

AGENDA



Thursday, January 13, 2011

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

Subject: Approve an ordinance amending the Fiscal Year 2010-2011 Austin Energy Capital Budget of Ordinance No. 20100913-003 to increase appropriations by \$17,000,000 for the Holly Street Power Plant decommissioning costs and amending the Fiscal Year 2010-2011 Austin Energy Operating Budget of Ordinance No. 20100913-002 to increase the Non-Fuel Operations and Maintenance by \$12,000,000 for the Holly Street Power Plant decommissioning account and decrease the Austin Energy Operating Fund ending balance by \$12,000,000.

Amount and Source of Funding: Funding is available from the ending balance of the Austin Energy Operating Fund. Funding in the amount of \$5,000,000 is available from deductive credits incorporated into the contract from the winning bidder.

Fiscal Note: A fiscal note is attached.

For More Information: Elaine Hart, CPA, Sr. Vice President Finance & Corporate Services 322-6558; Rose San Miguel, Project Manager 322-6260.

Boards and Commission Action: The Electric Utility Commission recommended approval of this item with concerns about the large price differentiation between the first and second proposals of approximately \$6.1 million, about 25 percent of the project cost, in relation to the small score difference on the evaluation matrix. Related to Item #7.

Prior Council Action: September 13, 2010 - Approved Budget Ordinance 20100913-002 and 20100913-003.

Austin Energy is seeking approval of this budget amendment to provide additional appropriations and related funding sources for decommissioning the Holly Street Power Plant.

Holly Street Power Plant – Austin Energy (AE) owns a 570 megawatt (MW) natural gas fired power plant, known as Holly Street Power Plant (Holly), which began operations between 1960 and 1974. Holly is sited in a neighborhood near downtown on Lady Bird Lake in Austin, Texas. Resolutions to close Holly were approved by Council in July 2002 and November 2003. In accordance with these resolutions, power production operations ceased at Holly Units 1 and 2 in October 2004 and Units 3 and 4 in September 2007. The plant's final decommissioning work or deconstruction is to begin in early 2011.

Appropriation – Austin Energy is seeking authorization to amend the Fiscal Year 2010-2011 Austin Energy Capital Budget of Ordinance No. 20100913-003 to increase appropriations by \$17,000,000 for the Holly Street Power Plant decommissioning costs. This budget amendment is related to another Council agenda item that requests authorization to negotiate and execute a contract to provide services for the decommissioning of the Holly Street Power Plant. Funding Source for the Appropriation - Austin Energy is also seeking authorization to amend the Fiscal Year 2010-2011 Austin Energy Operating Budget of Ordinance No. 20100913-002 to increase Non-Fuel Operations and Maintenance by \$12,000,000 for the Holly Street Power Plant decommissioning account and decrease the Austin Energy Operating Fund ending balance by \$12,000,000. Funding in the amount of \$5,000,000 is available from deductive credits for salvage incorporated into the contract from the winning bidder. This additional funding of the Holly

Street Power Plant decommissioning account and the contract deductive credits combined provide the \$17,000,000 funding sources needed for the additional appropriations.

With this amendment, Austin Energy is seeking authorization to use a portion of the Austin Energy Operating Fund ending fund balance as a funding resource. In prior years, Austin Energy has experienced positive operating results due to revenues higher than estimated and lower than anticipated operating expenditures, thus resulting in a positive ending balance. Although Fiscal Year 2010-2011 Austin Energy Operating Fund shows a deficiency of total available funds over total requirements, there is sufficient ending balance to fund this amendment.