

Closed Caption Log, Council Meeting, 01/17/12

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[08:12:00]

we have one of our euc commissioners, commissioner day, I believe, is on the line, on the telephone line, that she'll be able to hear everything that we talk about this morning and also to participate.

I assume we can verify that commissioner day is on the line at this point.

Okay.

Thank you.

There's a voice from somewhere, and -- [laughter] we're glad to have you here swells other commissioners from the euc.

And we will advise commissioner day, who will lead the minority presentation when we get to that point.

So just a couple of housekeeping items.

This is a special called work session, which means the work session rules apply as opposed to the council meeting rules, which means that we will not be taking public testimony.

We'll only be taking testimony from people who have been invited to come here and testify, and i don't have before me a list of those names, but I would sure like to get one, if i can be provided with such.

Thank you.

So we might as well go ahead and get started.

30, and i don't know if we want to go directly into our presentation from the electric utility commission, philip.

Are you ready to leave that discussion?

Go ahead -- lead that discussion in go ahead, we'll have questions to you and your associates and then we'll hear the minority presentation.

>> Great, and I have [inaudible] statement, and i think the other commissioners all as well.

I believe barbara has as well.

So if you would, if we can all go through those first.

I will try to monitor my time.

I've written maybe too long and if it's too long I'll stop and we can move on and I'll cover it later.

And I will offer that at the end of my presentation I'm happy to take a pay cut of 50% of my pay.

[Laughter] I wanted to talk to you today about four principal themes.

One is there was a whole lot more consensus than conflict at the euc level, and I want to draw that out and talk to you about that.

The second is that the utility company as a whole really needs to be operated more as a utility and less as a department of the city, and that is a fundamental point I hope you take away from this presentation today.

The third is the importance, if we want to achieve the goals that the city council has given to austin energy, the importance of unbundling the rates so that the fixed charges come through fixed fees and the variable charges come through variable fees.

We're never going to achieve our goals that you set for the austin energy if we don't take that fundamental step.

And then the fourth, and maybe I'll cut this one off for time, we'll go there later, is there are some other ideas I've had since the euc on new ideas to explore to find some common ground.

But let's go with the consensus versus the conflict.

In honor of mlk day yesterday I thought, well, what common ground did we have at the euc?

We had 27 issues that we have to go through to reach a decision on, and out of those 27 issues, we had 21 of them where we had a vote of either 7-0 or what i would call broad consensus of 6-1.

Let's go through those real quick.

The first one was to achieve the revenue requirement.

The austin energy staff recommended to collect revenues from all customer classes sufficient to fund core functions in the amount of \$111 million.

The euc position on that was to concur with the austin energy staff subject to the following caveats.

One, delete funding for the economic growth and development services organization in the amount of close to \$10 million per year from the revenue requirement and the austin climate protection plan which are employees that are not controlled by austin energy.

Two, to remove any portion of the general fund transfer based on fuel revenues.

And 3, to remove an additional 6 million from the revenue requirement.

That motion passed on a vote of 6-1 with only commissioner day voting no.

The second item was to set policy bounds on customer class alignment --

>> do we stop as we go for questions and will we back up and do all that -- i think it would be best if you need to ask a question of clarification, you don't understand what was just said, ask it now.

philip, you talked about the core functions that were kind of unanimous in your recommendation, deleting funding for es -- ergs.

But what I didn't get is what you said about the employees and [inaudible].

So will you tell me that?

>> Oh, sure.

There is a growing habit to have austin energy pay for city of austin employees that do not report to austin energy, which we feel is a bad management.

And so one of those new developments is to have austin energy fund the austin climate protection plan employees, even though they don't report to the general manager of austin energy.

And so we ask that the cost to pay for those employees be removed from austin energy's revenue requirement.

And the other is the recommendation that we've made, I think, on the [inaudible] basis since 2007 to the city council, which is that the general fund 1% of the revenues austin energy receives for fuel, even though fuel is a pass-through for austin energy and they don't make any money off of it so they're paying a percentage of money that's a pass-through to them.

>> Cole: okay, thank you.

and that's the source of the 6 million is those two things added together, is that right?

>> No, that was an additional 6 million that was actually recommended by the residential rate adviser and you're going to stretch my memory as to what actually it applied -- I believe it applied to some decommissioning reserves that they recommended were too aggressive and we incurred -- through decommissioning that we concurred would be removed.

>> Spelman: gotcha.

just one quick point of clarification.

What you're doing right now, these points that you're going through are all identified in what I think we have as appendix a -- we've several received several times.

I'm referenced it as appendix a and -- a little easier --

>> thank you.

