



Legislation Text

File #: 160907., **Version:** 2

Approval of Memorandum of Understanding between GRU and GREC (NB)

In June 2015, under the direction of a new General Manager, GRU staff undertook an exhaustive review of the GREC Power Purchase Agreement (PPA). In the course of this deep study, staff determined that the impact of the PPA is both financial and operational in addition to legal. The core of the PPA's financial impact is GRU's obligation to pay GREC \$212,000 a day for what is termed "Available Energy." This cost represents GREC's cost of ownership and fixed cost of operations. Put simply, the cost of ownership is GREC's debt payment and the return to its investors. The fixed costs of GREC's operations are effectively GREC's costs of being available to generate (staff, rolling stock and other monthly bills, excluding fuel and consumables). Staff determined that a buyout of GREC's PPA will generate savings in the hundreds of millions of dollars if GRU can negotiate a reasonable buyout price.

In November 2016, after determining the purchase would be in the best interest of both the City and its utility customers, GRU staff began discussions with GREC Manager Jim Gordon. GRU legal counsel drafted a non-binding Memorandum of Understanding (MOU) that would serve as a framework for an asset purchase agreement to be negotiated thereafter. GRU staff gave presentations regarding the draft MOU to the Utility Advisory Board (UAB) on March 1, the City Commission on March 2, and the Chamber of Commerce on March 13, further updates to the UAB on March 15, and the City Commission on March 16. After several written drafts of the MOU went back and forth between staff for the two parties, by March 22 both GREC and GRU Managers reached agreement on the key terms and executed the MOU. The GREC Manager represented that the GREC Board had already agreed to the terms of the MOU. However, the MOU clearly stated that the GRU General Manager must present the MOU to the City Commission for approval before it would become effective.

GRU staff made further presentations concerning the MOU at a joint meeting of the UAB and City Commission on March 23, held a public question and answer forum on April 3, and presented the MOU to the UAB for its recommendation on April 5 and then presented the MOU to the City Commission for its approval on April 6. On April 5, the UAB voted to recommend that the City Commission: 1) Approve the MOU with

the following changes: Reduce the purchase price to \$675 million; have GRU create the initial draft of the contract; and any reduction in future costs shall be used by the City chiefly for rate relief; and 2) Authorize the General Manager, or his designee, to negotiate a contract with Gainesville Renewable Energy Center, Inc., subject to approval by the City Attorney as to form and legality and subject to review and recommendation by the UAB and final approval by the City Commission. On April 6, the City Commission followed the recommendation of the UAB, thereby rejecting the MOU executed by the GREC and GRU Managers and directing the GRU General Manager to submit the new offer (as proposed by the UAB) to GREC. The GRU Manager did so and on April 7, the GREC Manager replied that the GREC Board rejected the City's offer and would transact only on the terms negotiated in the original MOU. The UAB and City Commission must now decide if they desire to proceed with a proposed purchase and if so, direct the GRU Manager to execute a new offer and submit the offer to GREC for its consideration.

To be determined by action of the UAB and City Commission.

As previously presented by staff in connection with the original MOU, at a purchase price of seven hundred fifty million dollars (\$750,000,000) the estimated reduction in future costs of continuing under the current PPA range from \$524 - \$808 million, as follows:

Keep in Standby, \$524 million

Buy and Dismantle, \$698 million

Convert and Run, \$808 million

Consider whether to:

- 1) Direct the General Manager to execute and submit to GREC a new offer on the same terms as the original MOU; or
- 2) Direct the General Manager to execute and submit to GREC a new offer on other terms, as the Commission and UAB decide; or
- 3) Direct the General Manager to cease negotiations; or
- 4) Continue to deliberate the matter.