



Legislation Text

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Base load purchased power agreements for 2008 through 2013 (NB)

Staff is currently negotiating base load purchased power contracts through the year 2013. These would be contracts for power from diverse fleets of generating units, whose combined reliability would be better than from our aging fleet of intermediate and peaking units. They would pay for themselves and would benefit our customers by providing as much as \$7,000,000 per year in price protection from unexpected outages, natural gas price excursions, and improved reliability.

As a result of the recently completed Request for Letters of Intent and as described to the Commission on May 10, 2007, we received a preliminary proposal from Progress Energy for the sale of base load power for the period of 2010 through 2013. Since then another opportunity has emerged to purchase base load power for 2008 through 2009. These opportunities present the opportunity to economically protect our customers from the expensive and highly volatile costs of electricity generated from natural gas.

Both of these opportunities are for 50 megawatts of dispatchable firm capacity and have capacity payments commensurate with base load generation capacity predominately fueled with coal and nuclear energy. The contracts are sized in consideration of the potential loss of wholesale contracts and in consideration of our new energy conservation goals. GRU will have title to the power and would be able to remarket any energy it might not use. The proposed contracts are somewhat unique in that the fuel costs will be based on the weighted average cost of designated base load units. Given recent developments in the cancellation of new base load generating units in Florida, staff believes that time is of the essence in taking advantage of this opportunity.

The economic value of the proposed contracts to our customers will depend upon the price of natural gas and the availability of GRU's own base load units. If the contracts had been in place during 2006, for example, the total cost of power delivered would have been less than \$65 per megawatt-hour, and would have saved our customers over \$2,000,000. Probabilistic risk modeling performed by TEA for CY 2008 indicates that our cash flow at risk for power production, for a 1 in 20 year extreme case, would be reduced by \$7,000,000 with the proposed contracts. Finally, the purchased power would be coming from a diverse mix of high capacity factor generating units whose blended availability will enhance GRU's reserve unit reliability, especially in the later years of the contract period. The final terms and conditions have not yet been negotiated, pending the outcome of additional work on securing transmission capacity. Having authorization from the City Commission will facilitate timely negotiations. The City Commission authorize the General Manager or her designee to enter into base load, 50 megawatt purchased power agreements for power supplies through 2013 with capacity and transmission payments not to exceed to \$1,200,000.00 per month.

The contracts currently under negotiation would more than pay for themselves, would hedge GRU's power production costs, and would provide enhanced reliability through 2013 for our customers.

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