Yeah.

If this is redundant to you guys, if you guys have read this -- my sense was there's a perception that there was a whole lot more conflict in the euc than I believe there really was.

and I didn't want to suggest that i thought it was redundant or that you shouldn't go through it.

It's a lot easier, because i know it's a lot of information, at least for me, to have it in front of me as you're walking through it.

>> Gotcha.

and one more question.

>> Sure.

you mentioned the sustainability office should also be either not funded by austin energy or placed under the control of austin energy.

I believe that's correct.

So I remember at the time the sustainability office is not that old, and when it was established the idea was that it be not under the control of any of the utilities, august energy, austin water, solid waste services, so that they could be independent and make their recommendations and studies and efforts independent of the organizations that they were recommending about.

And so I just wondered if that factored into your thinking on that.

>> I think that makes total sense.

In that sense every agency that's governed by the sustainability office should be paying a share of those costs, versus austin energy paying 100%.

>> Mayor leffingwell: okay.

Gotcha.

Go ahead.

>> Mayor?

>> Mayor leffingwell: chris.

>> Okay.

The next one.

>> Riley: one last question.

Did you talk about the debt service coverage ratio?

>> Yes, we did.

I'll get there.

and you agree with staff on that, that the current debt service coverage ratio level is appropriate?

>> 2.0, Yes.

>> Riley: just 2.0?

My understanding is more currently some were closer to 2.7.

>> Yes, because we've been 0 for the last two years.

6, i believe, so I think there needs to be some catch-up there.

is there any savings associated with 27 to 2.0?

I mean, doesn't that knock something off the revenue requirement?

>> I don't know -- I'll -- I don't have those numbers.

don't our -- I'm sorry -- mayor pro tem.

just a quick verification.

I'm support of five of consensus and I want -- but I want to point out that it looks from our matrix as if there were various subpoints within this achieving the revenue requirement decision point, and that there were different -- different positions.

It looks like commissioner fast joined with commissioner day on certain subpoints, and as we get down to, for example, system sales and reserve funds and debt service coverage, it looks like it was not a 6-1 vote.

>> Absolutely, and I'm not suggesting otherwise, but I am suggesting that if council is looking for areas of common ground on which to build a proposal, I think it makes sense to start by looking at where was there common ground at the euc level.

>> Tovo: okay.

So you weren't meaning to suggest that there was consensus around debt service coverage, some of the subpoints related to debt service coverage and some of the other cials.

>> What I'm saying is out of the 27 other issues that we marked through and voted on, on 21 of them we had a vote of either 7-0 or 6-1.

Coffee coffee and one of them -- one of the 27, though, was achieving the revenue requirement, which seems to be broken down into a series of subpoints about which there was some disagreement beyond 6-1.

Is that right?

Am I reading this correctly?

>> Yeah, I'm telling you the first one on the achieve revenue requirement, with the motion that I just described to you, that passed on a vote of 6-1.

okay and that was strict ri the collect refuse nuls from all -- news -- revenues from all customer classes, et cetera, et cetera.

>> In the amount of \$11 million.

I guess we'll let you proceed on although it looked like mayor pro tem had a question and maybe we can nail down to the system subpoints, which are subpoints of this first decision point.

>> Absolutely and I intend to address those.

I want us to start from the perspective of where do we have consensus rather than starting from the perspectives of where do we have our conflicts.

>> Tovo: I understand that.

I'm just trying to keep all our ideas here.

Okay.

>> Mayor leffingwell: sheryl?

I just wanted to follow up on council member riley's point that we're going to drill down more into debt service coverage we might do that then, but i thought that our financial policies, and I'm not sure that's in our report, required us to at least have a 2.0 debt service.

>> Yes.

That's correct.

so are we in violation of that policy?

>> We have been the last two years, yes.

Okay.

I'm just -- all I'm going to do, I'm going to go through the items where there was consensus.

I'm going to can the rest of my opening statement and I'm sure later on it will come up.

The next one is to set policy bounds on customer class alignment and with cost of service, which was to set the residential, secondary [inaudible] less of 10k w in lighting customer class charge at 95% of cost of service and set all other customer classes at 104% of cost of service.

So that means that residential and secondary voltage, the smaller users were set at -- they would only pay 95% of the cost it takes to serve them.

Everyone else would pay 104% of the real cost it takes to serve them.

Our motion was we concurred with austin energy on a motion by commissioner smallhoff, seconded by webber.

That passed on a 7-0 vote.

At the subsequent meeting i will say commissioner day did request that her vote be changed to be reflected as no.

But let me tell you the importance of this item here.

