



MEMORANDUM

TO: Mayor and City Council Members

CC: Marc A. Ott, City Manager
Larry Weis, General Manager

FROM: Cheryl Mele, Deputy General Manager

DATE: August 22, 2014

SUBJECT: Initial Response to the Report of the Austin Generation Resource Planning Task Force

In early 2014, with unprecedented success in achieving our renewable energy goals, Austin Energy began a review of its Resource Generation and Climate Protection Plan to 2020, as directed by City Council. The plan guides the development of the power production resources Austin Energy will use to produce and sell electric power in the Texas market. Subsequently, the Council appointed key stakeholders to the Austin Generation Resource Planning Task Force to provide recommendations to the Council on proposed changes to the plan. During spring/summer 2014, the Task Force met and, when asked, Austin Energy provided technical information to the Task Force.

The Task Force set out on an ambitious path to collect and synthesize many of the aspirations of those in the community who would advocate that AE become carbon neutral in its power production as soon as possible.

Of particular importance, the Task Force recognized that movement toward carbon neutrality is limited by the need to stay within affordability goals established by the Council. This linking of affordability and carbon reduction goals is critical to our long-term success as a business enterprise that provides substantial transfers to the City.

The Task Force Report offers a variety of ideas that will be incorporated and receive specific technical study as part of AE's regular business process to update the generation plan and conduct the associated financial analysis as directed by Council resolution. This analysis is underway and by early fall the results will be ready to be brought to this Council for review and discussion.

The Task Force Report placed great emphasis on tying affordability and carbon-emission goals. Unfortunately, it also created a wish list of actions the utility should adopt as goals. Our early analysis shows that the wish list and the proposed schedules are not workable, and will not meet Council's affordability targets if adopted as a whole package. We continue to study these scenarios, and will report to the Council in detail.

The Task Force also proposed several general ideas and timelines that may be unworkable:

1. **Wholesale market reality in planning:** The report recommends that AE disregard participation in the ERCOT wholesale market as we evaluate future resource investments. The Texas wholesale electric market is the benchmark by which all potential investors and market participants measure the value of new resource investments. Ignoring that market in our resource planning increases the risk of making uneconomic investments at significant cost to our customers.
2. **Accelerated timeline for plant shutdowns:** The report recommends shutdown of the Fayette Power Project and the Decker Creek Power Station on accelerated timelines. Today, these units provide net revenues that offset the costs of more expensive legacy renewable resources. Eliminating them prematurely from the resource mix would challenge affordability goals.
3. **Arbitrary numerical goals:** Specific goals for DSM, solar and storage without support from cost-benefit and financial studies could result in unacceptable economic burdens on AE and its customers. Future investments should be based on technological feasibility, product maturity, cost, market conditions and timing, and fit within AE's portfolio. Arbitrary technology and numerical targets should be avoided.

It may seem counterintuitive, but continued reliance on natural gas generation is an essential bridge to achieve carbon emission goals (as recognized in the EPA's proposed Clean Power Plan rule, recently endorsed by Council in Resolution No. 20140612-069). Natural gas-fired generation gives us two things wind and solar cannot—the ability to sell power on the market to earn greater revenues to the benefit of customers and the ability to make power exactly when it is needed, which in turn provides a significant financial advantage. Newer, cleaner generating units also reduce the carbon footprint of the generating fleet because older facilities are decommissioned as those new resources become available.

Austin Energy supports the community's goal of a long term-movement toward becoming carbon-free, and is working today toward the Council goal (Resolution No. 20140410-024) to be carbon neutral by 2050. However, a straight-line approach of shedding valuable assets and relying exclusively on more renewable generation that is not necessarily cost competitive will lead us to an expensive energy future with little net impact on actual carbon production. The ERCOT market, with its embedded carbon emissions, will continue to supply the on-demand energy needs of our customers.

With sound business planning, we can continue to move toward the Council goal of becoming carbon neutral. We may be able to do it sooner than the Council's current goal of 2050. We appreciate the Task Force's recommendations on renewable power sources, storage and energy efficiency. This thinking will influence our plans and receive thorough study so that AE can bring to this Council a sound business case for the continued long-term expansion of renewables and low-cost, gas-based resources while remaining affordable for all customers.

Preliminary comments on the recommendations of the Task Force are attached. Austin Energy will provide its more detailed analytic results as scheduled this fall. Please let me know if there are questions that we can answer in the meantime.

Attachment