# Plan to Eliminate Coal from Austin Energy's Portfolio
# Public Discussion

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**Council Committee on Austin Energy**
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**Mission:** Deliver clean, affordable, reliable energy and excellent customer service.

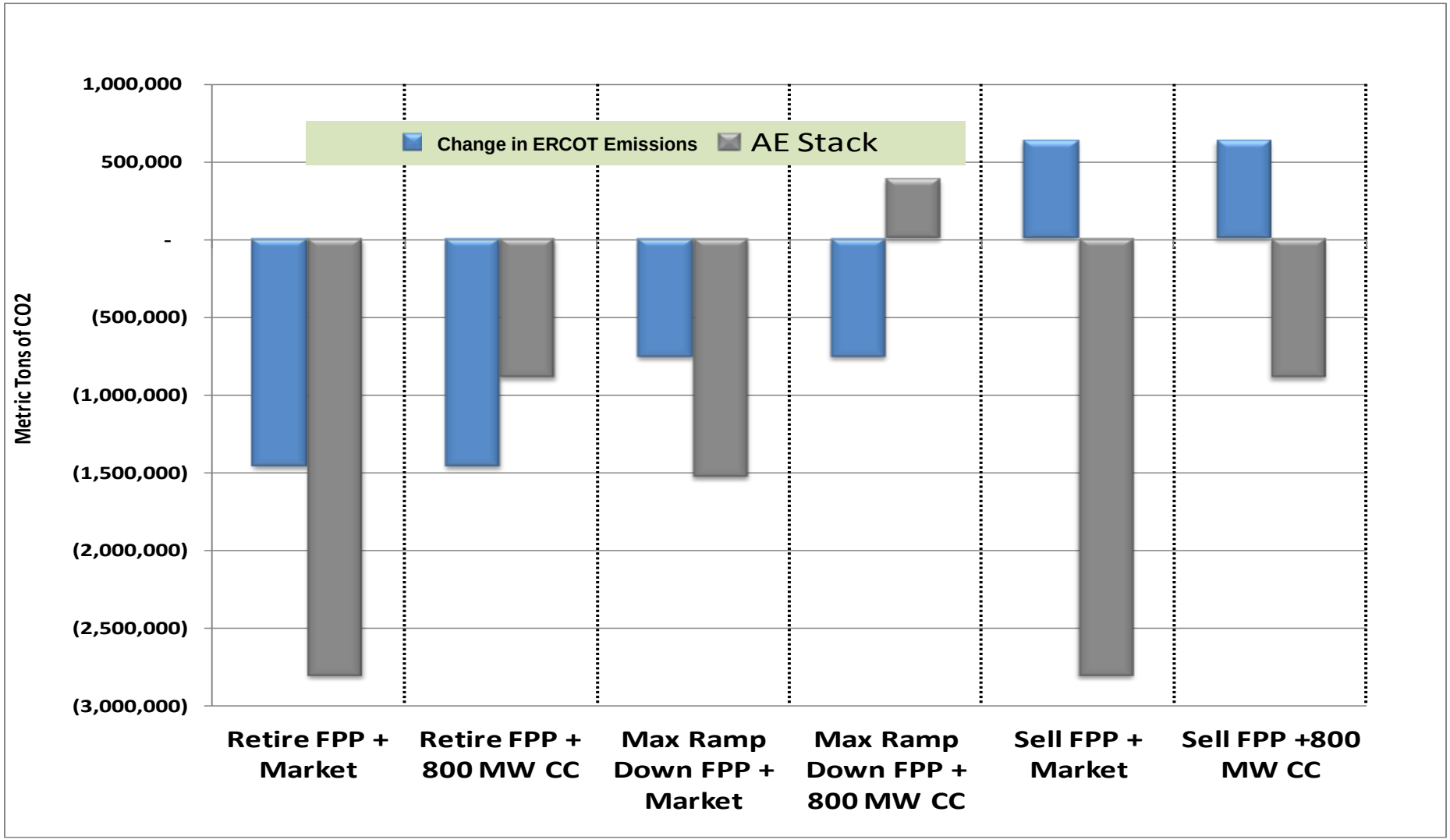
# Current Strategy

- Fayette Power Project (FPP) will be environmentally dispatched starting year 2020 to meet Climate Protection Plan's CO2 Goal
- Renewable purchases to meet Climate Protection Plan goals
  - 35% Renewable power of which 200 MW is solar
- Sand Hill Energy Center - 200 MW expansion
- Market purchases for any shortfall

