



MEMORANDUM

TO: Mayor and Council Members

CC: Marc Ott, City Manager

FROM: Roger Duncan, General Manager

DATE: July 24, 2009

SUBJECT: GreenChoice® Batch 6

Austin Energy will submit for your approval, on the August 20, 2009 Council agenda, a revised tariff for GreenChoice® Batch 6 of 5.7 cents per kilowatt-hour for a five-year term. This price reflects the cost of the contracted wind energy, ERCOT fees and charges associated with the energy, and Austin Energy's GreenChoice® administrative costs. Transmission congestion costs associated with importation of Batch 6 wind energy from West Texas would be recovered through the standard fuel charge. Recovering Batch 6-related transmission congestion costs through the fuel charge is necessary because while congestion has decreased, some congestion is expected. Also, while the outlook for future congestion has decreased, it is extremely difficult to accurately predict a fixed GreenChoice® rate over multi-year periods.

The current Batch 6 GreenChoice® price, set in December 2008, is 8 cents per kilowatt hour (kWh) for a 5-year term or 9.5 cents/kWh for a 10-year term. The price included congestion costs based on what had been a year of significantly greater transmission congestion. The estimated congestion costs in the original pricing assumed that the Hackberry wind plant, which supplies Batch 6, would be assigned to ERCOT's "West Zone" for congestion purposes and would therefore have higher congestion costs. However, Hackberry was ultimately assigned to the "North Zone," thereby reducing its exposure to transmission congestion costs. In addition, ERCOT implemented protocol and grid operational changes which have resulted in reduced transmission congestion statewide.

Under the proposed rate, the electric bill of a GreenChoice® Batch 6 subscriber using 1,000 kWh a month would be about 20 percent higher on average than that of a non-subscriber. Customers who have already subscribed to Batch 6 would be allowed to change to the revised rate. Some considerations:

- Even with some congestion, customer subscribers to Batch 6 GreenChoice® will be paying the vast majority of Batch 6 costs.

- If the Batch 6 energy supply did not exist, there would be traditional generation in its place—the full cost of which would be paid for by all customers.
- Austin Energy is likely the only utility-sponsored green power program in the U.S. (among 850) that has yet to spread the cost of its renewable energy program across its customer base. Until Batch 6, all previous batches of GreenChoice® have sold out.

Austin Energy expects Batch 6 to sell well under the revised pricing. However, should Batch 6 not sell, recovery of its costs will do little to raise overall electric rates in Austin. Green power is purchased power and purchased power costs are recovered through the fuel charge to customers. Batch 6 began flowing in January 2009 but did not increase the Austin Energy fuel charge this year. Staff estimates that even if it were necessary to recover most of Batch 6 in the fuel charge long term, its impact on the fuel charge would be about 1-2 percent.

If you have any questions, please do not hesitate to contact me at 322-6157.

A handwritten signature in black ink, appearing to read 'RD', with a long horizontal flourish extending to the right.

Roger Duncan
General Manager