



Legislation Text

File #: 160869., **Version:** 2

DISCUSS POSSIBLE PURCHASE OF GREC (B)

At their March 23, 2017 joint City Commission and Utility Advisory Board meetingr, the commission voted to hold a special meeting to give the public another opportunity to discuss the possible purchase of GREC.

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 GRU's customers, GRU began discussions with GREC owner Jim Gordon. GRU drafted a non-binding Memorandum of Understanding (MOU) that would serve as a framework for a contract to be negotiated later. The initial negotiations occurred under a non-disclosure agreement (NDA), but GRU shortly withdrew from the NDA so that the public, the UAB and the City Commission could be informed at each step in the negotiation. After several drafts went back and forth between the two parties, a final non-binding agreement was reached in March 2017.

Staff gave presentations regarding the MOU to the Utility Advisory Board (UAB) on March 1, the City Commission on March 2, and the Chamber of Commerce on March 13. Staff gave further updates to the UAB on March 15, the City Commission on March 16, and to the joint UAB/City Commission on March 23, 2017.

The purchase price and terms of payment outlined in the MOU will be seven hundred fifty million dollars (\$750,000,000). GRU is considering three options for ownership and have estimated reduction in future costs of continuing under the current PPA to range from \$524-\$808 million.

Discuss