There is a lot of discussion about base load, intermediate peak, how do you calculate the cost of service, base load intermediate peak versus average, excess demand.

I'm sorry, I'm a bit of an outcomes-oriented person.

When you look -- when you apply this formula to the cost of service methodology that the staff recommended, the average excess demand, the result for the residential customers is that they're paying 7/100th of a penny more per kilowatt hour than they would if you use the base intermediate peak formula.

So when I heard that i became a lot less interested in debating the theory of base load intermediate peak versus average excess demand simply because the overlay formula that staff applied brought residential customers so close to what it would have been anyways, what a waste of time to sit around and talk about theoretical issues regarding cost of service.

>> Spelman: mayor?

>> Mayor leffingwell: bill.

I hate to interrupt your flow, philip, but --

>> no problem.

this is an important point, I think.

You're talking about residential customers, basically whether we use 95% of aed or 100% of bip, it's the same number, basically?

>> Correct.

are there some other classes that are going to be paying more or less as a result of movement from bip -- or the difference between bip and aed?

>> I know small commercial users using the -- this formula, are paying less than they would if you used bip.

>> Spelman: okay.

My apologies for being so pedantic but who's paying more?

>> Large commercial.

>> Spelman: okay.

>> Industrial.

Who else is paying more.

Yeah, I mean, it's really every other class except for residential and small commercial.

>> Spelman: okay.

So again --

>> so those are being subsidized and everyone else is paying the subsidy.

but the subsidy, we're only talking about 5%.

>> 5%, Yes.

at a maximum point.

>> Yes, and I will point out that we had an interesting discussion at euc about if we wanted to alleviate the impact of the rate adjustments on residential, maybe what we should do is change the 95% to 90%.

And I -- we asked the folks who were testifying on behalf -- on behalf of the large commercials that question, they said that's a possibility to explore.

They were more interested in exploring that possibility than they we abandoning using average and excess demand as a methodology.

>> Spelman: okay.

>> So I think there's some room for compromise there.

>> Spelman: okay.

Briefly, as you understand it, why is it more important to keep aed plus or minus 5% than to go to bip?

What's the value in that?

>> There are -- honestly, i don't really know.

I know the representatives of the large commercial users and the industrial users are very committed to having the aed, and I think it becomes a political question more than anything else.

>> Spelman: okay.

Even though, as you put it a few minutes ago, under aed plus and minus 5%, they're probably paying a little bit more than they would under bip, and the residential customers are paying just about as much as they otherwise would.

>> Correct.

>> Spelman: thanks.

>> I think one of the issues from their perspective is it brings austin energy in line with most other utilities in the state.

>> Spelman: right.

>> And that allows them to do better comparisons between austin energy and other utilities.

the theological point of view bip may make more sense but aed is used by the state for the most part.

>> Right.

>> Thanks.

4 on this list was to mitigate impacts within customer class.

No residential customer electric bill below 1500-kilowatt hours should increase by more than \$20 a month on average and transition nondemand secondary commercial customers to demand rates.

The euc position was to concur with austin energy on a motion by webber, secked by smallhoff, passed on a 6-1 vote with day voting no.

This is an important issue to consider regarding the affordability of this rate case, but the underlying tenet is if you're below 1500-kilowatt hours, you're not going to be paying more than \$20 a month extra, and the people who focus on the percentage increase on the fixed cost I think are playing with numbers, because the bottom line bill is just a \$20 increase versus the percentage increase of their -- that they're talking about.

I think that's really important to firm.

And -- important to remember.

And it's also important to remember that the proposal, the first two tiers of electric -- of residential electric usage the cost has actually been reduced from the current tiers, so how often do you have a product that over 17 years the cost has actually been reduced for the first two tiers of usage?

I think it was pretty impressive.

The second -- one quick question on that point.

If you have a \$20 cap for that one class, how does that -- are they still in the 95% -- are they still at 95% cost of service after that's applied?

>> Yes, and that's the whole underlying structure of the rate proposal.

By using that 95%, we're able to accomplish the fact that if you're a small to moderate user of electricity, your bill will not go up by more than \$20 a month.

well, I would like to see a little more analysis of that, i mean, what's a person using 1,499-kilowatt hours versus somebody using 1,501 -- what the difference in their bills were.

>> Sure, and staff -- i mean, they have produced probably four or five scenarios of different bills for all the different types of users.

That is there.

That's available for you to look at.

I don't have it available at my fingertips.

>> Mayor leffingwell: mike?

what I'd like to see is the impact to customers who are lower income or heavy conservation customers who would see 100% increase or significant increase in their overall bill as opposed to just this \$20 cap.

