





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

**FROM:** Juan Garza, General Manager, Austin Energy

**DATE:** May 23, 2005

**SUBJECT:** Critical Business Need – Amending the Natural Gas Transportation Agreement with Atmos Pipeline and Storage LLC

**ACTION:**

As detailed below, and in accordance with City Council-approved purchasing procedures, I am designating as a Critical Business Need of Austin Energy (AE), an extension of the Gas Transportation Agreement (GTA) with Atmos Pipeline and Storage LLC (Atmos), to provide continued natural gas transportation service to the Decker and Sand Hill power plants. Austin Energy will bring a related RCA to Council (target date: June 23) for approval to negotiate and execute an amendment to the Atmos GTA.

**BACKGROUND:**

Austin Energy and Atmos, formerly TXU Lone Star Pipeline, are currently parties to a six-year Gas Transportation Agreement that will expire January 1, 2006. Atmos has approached AE with a proposal to extend the term of the existing GTA for five years to January 1, 2011. Extension of the GTA with Atmos represents a Critical Business Need to AE due to its role in providing competitive and reliable natural gas fuel supplies to AE's power plants. In particular, the Atmos agreement offers the following advantages to AE:

**Competing / multiple gas transportation providers** - Sand Hill is currently served by Kinder Morgan and Atmos pipelines while Decker is served by the Atmos and Enterprise pipelines. [Holly is served only by Enterprise.] Multiple pipelines enable competitive pricing of gas transportation service. This is particularly important in the Austin area, which has only three to four major natural gas pipelines with varied capabilities. AE has worked diligently to obtain multiple pipelines at Sand Hill and Decker and the extension of the GTA with Atmos would retain those competitive benefits for AE. Further, the rates to be charged by Atmos during the GTA extension are favorable and permit savings in comparison to the terms in AE's other gas transportation agreements, particularly as to demand charges and gas compression costs.

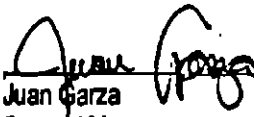
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**Diversity of suppliers and supply** - While there is a degree of overlap, different pipelines offer AE access to different suppliers and different geographic sources of supply. This diversity enhances AE's ability to obtain competitive pricing for its gas supply. Extension of the GTA with Atmos will enable AE to continue to have access to lower priced west Texas Waha gas for Sand Hill compared to the higher priced Katy supplies that are available on Kinder Morgan's pipeline.

**Enhanced reliability** - Reliable fuel supplies protect AE's competitive interests. Multiple, *active* pipeline connections allow AE to continue operations in the event of a failure on one pipeline. Likewise, such multiple connections reduce the risk of disruption by the failure of a single transporter or the impacts of weather driven events on supply by allowing AE to seek alternative supplies or suppliers on its other pipeline(s).

**Timing** - Because, as stated above, it is essential to have at least two pipelines in place for reliability and healthy competition at Sand Hill and Decker, and since no other pipeline entity could permit and construct a new pipeline by the expiration of the Atmos GTA, extension of the current Atmos GTA on favorable terms is a critical business need for Austin Energy.

**Costs** - The costs for natural gas transportation and natural gas storage services are estimated at \$5,025,000 for a five-year contract extension based on terms discussed with Atmos. AE has evaluated these terms to be economical and attractive compared to those offered by the other pipelines.

  
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Juan Garza  
General Manager