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Dear Client:

During the next ninety days, the Austin City Council may make energy decisions that could have a major economic impact on you directly, immediately — and for the long-term.

Hang onto your wallet. Your electricity could get very expensive and the supply could also be affected. The city-owned utility, Austin Energy, has made no secret of the fact it will **announce significant electric rate increases for 2012**. After all, it has to pay for the massive investments already committed, and others that are planned, in renewable energy sources.

Okay, that's *next* year. What about the next *ten* years? Well, the City has set a goal of **increasing the amount of electricity it gets from renewable sources to 35% by 2020, from the present 10% level**. Right now, renewable wind and solar sources are more expensive generators of electricity than natural gas, coal and nuclear generated power – all currently in use by the City of Austin. The reliability of wind and solar has yet to be proven over the long term.

Is this headlong plunge toward massive reliance on renewable sources of electricity inevitable? Are electric utility customers going to be caught up in a “Damn the torpedoes (cost to customers), full speed ahead!” mentality? **When electric rates go up, almost everyone is affected: home owners, renters, businesses, schools, hospitals — you name it.**

Looking out over the next ten years, Austin Energy is saying it will try to **limit future increases to no more than 2% per year. But there are no guarantees a 2% cap would be followed.** In fact, the increases per year could be much more.

Now, there's a new wrinkle coming into play. **Behind the scenes maneuvering and preliminary negotiating are going on that could change Austin's electricity sources dramatically.** And it could pump enough bucks into Austin Energy that would at least delay rate increases. A June deadline is looming because of this development. But, as with just about anything related to energy in Austin, it has its controversial aspects.

How controversial? Would you believe it would mean an **increase in dependence upon nuclear power?** Austin has fought the nuke fight since the 1970s. But that's not all. In addition, it could mean that **Austin sells its share of the coal-fired Fayette Power Plant.** Check out the next item for the details.

Austin recently turned down an offer to invest in expansion of the South Texas (nuclear) Project (STP), even though it has been receiving cheap electricity for years from the nuke plant as an original owner of the plant located downstream on the Colorado River near the Gulf of Mexico. Now it has another option for future electricity from STP.

The STP, managed by NRG Energy, has announced plans to double its capacity by adding two new nuclear reactors. **One reactor would begin generating electricity in 2016 and the other near year-end in 2017.** STP gave Austin the opportunity to invest in the expansion, but Austin turned down the offer citing, among other things, that it **might get shackled with construction cost overruns**, as it did during initial construction in the 1980s. Austin had a 16% ownership interest in STP. San Antonio's electric utility was another owner.

Now, NRG is making another run at Austin – from a different direction, with an interesting twist. Guiding this new approach is a familiar name around Austin's City Hall, **Juan Garza, who just happens to have served for years as head of Austin Energy.** Now Garza is head of advanced technology for NRG.

Garza is pushing a plan for Austin to enter into a **long-term contract to buy nuke-generated electricity from STP**, rather than expanding its ownership interest in the controversial plant. And, importantly, this **takes away Austin's chief concern that it might get saddled with any construction cost overruns.**

But there's an even more intriguing twist. Knowing Austin's propensity for anything "green," **NRG is floating a proposal to buy Austin's interest in the coal-fired Fayette Power Plant**, just down the road outside La Grange. This would **give Austin a stack of cash that it could use to hold off any immediate rate increases for its electricity customers.**

And, symbolically, it would **"remove" Austin as an owner of a plant that many environmentalists consider to be polluting the atmosphere** through its burning of coal to generate electricity. And if that's not enough to appeal to the green-minded Austin officials, NRG is suggesting it could also possibly **partner with Austin on a wind farm or solar array project.**

We mentioned at the top of this newsletter, the importance of the next ninety days. This is the deadline NRG says it needs if it is to meet its construction targets of providing nuke-fired electricity in 2016. Obviously, **ninety days is a short fuse for major decisions that could have significant impact on Austin's economic future.**

Then there is the question of money. How much would NRG pay Austin for its interest in the Fayette Power Plant? And, importantly, what would Austin pay for electricity in a long-term contract. And the controversy. Ah yes, the controversy. The public has yet to weigh in on the polarizing issues of nuclear power or coal-burning. It could get lively.

