

AGENDA



Thursday, November 20, 2008

**Austin Energy
RECOMMENDATION FOR COUNCIL ACTION****Item No. 2**

Subject: Approve ratification of amendments to Austin Energy's contract with Cellnet Technology, Inc., in order to expand two-way meter reading services to all of Austin Energy's meter base at an average annual amount of \$4.9 million not to exceed \$40,350,000, for a total contract amount not to exceed \$76,350,000 over the contract's fifteen-year term.

Amount and Source of Funding: Funding in the amount of \$4,000,000 is available in the fiscal year 2008-2009 Operating Budget of Austin Energy. Funding for the remaining years of the contract is contingent upon approval of funding in future year budgets.

Fiscal Note: There is no unanticipated fiscal impact. A fiscal note is not required.

For More Information: Cheryl Mele, Sr. Vice-President for Electric Service Delivery, 322-6062; Andy Perny, Assistant City Attorney, 322-6277

Boards and Commission Action: To be reviewed by the Electric Utility Commission on November 17, 2008

Prior Council Action: April 25, 2002 - Adoption of Resolution No. 020425-17 approving original contract; June 21, 2007, October 11, 2007, and May 15, 2008 - Approval of expansion meter purchases; January 31, 2008 - Approval of contract for expansion meter installation services.

Austin Energy requests additional spending authority and approval of amendments previously executed to expand two-way meter reading services and capability to Austin Energy's entire meter base. Austin Energy currently has one-way automated read capability for approximately one-third of its customers. Expanding to full two-way coverage will allow Austin Energy to offer additional services and benefits to its customers, possibly implement a time-of-use rate structure, and implement other capabilities in furtherance of achieving a "smart grid" and its goals for energy efficiency and peak load reduction.

On April 25, 2002, the City Council authorized Austin Energy to execute a \$36 million, 15-year contract with the corporate predecessor of Cellnet Technology, Inc., pursuant to Resolution 020425-17. The resolution authorized Austin Energy to enter into such terms as may be reasonable, necessary, or required. The executed contract has an initial fixed term of seven years, which will expire on April 25, 2009, and eight subsequent one-year renewal options thereafter. It includes costs for the read services as well as the acquisition of 60,000 new meters and 63,000 radio units to be installed in existing meters. Upfront capital costs and other miscellaneous installation costs were covered as well.

Austin Energy and Cellnet have executed an amendment to the contract that would expand automated meter-reading services to Austin Energy's full customer base. Austin Energy and Cellnet have also amended the contract to specify that two-way technology is to be fully implemented in the expansion meters, and that the system will undergo beta-testing prior to full implementation of the project. The amendments establish more favorable pricing terms and higher performance standards to be met by the vendor. Cellnet is responsible for the expansion and upgrade of the meter-reading infrastructure to enable two-way reads for the entire system, providing the communications modules for the meters, and performing the meter-reading services. Austin Energy assumed the task of acquiring the new meters to

be used in the expansion project. These meter purchases, as well as a contract for related installation services, in a total amount of \$10,493,498, have been approved by City Council.

Beta-testing of the proposed system is now progressing. Some two-way residential meters are now being used for billing where installed and demand meter billing tests are underway. Approximately 80,000 additional meters capable of being remotely read have been installed under separate Council-approved contracts. Austin Energy is now seeking the additional spending authority and approval of the amended contract terms to enable it to proceed with the expansion project. Austin Energy is currently still within the initial seven-year term of the contract and has the option to terminate the contract prior to the option years within the current Council spending authorization.

Under the requested spending authority, Austin Energy will continue – assuming satisfactory completion of beta-testing – into the option years under the amended terms. Austin Energy's annual cost for meter-reading services for its entire territory will average approximately \$4.9 million, whereas annual expenditures during the first seven-year term, covering only one-third of the meter base, have averaged approximately \$2.8 million. Additional authority is also included in the request for termination fees to cover capital costs of Cellnet that will be incurred if Austin Energy continues the agreement past the expiration of the current seven-year term.

Austin Energy further proposes to amend the contract to enable Austin Energy to provide assistance in the infrastructure installation process in exchange for being credited for the cost of the work and materials.