Some of our customers may be consuming less energy and only see a \$20 or less increase, but it could reflect a higher percentage of their overall bill on a monthly basis.

>> Yes, on a percentage basis you are correct.

and that to me is significant.

Specifically, if you're lower income, \$20 may not sound like a lot to you, but to some folks it is, and so I just want to see those numbers -- before we start throwing out --

>> I understand.

-- adages that say it's only 20 bucks and nobody will go up by 20 bucks, I get that.

For me that's not a big deal, but for a lot of folks it is, and I would like to see the true impact of that.

>> I understand.

Yeah.

Okay.

>> Tovo: mayor?

>> Mayor leffingwell: kathie.

>> Tovo: I completely agree.

To me that's not playing with numbers.

I think we've heard from lots of customers out there for whom \$20 is a hardship and it does represent a significant percentage increase, and that's, again, as council member martinez said, it may not for many of us in this room that may not be an issue but for tens of thousands of people who are served by austin energy it is.

You made a comment about rates going down.

I didn't completely understand the last point you made about --

>> when you look at the lowest two tiers of rates for the rates for the first -- I believe the first thousand kilowatt hours and up to 1500-kilowatt hours, but I don't have my numbers right here, those rates, when you compare them to the existing rates that are now being charged by austin energy, per kilowatt hour, are being reduced, are being proposed to be reduced in this rate case.

>> Tovo: okay, thanks.

>> Mayor leffingwell: carol?

so under what you just said I'd like to know if this is possible through conservation or other measures because you're using so little energy, for you to actually raise your rate but lower your bill.

>> I'm not following the question.

well, we have a lot of weatherization programs, and what I understand you to just say, when you get down to low numbers, you know, a thousand kilowatt hours, the rates go down.

>> Well, let's remember, the average user uses about a thousand kilowatt hours.

The average user.

So that is not so low.

>> Cole: okay.

So is it possible, and i just want to put this in the range of possibilities because I mean, I know we're all concerned about raising rates and what impact they have on our customers and especially low income customers.

Is it possible for us to target in such a way the very low income customer that is also a very low consumer and conservationist so that although their rates go up, they're not seeing this type of increase, or less of an increase, or even no increase in their bill?

Because a lot of times we're talking about rates and we haven't lined out, you know, all the different kilowatt hours and what the average is and what the average could be under different scenarios, but if we focused on being able to say we're going to meet you halfway, if you meet -- we're going to meet you halfway with conservation, we're going to meet you halfway with education, and we need you to continue with that conservation even more so.

And we've got a possibility here of even raising your rates and still lowering your bill or raising your rates and your bill is going to be \$5.

>> Mike webber, utility division [inaudible].

Some data with that.

As a part of the concern for what might happen to poor users or people who don't have a lot of money is a doubling of the programs.

[Inaudible] rate cases is a lot more money to help the customer with bill management, spreading bills out over many months, weatherization, energy officials.

So what you're asking for is already incorporated into the proposed rate structure.

It's -- I won't say it's 4 1/2 million but \$9 million.

So substantial increase in investments to help lower rate users deal with the -- is it possible for us to run that scenario to say we have -- and I don't believe we have it now or else council member morrison would have pointed it out already.

[Laughter] is it possible for us to run that scenario on what we expect the increase of assistance to be, what we expect or have seen with the weatherization increase and then what we are about to do on a lower income customer?

>> So I think the increase is already built into everything we voted on and everything you've seen, so there's already an increase of investment for customer assistance, for example.

What that will do and whether people take advantage of it I think is scenarios -- I don't think we know exactly.

So part of it would be letting people know, hey, there's more help if you need it, we have more help with weatherization, more help with bill payment programs.

So austin energy already does that.

We'll have to do more of that because there's more funding available for that support and that funding has been doubled particularly because of euc and other concerns that lower income classes will be hit by a rate increase.

And so there's money to deal with that.

And I think a point that philip was trying to make also in there, that there is -- there's a big difference between low use and low income.

They are not the same.

A lot of low use people received [inaudible] because they have solar panels and I'm not interested in looking out for his financial interest but the low income low users as a class can be helped for these other programs that austin energy is -- double the amount of money for that.

we can focus on that later, but I'm particularly intood in the low use low income.

>> In that program, they're double, specifically for low use, low income people.