# Scenario Summary

- Three coal elimination strategies (beginning 2017) were analyzed:
  1. Retire FPP involves shutdown and decommissioning
  2. Sell FPP to LCRA or another party
  3. Reduce FPP's output to minimum per agreement, limiting AE output to 160 MW
- This presentation focuses on two replacement options:
  1. Use market purchases to replace power generated by FPP
  2. Develop 800 MW Combined Cycle (CC) Plant

# Change in $CO_2$ Emissions in FY2020 Compared to Current Strategy



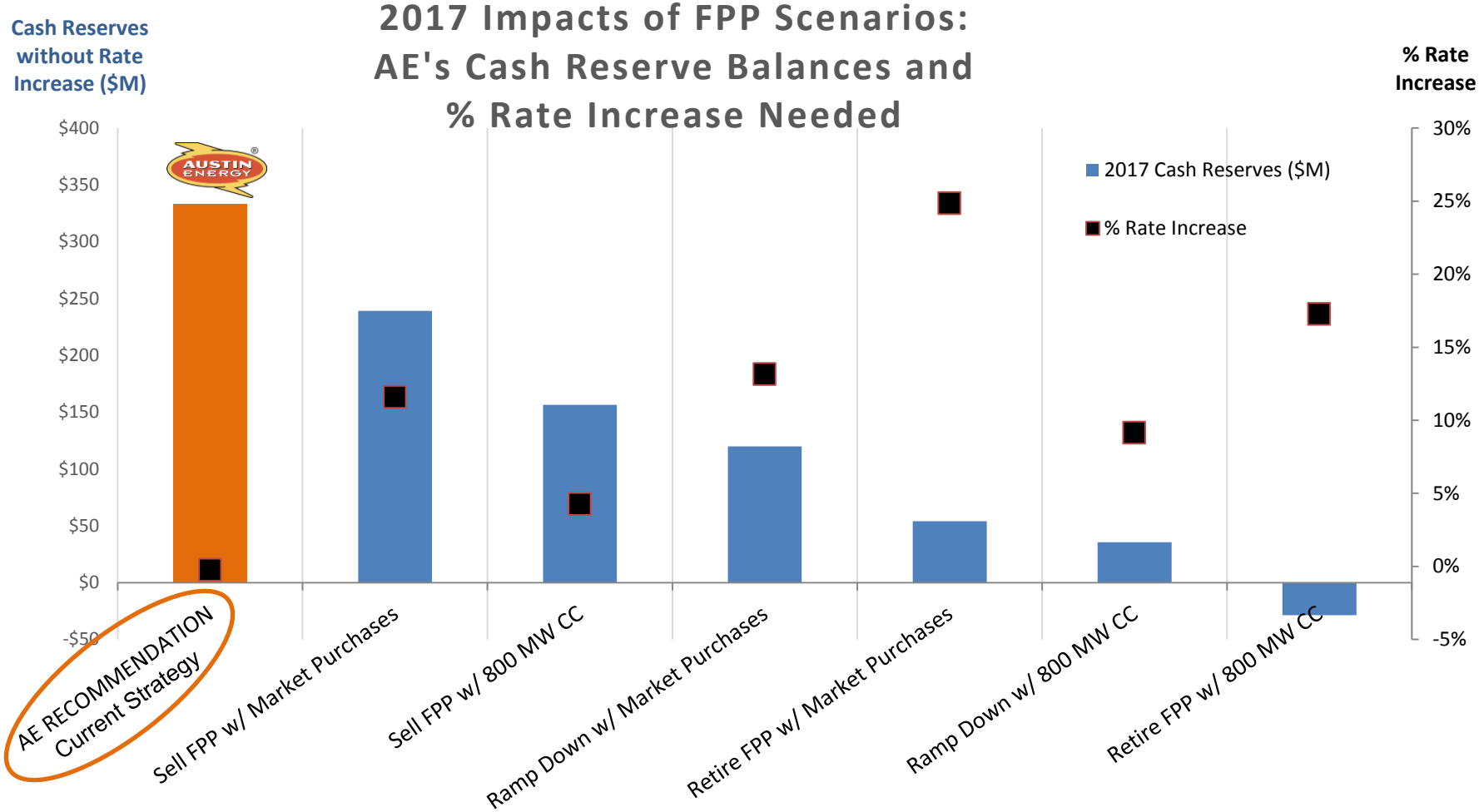
# Scenario Analysis Summary

- Model runs simulating FPP coal elimination strategies were used to show effect on cost of serving load and benchmarked to base forecast
- Results made it immediately apparent that barriers to eliminating FPP from AE's portfolio are near-term financial impacts, regulatory and contractual implications, regardless of replacement strategy
  - All elimination scenarios result in large impacts to customer rates and cash reserves
