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PROJECTS

Cheapest Solar Ever: Austin Energy Gets 1.2 Gigawatts of Solar Bids for Less Than 4 Cents

“We expect to see prices out in the future that are possibly below \$20 a megawatt-hour.”

by Stephen Lacey, June 30, 2015



Correction: Khalil Shalabi said was that 1,295 megawatts were priced below the Recurrent solar deal from last year, which was under 5 cents per kilowatt-hour not under 4 cents per kilowatt-hour.

A lot more cheap solar is coming for Austin, Texas.

The city's utility, Austin Energy, just released new data on developer bids for PV projects as part of a 600-megawatt procurement. The numbers show how far solar prices have come down over the last year -- and will continue to drop.

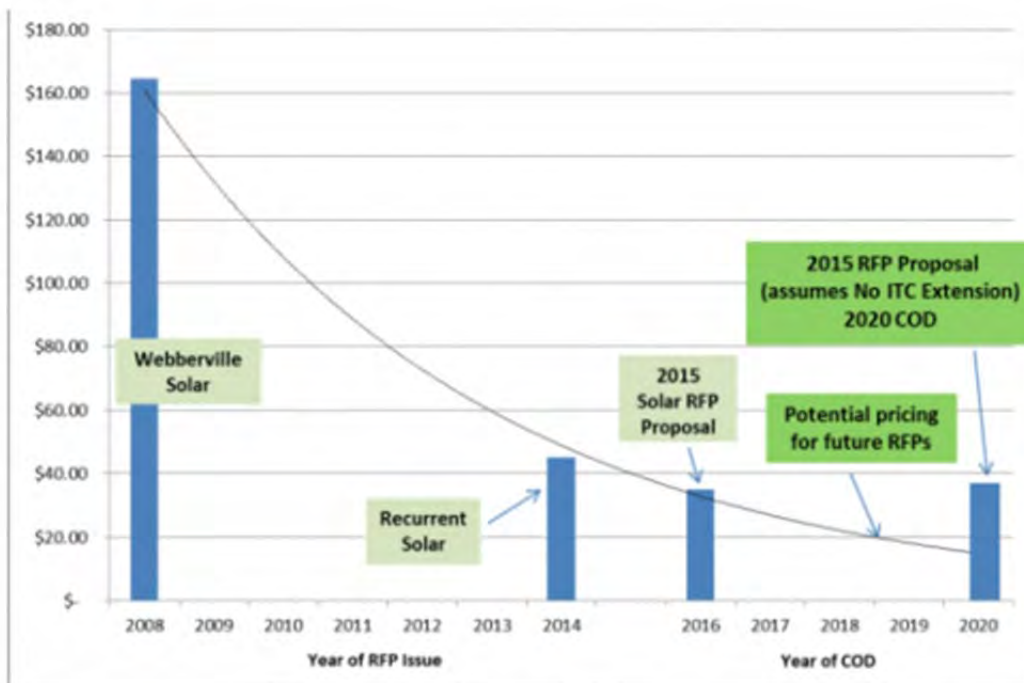
According to Khalil Shalabi, Austin Energy's vice president of resource planning, the utility received offers for 7,976 megawatts of projects after

issuing a request for bids in April. Out of those bids, 1,295 megawatts of projects were priced below 4 cents per kilowatt-hour.

"The technology is getting better and the prices are decreasing with time," said Shalabi during a presentation in front of the Austin city council last week.

Shalabi displayed the chart below showing an "exponentially declining curve" for PV projects in Texas.

"If you continue the curve, you can see that if the cost points continue along this sort of exponentially declining curve. We expect to see prices out in the future that are possibly below \$20 a megawatt-hour," he said.



Source: Austin Energy

As part of a resource plan approved by city officials in 2014, Austin Energy must procure 55 percent of its electricity from renewable resources by 2025. The utility plans to build 600 megawatts of utility-scale solar projects in the next few years in order to meet the target.

In March of last year, Recurrent Energy signed a 25-year deal with Austin Energy to deliver electricity from a 150-megawatt solar plant for just under 5 cents per kilowatt-hour. It was a landmark contract. But today, more than a thousand megawatts of projects are coming in for 20 percent cheaper.

"These bids are without question the cheapest bids ever seen in a utility solar solicitation," said Cory Honeyman, a senior analyst with GTM Research.

This price trend is a mixed blessing for developers and the utility. It shows that Austin Energy will be able to meet its 600-megawatt target with competitive PV resources. But Shalabi also said the company has "a little bit of buyer's remorse" when bids came down 20 percent after signing the 150-megawatt contract with Recurrent.

Yes, solar prices are coming down so quickly that a 5-cent contract can induce buyer's remorse.

This could cause delays for developers if Austin Energy cuts its procurement in 2015 in the hopes that solar prices keep dropping.

According to Austin Energy's projections, contract prices will likely rise for 18 months if the federal Investment Tax Credit (ITC) expires at the end of 2016. But then prices will drop back down to today's levels -- or lower. With that scenario in mind, the utility may only sign one-third of expected contracts as it plans through 2020.

"The prices of equipment and installations are going down so fast that if you were to issue another RFP post-2016, you would wipe out that difference, which is very, very small -- in the order of single digits," said Shalabi. "In other words, the ITC is not a driver for us making a decision today. We don't have to gobble up all 600 megawatts because of the ITC."

Nationwide, an ITC expiration is expected to slow utility-scale project development for at least a year. According to GTM Research, large installations will drop from 7.2 gigawatts in 2016 to around 1 gigawatt in 2017.