>> Well, I think we need to watch out there because i believe a lot of low income people are in very inefficient homes, and it makes it very hard for them to actually be low use when they tend to be, in fact, relatively high use, and i think that's a changing phenomenon that we're witnessing.

and I think we need to focus on both before we actually land on the number of the increase, because if we're able to focus on low use/low income and see what we can do for that customer class in terms of a rate, and then we're able to focus on high use, low income and what we expect to become -- or we need to go forward with weatherization for that customer class, then I'm not so sure that the push-back that we see on the rate that we've adopted we can actually challenge more whether it's necessary for your inability to pay.

>> Tovo: mayor?

-- there's two people in front of you first.

But if I could respectfully suggest that we limit our comments during the presentation to questions about clarification, otherwise, we're going to be time limited this morning, we might not have time to get to the minority report.

So it's just a suggestion, and I think it would be a benefit to all of us to try to get the entire presentation before we begin a generalized discussion.

With that said, laura?

thank you, mayor, point well-taken, and just for my own clarification and as we work through this, there's some additional information that would be really helpful for me to have because i understand the considerations that have been made and the recommendations for low income

folks, that one of the differing pieces of information I've been getting has been about what is the average usage of low income folks, and it would be really helpful if we could have an estimate of the distribution of usage of low income people because our responsibility, while we need to move toward mitigating these rates for low-income folks, I want to have a realistic assessment of what the reality of the impact is going to be, because even though we're doubling the cap investment with the recommendation, that really only goes from one-fifth to two-fifths of two 50s of the people that need it.

So that distribution would be helpful.

>> The data that we've been -- data we've been given to address that issue show use and consumption and the data I've seen indicates that the average energy consumption for low income people, people that are participating in programs that the utility is actually higher than the average energy consumption for people who are not participating in those programs.

and data that we were given last thursday said that the average for low income was much lower than the average for the state.

From a very reputable person, so we just need to get all that sorted out.

>> Mayor Leffingwell: kathie?

I concur with your suggestion.

I'm getting a little concerned we may not have an opportunity to hear from minority members of the audience today who have offered to be here to share their testimony and some of them do work -- [inaudible] knows a lot about the customer assistance programs and we have others, so if we can kind of proceed and hear from everybody but then sort of move to the issues in a way that -- as we talked about initially, work session rules will not take general comments from the public, only those listed on the.

that's what you've listed.

I'm not sure that everybody has the list in front of them as to who is available to speak, so I just want to point out, we have a representative from the school district here to speak to that.

We have Josh Houston and McCall Johnston, who can speak to the impact of the rates, and some of their suggestions in terms of congregations.

We have Carol Bejitsky and Linette A. Cooper, who Linette A. Cooper can speak to revenue requirements and a variety of other things in great detail.

Carol can talk about -- we have other experts available to us too.

>> [Inaudible] looking at low income, high use.

There's not one reason.

Some of it could be due to energy inefficiency, which is -- there's a process by which that's being remedied through monies and austin energy is out there trying to help retrofit.

Another could be size of family, and another could be just wasteful use.

So, you know, because of whatever the family -- the individual family is doing, as far as their own appliances and everything else and lifestyle.

So I think looking at this, you're not going to find one answer to the whole thing, but there is a -- built into the rate cases, commissioner smallhoff put it, [inaudible] as far as what is due to housing stock and try and mitigate as many bills as possible.

yeah, I think that is an important concept to keep in mind as we go through this.

This is not any kind -- there's not a direct correlation between income and usage.

In fact, it may be exactly the opposite.

If you're very wealthy you can afford to invest in the kind of things that would reduce your usage where if you're not you wouldn't be able to make those investments.

Judy?

>> Mayor, in the interest of time, I'm judy flare.

May I suggest that you have the decision [inaudible] and if you want to ask questions about any of them, do so, and otherwise I'm sure there's a whole lot more dialogue that needs to take place.

that's a good point, and -- but, smart is making his presentation now and we're going to try to get through that and go to a minority presentation and hear from some of the other folks that are on this list here, and then engage in a general discussion.

So as quick as --

>> I'll talk about -- I'll just talk about one more and up up's the dais.

13, apply residential customer charge.

The city staff recommended raising the [inaudible] central customer charge from \$6 to \$15 a and to remove this portion of the charge from variable energy charge.

Euc voted to condition cower with the residential rate adviser and instead elected for a \$12 customer charge with additional fixed charges of the a line extension hook-up fees, and that passed on a vote of 6-1 with day voting no.

This is the kernel of unbundling your rates.

The city council has asked austin energy to reduce through energy conservation, reduce usage by up to 800 megawatts by 2020.

That is a great goal, but that is a very difficult goal to accomplish.

Austin energy's current capacity, generating capacity, is 2700 megawatts, so you're essentially telling this company, reduce your sales by roughly 33 to 40% in the next eight years.