- Several costs related to regulatory treatment of these strategies are uncertain and not included in detailed costs
- Although not detailed here, replacement options with renewable energy were analyzed and found to have higher impacts than two shown here

# Summary of Short Term Impacts

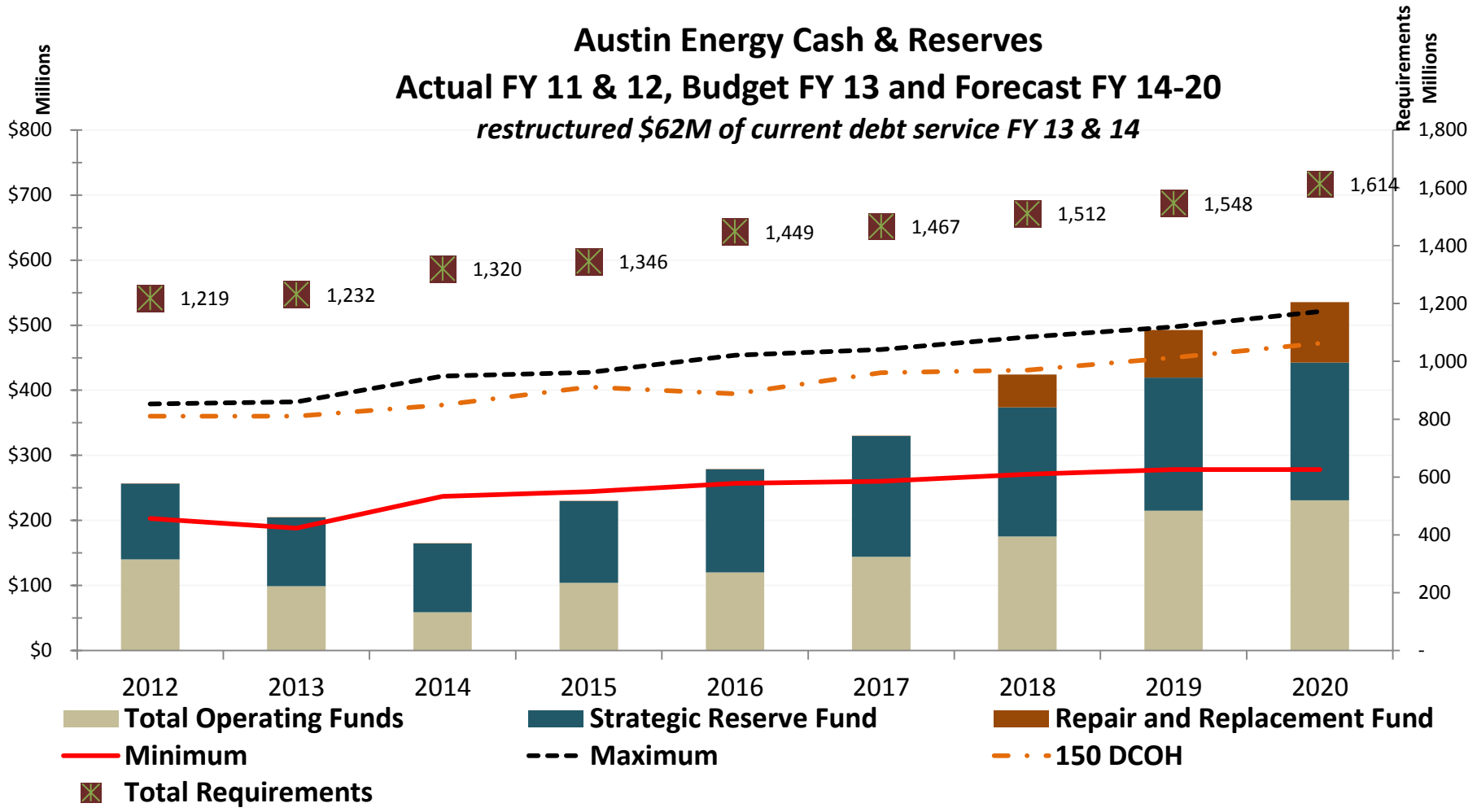
- The sale, retirement or minimum output strategies would result in an immediate, large cash outlay for defeasance of revenue bonds up to $260 Million and a large book loss for value of the plant on income statement
- All cases would leave cash position well below the forecast balance of $334 Million in 2017, which is 95 Days Cash on Hand (DCOH)
- Lost or reduced revenue impacts the Power Supply Adjustment (PSA)
- Large rate increases would be needed in order to restore cash reserves
- Both affordability goals, limiting rates to 2% growth and remaining in the lower half of utilities in Texas, would be unmet under all three scenarios

