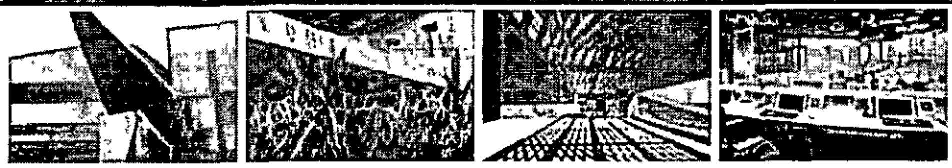
A U S T I N C I T Y C O U N C I L

AGENDA



Thursday, December 14, 2006

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Purchasing Office **ITEM No. 27**
RECOMMENDATION FOR COUNCIL ACTION

Subject: Authorize award, negotiation and execution of a five-year requirements service contract with ENTERPRISE TEXAS PIPELINE, L P , Houston, TX, for natural gas transportation and storage services in an estimated amount not to exceed $37,500,000, with five (5) years of extension options in an estimated amount not to exceed $32,500,000, for a total estimated contract amount not to exceed $70,000,000.

Amount and Source of Funding: Funding will be provided through Austin Energy Electric Fuel Charge revenue beginning with Fiscal Year 2008

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

Additional Backup Material
(click to open)
CBN_ENTERPRISE

For More Information: Carole Cameron, Purchasing Mgr 322-6155

Purchasing Language: Critical Business Need.

MBE/WBE: This contract will be awarded in compliance with Chapter 2-9C of the City Code (Minority-Owned and Women-Owned Business Enterprise Procurement Program) This is an emergency service contract, therefore, it is exempted under Chapter 252 022 of the Texas Local Government Code and no goals were established for this solicitation

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Under this contract, Enterprise Texas Pipeline L P (Enterprise) will extend their existing natural gas pipeline in southeast Travis County into Sand Hill Energy Center (SHEC). Enterprise will then provide gas transportation into SHEC and gas storage for SHEC SHEC is a very critical asset because of its cleanliness, flexibility and efficiency of operation As such, Austin Energy (AE) needs to increase the reliability of the supply of natural gas to the plant

Enterprise currently provides similar services to Decker and Holly Power Plants, and will continue to provide services under this contract.

AE requires a contractor that can provide the full scope of natural gas transportation services, including the ability to meet AE's capacity needs, load following, and storage services.

This is a critical business need procurement based on reliability, economic viability, and timing One gas supplier has proven unreliable during cold weather events, thus causing concerns that its existing natural gas service may prove inadequate during peak demand periods. The Enterprise Pipeline is located only 5 9 miles south of SHEC, the closest available source of supply, making this the most economical choice for service Enterprise has a limited time option to acquire the necessary right of way and materials, and to construct the pipeline without incurring, and thus charging AE, significant cost increases.

MEMORANDUM

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

FROM: Juan Garza, General Manager
Austin Energy

DATE: December 6, 2006

SUBJECT: Critical Business Need for an Intrastate Natural Gas Transportation Agreement with Enterprise Texas Pipeline, L.P

Pursuant to City Council approved AE purchasing procedures, I am designating the negotiation and execution of an intrastate natural gas transportation agreement with Enterprise Texas Pipeline, L P. for continued service into the Decker Power Plant (Decker) and new service into the Sand Hill Energy Center (SHEC).

Enterprise presented AE with a proposal to construct a pipeline extension from its existing system in southeast Travis County to SHEC. Enterprise was aware of AE's need to increase the natural gas transportation capacity to SHEC, and as a long time provider of gas transportation services to AE at both Decker and the Holly Street Plant (Enterprise is the successor company to GulfTerra/El Paso, PG&E and Valero). Enterprise offered terms for natural gas transportation and storage services for SHEC based on construction of this extension. We have evaluated these terms to be economical and attractive. The other options for service to SHEC are greatly limited as noted below.

This is critical business need procurement for three reasons:

<u>Reliability</u> – SHEC's combined cycle unit and gas turbines make it our most flexible and efficient generating plant. It is expected to account for 46 5% of AE's natural gas demand in future years The plant is currently served by two natural gas pipelines, Atmos Pipeline (formerly TXU Lone Star), and Kinder Morgan Pipeline and does not have back-up fuel oil capability. Atmos has proven an unreliable gas supplier during cold weather events, thus causing concerns that its existing natural gas service may be prove inadequate during peak demand periods. Those concerns were confirmed in the late February 2003 cold spell when then operated TXU Lone Star stopped all deliveries over a four-day period. As a result, AE was forced to purchase approximately $1 3 million of high-priced power. As recently as Friday, December 1, 2006, Atmos ceased gas deliveries to SHEC during a mild cold weather event. Given this concern, and the critical and increasing importance of SHEC to

the AE generation fleet due to the Holly Street decommissioning, it is essential that we provide an additional natural gas transportation service provider for SHEC and as soon as possible.

Economic Viability –There are presently three natural gas pipelines serving the City of Austin. Two of these, Atmos and Kinder Morgan, presently are connected to SHEC. Enterprise is the only natural gas pipeline that does not serve SHEC. Atmos Pipeline has proven to be unreliable at critical peak demand times as described above. Kinder Morgan Pipeline is already serving SHEC to the maximum extent of its capacity. The Enterprise Pipeline is located only 5.9 miles south of SHEC. The next closest natural gas pipeline is located in San Marcos which is over 34 miles away. Previous proposals to extend that pipeline north to SHEC were cost prohibitive.

Timing – Part of the proposed pipeline route is near the proposed expansion of the Texas 130 Toll way Project currently slated for completion in this area in late 2007. Therefore, Enterprise has a limited time option to acquire the necessary right of way and materials, and construct the pipeline without incurring, and thus charging AE, significant cost increases. In addition, the cost of steel pipe and pipeline construction has risen, and is expected to continue to increase due to the unprecedented amount of new pipeline expansion projects in the Gulf Coast area. In order to maintain this competitive offer for gas transportation services and avoid these potential cost increases, AE must execute this contract with Enterprise before the end of this year. To have the project in service by next summer, sufficient time did not exist to issue an RFP for additional gas transportation service to SHEC.

The costs for natural gas transportation and natural gas storage services are estimated at $37.5 million over a five-year contract based on Enterprise's initial offer. We have negotiated an option to extend the agreement for up to an additional five years at or below the cost of the initial five years Wherever possible, we will strive to improve these terms during negotiations.

The Enterprise natural gas transportation and storage proposal offers a unique opportunity for AE to address its future natural gas transportation needs. The costs for the construction of the SHEC extension will not, in all likelihood, ever be less than what we'll incur today, and we'll be able to secure long-term transportation and storage services at rates we believe to be lower than those currently available today

Austin Energy plans to bring this item forward for consideration by the City Council on December 14, 2006. Please let me know if you have any questions. I can be reached at 322-6002.

Juan Garza
General Manager
Austin Energy