What owner tells their company to go out and reduce sales by over a third?

And how can you possibly afford to do that?

That -- we're pointing the utility in a direction where they're going to lose substantial revenues in the next eight years.

I'm sorry, really quick question, michael, if i could just -- I'll just put this on the table and you don't have to address it, but maybe think about it as a part of the fixed fee, did you consider -- did you write any scenarios on the concept of including within that fixed fee a certain number of kilowatt hours, 2 or 300, something like that?

>> Absolutely, that was commissioner fass's suggestion and I think the euc as a whole wouldn't have a problem with doing that.

Let me tell you why in the end we didn't go that direction, or what I think is a reason, and that has to do with transparency.

The euc went through six months of increasing transparency for austin pricing and policies being and we thought it was more intellectually honest and more transparent to the rate payers if we say this is your fixed fees and these are your variable fees.

If we open the door to saying there's an area here that's somewhat fixed and somewhat variable, that door is going to get opened wider and wider in the future, we believe, to where it's going to be hard for people to track what's fixed and what's not.

But the concept was fine, but it was the issue of transparency that led us to say, probably won't work doing it that way.

more discussion on that concept to follow.

Laura?

>> Absolutely.

I have a quick question for you.

I think we all understand that the fixed costs are the lion's share of the utility's expenses.

Was there any discussion about target for the percent of revenue that would be fixed, overall, out of the \$.1 billion?

Was there a target set?

>> That was dictated by the cost of service study, which broke things into category of fixed versus variable, so that's an empirical question, and when the studies were done on the cost of service there were some expenses that were fixed and some that were vacial.

To say that 2 it should be 60 20/80 is variable --

>> you're saying the proposal should essentially match up that the variable expenses will be coming in with variable revenues and the fixed expebz will -- so it's -- it should theoretically be 100% aligned with --

>> that would be the objective.

It's important to keep in mind the large chunk of one's bill is variable cost and it's fuel.

So it's definitely not the case that the majority of the utility's expenses are fixed.

Roughly half of the budget ends up being fuel.

>> Since we've got a number that is like \$45 for residential customers and fixed cost, and right now \$6 of that is recovered -- the current rate structure, the austin energy proposal is to cover \$15 in fixed form and we passed 6-1 it would be \$12.

The average cost I believe is -- what i summarized is incorrect.

It's not 100% alined.

There's a judgment made as to how much -- just as we deal with the water utility, we know that it's more than -- it's not aligned with the --

>> it's not -- -- with the breakdown so there is a judgment call.

Do we have an idea of what percent that that proposal brings in in terms of fixed?

>> My recollection is that roughly half of the fixed costs that could have been recovered if we had been strict in the economics are what came through to the proposal here as the, you know, fixed customer charges.

Roughly -- it's roughly half of what it could be on a pure model.

>> Let me just say that by -- by increasing the fixed charges you are opening the door for austin energy to really be a unique utility in the country in meeting its conservation energy goals.

If you don't do that I'm afraid you are, in fact, closing that door and going to make it very difficult for them to ever accomplish those goals.

On top of that, the rate proposal has what would be the most progressive inverted block rates in the state of texas so that the highest energy users would pay the most.

The people that are saying it's backwards or sideways or whatever I think is missing the value of unbundling these rates and getting this energy utility to accomplish the goals that you have set forth on energy conservation.

Let me just say one more thing on the revenue requirement on the issue of the utility needs to be more -- treated more as a utility.

We really need to be careful that we're not trying to -- we've got four -- we've got two commissions, we've got the city council and we've got the city manager who all oversee austin energy, and i don't think either one of them does it effectively.

You're being advised by a volunteer board that meets once a month to review a \$1 billion a year corporation.

I think we need to move off of that and to have a discussion on the best way to manage this utility, and in that connection I urge you with regard to the revenue requirement not to do it on a political basis.

We've had four separate financial analysts review the revenue requirement, and they've all come back and said, it's correct within a few percentage points.

I mean, two of them had some quibbles, but very, very minor.

I think it's extremely dangerous for some of us to start putting a finger in the air and say, well, maybe we'll [inaudible] 50% of the revenue requirement or 60%.

That I don't think is a responsible board of directors of a utility, when you've had four independent analysts review it and advise you.

And I'll stop right there.

further questions?

>> Philip, when you all were talking about the fixed charge, did you look at practices of other texas utilities?

Some concerns have been raised about the prospect of austin energy becoming an outlier on the spectrum of fixed charges applied by municipally owned utilities.

>> Absolutely, we will be an outlier, and that's actually a reason to do it, because this is -- we need to do things differently than we've done things in the past.