There's a *third* sizable player in this discussion about electricity. And the Lower Colorado River Authority's involvement underscores the relationship between electricity and water.

The Lower Colorado River Authority (LCRA) and Austin are the **two owners of the coal-fired Fayette Power Plant**. And the LCRA has a major contract to **furnish water to the nuclear-powered South Texas Project (STP)**. Further, LCRA's water arrangement is vital to the operation of *both* of these plants that provide electricity to Austin's city-owned utility, Austin Energy, which in turn re-sells that electricity to its customers.

Make no mistake, the LCRA is not only the provider of water to much of Central Texas, but it also is a **player (though some may say peripherally in the case of STP) in the generation of electricity** that powers homes, businesses and institutions in the area.

How is LCRA's water critical to generating nuclear power at the STP? Water flowing from Central Texas's Travis and Buchanan lakes, down the Colorado River toward the Gulf of Mexico, is diverted to the STP. **The water is used by the nuclear plant to cool the plant and condense the steam as part of a steam-electric generation process.** Without water, STP could not operate.

So, if the STP is planning to double its capacity, what does that do to the water demand? According to the LCRA, **the current water rights and 7,000-acre reservoir are already capable of supporting an expanded plant.**

Also, the coal-fired Fayette Power Plant could not operate without an ample supply of water. **The water from the Highland Lakes/Colorado River is transported more than three miles to Cedar Creek Reservoir by three pumps that can move as much as 15,000 gallons of water a minute**, as needed. This water is used to generate steam-electric power.

If overlapping ownership and contracts were not enough to illustrate the relationship among STP, Austin Energy and LCRA, **consider what might happen in the case of drought** – when water becomes quite scarce.

The City of Austin, STP and the Fayette Power plant all have **"firm" contracts for delivery of a set amount of water from the LCRA – no matter how little water is available**. So, while electricity can continue to be generated, the draw-down of water during drought impacts *other* uses of water from the Highland Lakes.

There are a lot of interrelated moving parts that will need to be considered in the short-term future. And we're not just talking about the **availability of electricity**. As we have reported previously, the LCRA is in the midst of updating its Water Management Plan that spells out **how water is allocated from Lakes Travis and Buchanan in times of drought**. When you get right down to it, electricity and water are the lifeblood of an area. And we're entering a period when major decisions will need to be made – and will need to be correct.

Have you wondered what is going on downtown on that full city block alongside Shoal Creek, overlooking Lady Bird Lake – where a very deep hole is being extensively landscaped? Well, mark one guess off your list. It's not a city park.

The site formerly housed the City of Austin's oldest water treatment plant (built in 1924), the Thomas C. Green Water Treatment Plant. **The plant was recently demolished** and the ground underneath was remediated. Then, lo and behold, **extensive landscaping**, some even tumbling over the edge down toward Shoal Creek, started appearing – giving it a **park-like appearance**.

More work is still to be done on the 6.2 acre site. After the City extends Nueces Street and Second Street through the site, there will be **4.46 acres of developable land in four partial blocks**. The City entered into an agreement with the **Trammell Crow** company for the sale and redevelopment of the property.

So, what are the plans for the site? Subject to change and market demands, four projects on the four acres are floating around. Fronting Cesar Chavez Street, a **low-rise (10-story max) apartment building** adjacent to Shoal Creek is envisioned. And a **low-rise (10-story max) boutique hotel** is also discussed.

Another low-rise **senior living facility** alongside Shoal Creek is part of the planning and the final piece under discussion is a **high-rise Office Building**. Market dynamics will dictate the final product offerings and timing.

This is a **prime piece of downtown real estate** with water frontage on two sides, butting up against the Second Street retail district, other downtown living areas and offices, as well as Austin's City Hall. But for now, enjoy the park-like atmosphere.

Dr. Louis Overholster has been tracking Austin issues such as inadequate staffing for the 9-1-1 call center and spending almost three-quarters of a million dollars for a consultant to determine if Austin needs a trolley car system. So, he thought the sign at El Arroyo restaurant on West 5th Street was especially topical. It read: "If 9-9-1 doesn't answer, don't worry. Hire a trolley consultant!"

Sincerely



Editor/Publisher