

AGENDA



Thursday, April 12, 2007

**Purchasing Office
RECOMMENDATION FOR COUNCIL ACTION****Item No. 8**

Subject: Authorize Amendment No. 1 to increase the spending authority and increase the term length of coal transportation tariff agreements with BNSF RAILWAY COMPANY, Ft. Worth, TX, and UNION PACIFIC RAILROAD, Omaha, NE, for the transportation of coal supplies by rail to the Fayette Power Project; and short term transportation contracts with qualified trucking companies for the transportation of coal supplies by truck to the Fayette Power Project from \$12 million per year to a revised amount of \$80 million per year for terms of up to 60 months in length.

Amount and Source of Funding: Up to \$80 million per fiscal year. Funding will be provided through the Electric Utility Fuel Charge revenue.

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

For More Information: Sandy Calles, Buyer Sr./512-322-6487

Purchasing Language: Contract Amendment.

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). No subcontracting opportunities were identified; therefore, no goals were established for this solicitation.

Prior Council Action: 04/20/2006 – Approved Contract.

The City of Austin (Austin Energy or AE) and the Lower Colorado River Authority (LCRA) each own an undivided one-half interest in Units I and II of the Fayette Power Project (FPP), a coal-fired power plant near LaGrange, Texas. As FPP Project Manager, LCRA is responsible for the day-to-day procurement of FPP's fuel and rail needs. However, pursuant to the Fayette Power Project Participation Agreement, AE develops fuel-related strategies in conjunction with LCRA and is a signatory to all fuel and transportation agreements.

The recommended awards will provide "as needed" rail or truck delivery of coal for coal transportation needs not filled by long-term rail transportation contracts. Recent shortfalls in coal deliveries to FPP and other utilities as well as a movement by railroads to shift new additional business to tariff rates, require a flexible coal transportation program.

The program will allow AE to take advantage of tariff-based rail service options from the two rail carriers capable of delivering coal to FPP. In addition, it will allow FPP to utilize truck transportation of coal from Gulf Coast ports if rail service of Wyoming Powder River Basin Coal is inadequate or unavailable. Trucking firms may be added to the contract as they are qualified by LCRA as Project Manager. Shortfalls in coal supply can result in tens of millions of dollars of additional fuel costs if coal-based generation must be replaced with higher cost natural gas-based generation.

The original tariff based coal transportation was approved by Council on April 20, 2006. A higher funding level and additional term length is necessary to participate in recent rail transportation contracting trends.