If you continue to force austin energy to recover its fixed costs by the sale of energy, well then, guess what?

They're going to try to sell more energy.

They're not going to try to cut that back by 800 megawatts.

They will not be able to do that.

They won't be able to financially survive.

at our hearing last week we heard some concern about the prospect of the puc reviewing the rate case and in particular the notion that the puc would not look kindly upon fixed charges that are so far out of line, to the rest of municipal utilities in texas.

>> I can't advise you what the puc will do or not do.

I can advise you on what i think is the right direction for this utility.

And if puc slaps us down, then the puc will slap us down, but I do think it's the right direction to get this utility to meet the 800-megawatt goal.

And in the long run, the people who are complaining the most about this i believe are the ones who will be benefited the most because they will be saving a lot of money by avoiding expensive generation, by building new generation.

If we can, in fact, reduce 800 megawatts, that's 800 megawatts we didn't have to build.

That's a great long-term investment.

[One moment, please, for] so in my world, this was a whole new world, and i didn't know anything about it.

She came on board, september 1, with the euc rate case, and then december we had the city council rate proposal.

But anyway, I will follow barbara.

>> And I think barbara is out there somewhere.

[No audio available]

[10:52:23]

[no audio available]

[10:56:10]

>> I'm sorry to interrupt you, but I have to announce that your voice is not coming through on channel 6.

Everyone of course here in the chamber can hear you loud and clear, but we're working on it, it's technical difficulties type thing, we're trying to correct it, but I wanted to make sure that everyone viewing at home didn't think we were just sitting here twiddling our thumbs.

So go ahead.

>> Mayor, could I interrupt?

Barbara, thank you for that.

I know this seems to be a critical fundamental issue from a policy point of view, and I wonder if there is some way that staff and various members of the public could help us sort through this.

What is the real difference?

What is the impact?

And help us understand that not right now, but I think it's a fundamental issue, and it's a philosophical issue also.

>> Agreed.

And when barbara gets through with her presentation, I assume everyone has this list, we can call on anyone that you would like to call on.

>> And I plan to address that too when I get to -- thank you.

>> Sure.

[10:58:00]

[No audio available] it has become apparent now that the school [inaudible] to the low-income, one of the other members spoke, [inaudible] council should take plenty of time to look at.

..

Future expenses and the historic adjusted downward revenue, and I think that needs to be looked at much harder, and the -- I think the solution to that is to redo the revenue requirement part using 2011 test year.

That would be a complete year of operation through ERCOT, and use actual numbers.

The revenues from system sales, which means Austin Energy's home customers have been adjusted downward in the original case that was looked at by the EUC, the adjustment downward was 6 million, and they did that through a, quote, normalization of weather, by saying that 2009 was an extraordinarily hot year and it wouldn't be normal or replicated in the future.

Well, we know that is not true because of what happened this past summer.

But surprisingly, when the case was filed in December, with Council, that number with us adjusted by -- was adjusted by \$20 million more.

So now they have adjusted the system revenues down by \$29.6 million.

No explanation.

This no carryover connect 57,600 actual revenue that Austin Energy realized was taken out of the total revenues because -- and the argument was that those sales wouldn't necessarily continue.

So there's --

>> they didn't represent normal operating, because the weather was extreme in 2009.

That was their rationale for it.

>> And as you pointed out, you know, we had the same situation this year except the number was 30 million.

So the revenue was lowered, the forecasted, instead of using actual costs, they used forecasted costs because they were switching to the nodal market, so the costs were not exact.

They were forecasted costs and then the off system sales of 2009 were also adjusted out.

So is that --

>> just about--

>> -- simplified version of what you said?

>> It is in general, but there are some slight differences.

One is that although the original weather adjustment 6, austin energy, when it refiled the case in december with you, with council, they increased that 6, so they've adjusted even more revenues out for weather adjustment.

I don't know why.

They did not say why.

And, yes, the off system sales were also adjust out.

They removed \$33 million from the case that was at the puc, and they've increased that, and removed now another ten million dollars, they've removed \$43.8 million.

So revenues are understated, and expenses are overstated, and the expenses that are overstate ready not due to the nodal market necessarily.

>> And so the --

>> but, yes, the principle that you are stated is correct.

>> Commissioner davis, to get to the bottom line of that, in 2009 we had more revenues than we're considering here, and fewer costs that are being considered here.

>> Yes.

That would be correct.

>> And so that -- that is -- those are numbers that factored into the revenue requirement which is the basis for the rate increase.

>> Correct.

