



**Professional Services Agreement
CITY OF AUSTIN
RECOMMENDATION FOR COUNCIL ACTION**

**AGENDA ITEM NO.: 9
AGENDA DATE: Thu 03/09/2006
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SUBJECT: Authorize negotiation and execution of SOUTH TEXAS PROJECT (STP) agreements, including (1) Amended and Restated Interim Restructuring Agreement, (2) Amendment One to the STP Transmission Lines Maintenance Agreement, (3) STP Transmission Facilities Reconfiguration Agreement, (4) Right-of-Way & Easement for Electric Transmission Line (AEP Texas Central), (5) Right-of-Way & Easement for Electric Transmission Line (CenterPoint Energy), and (6) Right-of-Way & Easement for STP Switchyard and Transmission Corridor, and any other related agreements necessary to efficiently operate the STP assets to permit construction of the related Hillje transmission and substation construction project, and account for the restructuring of two prior STP owners pursuant to and as required by the Texas electric restructuring legislation enacted in 1999 (S.B. 7).

AMOUNT & SOURCE OF FUNDING: N/A

FISCAL NOTE: There is no unanticipated fiscal impact. A fiscal note is not required.

REQUESTING Austin Energy
DEPARTMENT:

DIRECTOR'S
AUTHORIZATION: Juan Garza

FOR MORE INFORMATION CONTACT:

PRIOR COUNCIL ACTION: On 12/06/01 Council authorized the negotiation of the new and amended project agreements and requested that final agreements be brought back to Council for approval; on 07/11/02 Council approved, as a preliminary step in the process, the execution of an STP Interconnection Agreement and an Interim Restructuring Agreement.

BOARD AND COMMISSION ACTION: N/A

PURCHASING: N/A

MBE / WBE: N/A

The City of Austin is one of three remaining generation owners of the South Texas Project (STP) in Matagorda County. The purpose of these new and revised STP agreements is to establish and delineate the relationships, obligations and responsibilities among the STP generation owners, STP Nuclear Operating Company as operator of the STP generating plant, and the functionally unbundled transmission companies that receive power from STP (AEP Texas Central and CenterPoint Energy). The primary reason to make these changes now is to update and clarify the configuration and allocation of STP transmission facilities given the new Hillje transmission and substation construction project. This new Hillje project will improve the reliability of the Electric Reliability Council of Texas (ERCOT) transmission system and will significantly reduce ERCOT transmission congestion costs for all market participants, including Austin Energy.

Additionally, these changes account for the restructuring of two prior STP owners that occurred as required by the Texas electric restructuring legislation enacted in 1999 (S.B. 7) and implementing regulations of the Public Utility Commission of Texas. This "unbundling" of the assets of investor-owned utilities was required by S.B. 7 to facilitate electric competition in Texas and is applicable to STP because



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it includes both generation and transmission property.

These new STP agreements make no substantive changes to the existing STP governance documents except to make minor revisions to the ownership percentages of certain STP transmission facilities to reflect the addition of new Hillje project facilities.

Austin Energy intends to jointly own the new Hillje Substation (which will not be an STP asset) with Centerpoint Energy. Agreements for the construction, operation and maintenance of the Hillje Substation will be brought to City Council within the next few months.

MEMORANDUM

TO: Mayor and Council Members
Toby Hammett Futrell, City Manager

FROM: Juan Garza, General Manager
Austin Energy

DATE: March 3, 2006

SUBJECT: Lack of Electric Utility Commission action on Tepsco, L.P. contract RCA and STP Agreements RCA

The Electric Utility Commission (EUC) routinely reviews and gives us feedback about the items Austin Energy brings to Council, as noted on the RCAs. However, at their last scheduled meeting, the Commission failed to reach quorum, and therefore took no action on the posted "Items Scheduled for Council Action." The EUC has rescheduled their meeting for Monday, March 6, 2006, and they will take action on these items at that time.

Two of those RCAs are on the City Council Meeting agenda for this week, March 9, 2006. Due to time constraints, I am requesting that you consider these items without the appropriate commission action. To delay the RCA for the contract with Tepsco, L.P. for chilled water piping until the March 23rd agenda, the next available Council meeting, would compromise the scheduled project start date and jeopardize completion of the project by the promised date. Postponement of the other RCA (to approve various South Texas Project (STP) agreements) further delays related transmission and distribution work already suspended pending Council approval of this RCA. As this work is required by ERCOT, Austin Energy must move forward as promptly as possible.

I apologize for requesting this exception to procedure, but I assure you it is an unavoidable situation. Please let me know if you have any questions. I can be reached at 322-6002.

Juan Garza
General Manager
Austin Energy