AUSTIN CITY COUNCIL

AGENDA

Recommendation for Council Action

Austin City Council	**Item ID**	32636	**Agenda Number**	

Meeting Date:	5/15/2014	**Department:**	Austin Energy

Subject

Authorize the City Manager to negotiate and execute, subject to the Policy for Energy Risk Management set forth in Resolution No. 20030522-08, transactions for natural gas and wholesale electric power, related brokerage and credit agreements, and purchases of ERCOT congestion revenue rights, for terms not to exceed five years, in an aggregate amount not to exceed $316,000,000 of net expenditures in any fiscal year and not to exceed $800,000,000 of net expenditures over a rolling 60-month forward period.

Amount and Source of Funding

Funding for related expenses associated with the purchase and sale of financial hedging instruments for fuel and power under the Risk Management Program will be provided through the Power Supply Adjustment revenue.

Fiscal Note

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

Purchasing Language:	
Prior Council Action:	May 22, 2003 - Approved Resolution No. 20030522-08, setting the policy for energy risk management.
For More Information:	Khalil Shalabi, VP, Energy Market Operations and Resource Planning (512) 322-6520; Jeff Vice, Director, Local Government Issues (512) 322-6087.
Boards and Commission Action:	April 21, 2014 - To be reviewed by the Electric Utility Commission.
MBE / WBE:	
Related Items:	

Additional Backup Information

Since 2003, Austin Energy has engaged in price risk hedging to reduce electric customers' exposure to fuel and power price volatility in accordance with the Policy for Energy Risk Management set forth by Resolution No. 20030522-08 (the "Policy"). Under the Policy, Austin Energy is required to plan and execute its hedging transactions over a rolling five-year forward horizon.

Austin Energy currently operates under a Council authorization to engage in transactions to hedge fuel and power price risk with a fixed maximum expenditure limit of $800 million. Austin Energy has also been separately authorized to make short term (less than five years in duration) physical purchases of wholesale power in a maximum amount of $71 million per year, and to purchase up to $245 million of natural gas per year.

The purpose of this request is to update and consolidate the existing Council authorization for Austin Energy's price hedging program with those now in effect for fuel and short-term wholesale power purchases, and to align the spending authorization for financial hedging transactions with the five-year rolling forward period set forth in the Policy. This request does not seek an increase in overall spending authority levels.

Austin Energy requests to consolidate these three separate authorizations for natural gas and power purchases and hedging into a single, consolidated authorization to better manage overall energy cost and risk for Austin Energy customers. Fuel price volatility is just one aspect of managing energy risk. Managing overall risk within a single composite authorization is in alignment with the Policy and allows for a distinct point of control, visibility, optimization and accountability for power supply risk management. It further reflects the fact that settlement of a hedge generally corresponds to the purchase of the same physical quantity of gas or power on the spot market. Because the authorizations are related, only a single authorization pool is needed to cover both financial hedging and physical purchase of these commodities.

The requested Council action will consolidate the $316 million in current short-term gas and power purchase authority into the $800 million of authority for hedging transactions. This will result in an overall authorization of $800,000,000 of maximum potential cost exposure for short-term power and gas purchases over a rolling sixty-month period, with a $316,000,000 limit of actual net expenditures in any one fiscal year. It will also eliminate the distinction between purchases of gas and wholesale power by placing these purchases under a single authorization rather than imposing separate limits on each.

Further, the current spending authorization for the hedging program is unclear about how revenues received from hedging transactions are to be accounted for. The requested Council action will also clarify that the $800 million spending authority shall reflect net revenues and expenditures and cover the rolling 60-month period required by the Policy and consistent with industry practice.