# 2017 IMPACTS OF FPP SCENARIOS: AE CASH RESERVE BALANCES AND % RATE INCREASE NEEDED




Results based on best available estimates and forecasts

# Cash and Reserves



# Costs of Legal, Regulatory & Other Risks not included in scenario analysis

- Potential costs from negotiations with LCRA to sell, retire or ramp down operations
- PUC and ERCOT risks resulting from approvals necessary to implement these strategies, including:
  - ERCOT approval for unit retirement
  - Prudency review due to early retirement, sale or minimum operation could result in costs associated with this action, along with any replacement power not recoverable through rate increases
  - Ramp Down actions could be construed as market withholding
- Potential loss of $30M in revenues and additional Austin Water Utility revenues in Build America Bond subsidies
- Potential variations in energy market conditions and gas price changes which may double costs projected
- City charter prohibiting sale of “all or any substantial part” of AE may have to be amended

# Impact on Overall Strategies

- All the scenarios considered would leave rates less competitive and result in cash reserves lower than the recommendation

- Affordability goal could potentially limit in areas where we have competitive advantage and are creating meaningful progress towards clean technologies:
  - Supporting R&D efforts to develop clean technologies and Smart Grid, enhancing capability of distribution infrastructure to further electric vehicle technology, high solar penetration and demand side management
  - Continuing progress toward renewable portfolio
  - Maintaining and expanding cost effective energy efficiency, chilled water and local solar programs

- Working with industry partners to encourage comprehensive federal legislation or regulation on Green House Gases (GHG) to establish limits on all GHG emitters

# AE Recommendation

- Retirement or sale of FPP before new regulatory requirement for existing plants are issued would have disproportionate economic effect on AE customers compared to market

- Given magnitude of potential customer and utility impacts, AE recommends establishing a target retirement date of 2025 for FPP and continuing with current plan to ramp down FPP output starting in 2020

- This recommendation offers the following benefits:
  - Achieves the 2020 CO2 reduction goal established in Climate Protection Plan
  - Mitigates financial risks associated with reduction/removal of AE's share of FPP by 2015-18
  - Establishes a clear planning objective to guide plant investments and Resource Plan
  - Is consistent with expectation that FPP value will continue to decline over time and likely reach economic retirement near 2025
  - Recovery of  investments in pollution abatement technologies already in place and underway to support all known air regulations

# Questions?