Austin Generation Resource Planning Task Force
Information Request Responses
September 16, 2009

AE answers provided in bold/italics

Submitted by Mike Sloan on 9/8/09 and approved for submission to Austin Energy by the Task Force on 9/9/09.

1) COST TO TERMINATE BIOMASS PROJECT: What would it cost as a function of time for Austin to buy-out of its 100 MW Biomass contract? Much has changed in the past year in ERCOT energy markets, and things that may have seemed like a good idea last year may not be the best thing for Austin based on the facts of today. The biomass contract appears to cost about 2X more than resources considered in the PACE analysis, suggesting long term savings potential for Austin ratepayers on the order of $1 billion. Austin has benefited from breaking out of agreements in the past (such as the decision to fire Brown & Root on STNP and the decision to cancel the Valley View biomass project decades ago). If AE regards this information as confidential, please explain why since if the project were canceled it does not have a chance to become a competitive matter. ***Neither the contract for the Webberville project nor the Nacogdoches project contains an early termination option or buy-out provision that could be unilaterally exercised by the City. From a legal standpoint, it would be unwise for the City to comment publicly on what it believes would be the consequences regarding a potential default on the part of the City.***

Any attempt to speculate as to the buy-out cost of the Nacogdoches would entail revealing confidential information as such a calculation would require the contract price and other contract terms as inputs. It would also require knowledge of the producer's cost, financing, and profit expectations, which AE does not have, in addition to an estimated discount rate.

2) FPP COSTS: Please summarize the total expenditures for the Fayette Coal Plant by Year. Based on information that AE has provided coupled with information from historical budgets, I have plotted below AE expenditures by year for 1999 to 2008 for FPP for 1) fuel 2) O&M 3) CIP [graph provided separately in email request). These amount to $182.8 Million for 2008 (with 4,414,838 MWh of production = $41.40/MWh). I have not included debt service or emissions costs (such as for future carbon allowances). Please comment whether my math is correct or provide corrected numbers. If AE believes it is more appropriate to spread investment in emission control equipment over 30 year even if the plant may be shut down sooner, please explain. ***The number cited for 2008 of $182.8 million is mathematically correct. However, it is difficult to tie out the other years using the graph provided. Plant additions are generally depreciated over a 30 year period unless the equipment has a lower useful life or the plant has a known scheduled retirement date. In addition, plant investment funded by debt usually has a 30 year maturity schedule to match the life of assets. The FPP scrubber project is being funded by debt and the first issue in 2008 had a 30 year maturity schedule. Even if the plant was shut down before 2038, the debt service***

related to it would still need to be paid through maturity period unless something was done to pay off the debt early.

3) TAKING FPP TEMPORARILY OUT OF SERVICE: Especially as seasonal load decreases and wind production likely increases, is there an ECONOMIC opportunity to sideline the Fayette coal plant temporarily to reduce net fuel costs and reduce emissions? Current natural gas prices are currently low enough that some natural gas units in ERCOT should be dispatched before certain coal plants. Information provided to the task force by AE on July 22 suggests that at gas prices below $3/MMBtu that the Sand Hill Combined Cycle unit should be economically dispatched by AE before the FPP units. Please confirm if this is correct. ***The statement that natural gas prices below $3.00/MMbtu are competitive with (current) coal costs at the Fayette Power Project is accurate. AE's standard practice is to perform "economic dispatch" of its resources wherein demand is met with the lowest cost from available resources including market purchases. Economic dispatch is always subject to the physical and contractual operating limitations of resources and current and near term load conditions. Economic dispatch may also be temporarily adjusted (subject to operating limits) to perform "environmental dispatch" in consideration of Ozone Action days.***