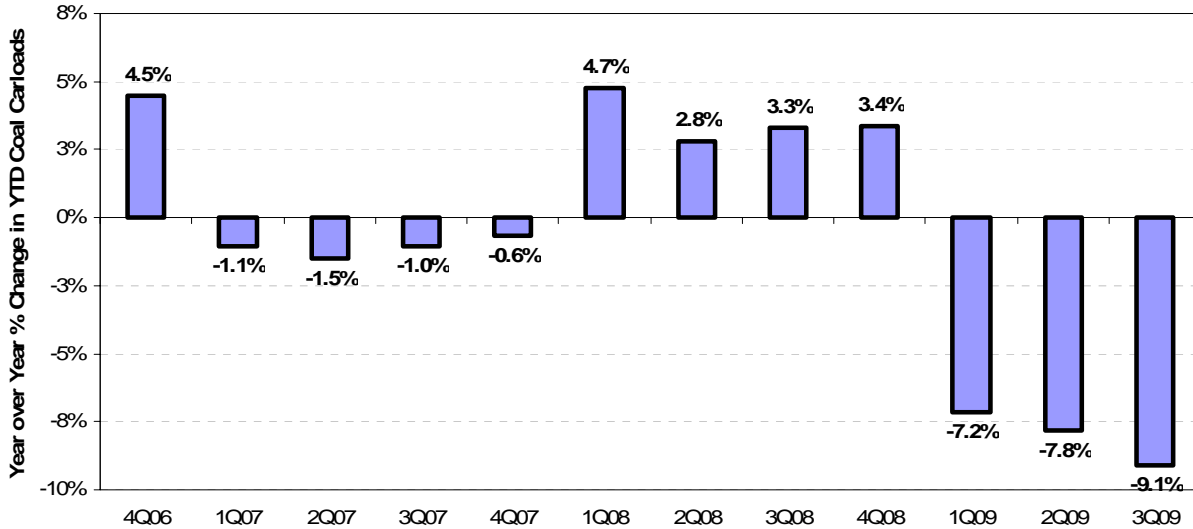
Exhibit 2: Rail Car Loadings through the Third Quarter



Source: Pace analysis and Platts



Exhibit 3: Change in Year over Year Rail Loadings



Source: Pace analysis and Platts

2. Any cost data points or range for addition of NOX and Mercury controls for a facility such as FPP

Pace has reviewed recent estimates for pollution control equipment from public sources and recent utility announcements. Based on the estimates summarized in the table below, Pace believes that an SCR retrofit on the Fayette plant (600 MW unit) would be approximately \$100/kW. Amortized over a 20-year period, with an expected capacity factor for the plant around 80%, this would result in an additional \$1.20/MWh cost. An ACI installation at \$70/kW, with similar amortization assumptions would result in an additional \$0.80/MWh, bringing the total costs to \$2/MWh. If coal production makes up one third of the entire generating mix, total portfolio costs would be impacted around \$0.66/MWh.

Exhibit 4: Recent Pollution Control Retrofit Capital Costs

	EIA, AEO Assumptions 2009 (2007\$/kW)	MIT, The Future of Coal 2007 (2007\$/kW)	Recent GA Power Estimates (nominal \$/kW)
FGD	195-310	100-200	170
SCR	101-128	50-90	60-120
ACI	70		

Source: EIA, MIT, Georgia Power



Additional variable costs associated with reagents could total an additional \$2-3/MWh for SCR and ACI operations, bringing the impact on total portfolio costs in the \$1.00-1.50/MWh range.

3. Summary of the treatment/impacts of off-system sales for the task force scenarios particularly with respect to FPP

As we have discussed previously, most screening analysis results were focused on generation costs associated with meeting load obligations. This means that results did not include a credit for off-system market sales, which was not be considered firm revenue for planning purposes. In addressing the Task Force scenarios, Pace provides results under this same construct, by excluding the impact of off-system sales. We have also, however, provided summary results that show the effects of including the impact on generation costs if potential off-system sales revenue were considered as an offset to generation costs. As is shown in the presentation, the impact of including sales revenues is greater in the Staff Recommendation than both Task Force scenarios due to additional excess generation capacity available for sales.

One of the results of the initial round of screening analysis was that the Staff Recommendation can meet native load by using less generation from the coal-fired Fayette Power Plant (around 15% less by 2020). This would feasibly allow Austin Energy to lower generation from Fayette from a 78% capacity factor expectation in 2020 to one in the low 60% range and still meet native load. In Task Force Scenario 2, the availability of using less FPP to meet native load is reduced. In this scenario, an approximate 8% reduction in generation from Fayette could be achieved while still meeting native load.