

A G E N D A



Recommendation for Council Action

Austin City Council	Item ID	30937	Agenda Number	<ITEM_OUTLINE>
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Meeting Date:	2/27/2014	Department:	Austin Energy
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Subject

Authorize execution of a power purchase agreement with Lincoln Renewable Energy LLC, Chicago, IL, for a term of up to 18 years for up to 300 megawatts of wind-generated electricity, in an estimated amount of \$31,000,000 per year, for an estimated total contract amount of \$558,000,000.

Amount and Source of Funding

Funding will be provided through Power Supply Adjustment revenue or future Green Choice revenue.

Fiscal Note

There is no unanticipated fiscal impact. A fiscal note is not required.

Purchasing Language:

Prior Council Action: June 20, 2013 and June 27, 2013 - Approved negotiation and execution of power purchase agreements with two entities.

For More Information: Jeff Vice, Director, Local Government Issues (512) 322-6087; Pat Sweeney, Director, Energy and Market Operations (512) 322-6292; Khalil Shalabi, VP, Energy Market Operations & Resource Planning (512) 322-6520.

Boards and Commission Action: June 17, 2013 - Recommended by the Electric Utility Commission.

MBE / WBE:

Related Items:

Additional Backup Information

On June 20, 2013 and June 27, 2013, the City Council approved negotiation and execution of two 200 megawatt (MW) wind power agreements with Duke Energy and a 170 MW wind power agreement with E.ON Climate and Renewables. Subsequent to that time, the contracts with Duke Energy were successfully executed and construction has begun. The contract with E.ON was negotiated, however, E.ON declined to execute the agreement citing tax and financing issues related to the proposed project. As a result, Austin Energy refreshed the responses to its request for proposals (RFP) and identified replacement options. This recommendation is the conclusion of the process to replace the E.ON contract.

Austin Energy recommends replacing the earlier contract with a 300 MW project due to updated market conditions and the risk the expired federal production tax credit (PTC) will have on the price of future solicitations of wind projects. As anticipated, the Federal PTC, which provides wind projects a tax credit of 2.3¢/kilowatt hour, expired on December 31, 2013. The prospects for a replacement of the PTC are highly uncertain. The expiration also means that

only those projects that began construction and/or demonstrated a sufficient level of financial commitment will receive the expired PTC. Given the uncertainty of a future PTC, the attractive pricing observed in this RFP may not be available for future wind needs. Along with the favorable terms offered for this specific project, Austin Energy recommends the larger agreement. While the size is larger, the pricing terms represent a slight improvement of about \$2/MWh over the original range of \$28 to \$38/MWh. If approved, this contract will increase the likelihood that Austin Energy will reach its 2020 renewable energy goal in 2016 and eliminate the need for additional wind before 2020 at a long-term fixed price that is expected to have a positive impact on the PSA. Specifically, this contract will provide for the purchase of the full output of an approximately 300 MW wind power project to be constructed by Lincoln Renewable Energy, LLC, and located in Castro County, Texas. The new wind project is expected to come online by the fourth quarter of 2015 and will comprise approximately 160 wind turbines.

This agreement will run for a term of up to 18 years and will not require Austin Energy to invest any funds in the construction, operation, or maintenance of the project during that period. The estimated contract amount reflects the fixed pricing terms of the agreement and estimated energy production which will vary in accordance with the actual availability of wind resources.

The Austin City Council established a strategic energy policy for Austin Energy through the adoption of Resolutions 030828-38 and 030925-02. These resolutions and Austin Energy's Resource, Generation and Climate Protection Plan calls for the development and use of clean energy and sets a goal of 35% of its energy from renewable energy sources by December 31, 2020. The recommended project offers Austin Energy competitively priced renewable energy and environmental attributes and the opportunity to continue progress towards its renewable goal.

PRICE ANALYSIS

- a. Adequate competition.
- b. Forty-four new or existing wind projects offered, with a total of 70 different proposal variations.
- c. Proposal provides for a utility scale wind power plant.

APPROVAL JUSTIFICATION

- a. Top three evaluated proposals.
- b. The recommended proposer meets the requirements of the Request for Proposal.