>> To get back to what the mayor was saying about, you know, whether or not it's appropriate for us to look at the revenue requirements, I would say absolutely we should be looking at the revenue requirement, because as you've shown through this point, but also some others, you know, those are the bases for how much revenue we're trying to collect through a rate increase, so if those numbers are wrong, we're in danger of increasing individuals' rates beyond what we actually need.

>> Yes, I think that is correct.

And the residential rated a visor's latest report to you -- I'm sorry, december, I don't know the -- I think it's maybe 19, he has pointed out in that report this very phenomenon, not with numbers, but the principles of it, and he has pointed out, and stated a concern that austin energy has used forecasts and projected numbers for expenses but have not projected revenues for corresponding period, and --

>> I believe laura has a question for you.

>> Thank you, mayor.

Sorry to interrupt, commissioner day, I just want to -- the points that you and summarized by councilmember tovo are making, I think it's critical we put those in context, because what you've listed is potentially, let's see, 60, \$70 million in understated revenue, and the total amount that we're working on in terms of an increase revenue that we're looking for is I believe 101 million or 124 million, but then you take some off for the underreported.

But anyways, about 100 million, if you found \$70 million under the table, that would decrease the extra amount of money we need to get with this rate increase to 30 million instead of 100 million.

That is a significant difference, and I know that there are other -- so that would have -- that would hugely change the proposal that we would be looking at in terms of rate increases and fixed fees and all of that, and the additional issues to consider here are have we chosen the right debt service coverage, because that folds into the revenue requirement.

Have we appropriately identified what our reserve funds should be?

That also folds into the revenue requirement.

Whether our capital expenditures should be as heavily cash financed or not, and whether we should be looking at a change in impact fees.

So I whole heartedly agree with you, mayor.

I think that this is absolutely the fundamental driver of why we're here in the first place.

>> Leffingwell: Thank you.

And I just want to say -- emphasize once again, I'm not saying a is right or b is right, I'm just saying this is a question that we have to resolve and we have to gain consensus on what that resolution is.

>> I agree.

And it's -- it's not only -- I mean I think it's so important because it has such a significant impact on our future actions.

>> Leffingwell: Go ahead, barbara.

>> With regard to the debt service coverage, that is another area that is driving the revenue requiremen and, and it has been state bid austin energy that -- they stated I guess three different ways.

They've stated at one point that they've only achieved 66 time coverage in another place within their filing they stated they 81 time coverage for the same year, so there's something going on with the way it's being calculated.

I was hoping that the auditor would be looking at that and I don't know when you are going to be hearing from the auditor on that, but I am very hopeful that he has looked at that and will be looking at it.

In fact, your bond covenants, the bond issuance 57600no carrierringconnect 57600 nobody that I'm aware of at this point is suggesting that your bond coverage should be lower than two times.

That is with -- that is your range.

That is the stated financial policy, and I think everybody has come around to accepting that you should have two times, but austin energy newest filing in december to you has included 37 times, and then I think in the third 44 times.

Now, remember that your bond 25 times.

And the rating agencies consider that 25% bump up as a cushion, but you have chosen to be conservative and go with two times, which is very, very generous, and it is a conservative number.

But austin energy has produced in this filing the revenue requirement they've 37 and then 2.44 in the third year.

So another way to look at this is to scale that back, make that calculation, and that was included in the memorandum that I sent to councilmembers.

>> Leffingwell: And barbara --

>> played out how it's down.

>> Leffingwell: Barbara, for planning purposes, we have a couple of other people, your shooting wants to say a few words also.

About another ten minutes or so, if you can plan on that, so we will have time for discussion before we adjourn.

>> And then what I would like to jump to are the charges, and then I will pass it over to trudy.

Customer charge is currently \$6.

The euc has recommended doubles that to \$12.

For the 100 or so years of utility regulations, customer charge is a very small group of charges.

It's billing and it's metering and customer service costs of operating your phone banks.

And it's always been that way.

There has been no study by austin energy to show that those costs have increased.

In fact their filings shows that those -- that small group of costs has decreased.

So I see no reason to double the customer service -- the customer service charge.

In fact I see no reason to change it.

Austin energy is using it simply as a source of income and as a source of money.

But since it doesn't -- they haven't shown that those -- their costs for servicing the customers have increased, I'd see no reason to do that.

Again, it's a -- it's a rive charge.

Anything done on head count as opposed to usage is a regressive charge.

It harms the small user the most and sends the wrong signal as far as conserving energy, because people have no control over it by their usage.

The delivery charge, as i think the mayor's office has already pointed out.

We -- no other regulated utility in the state of texas has a delivery charge.

The only one that I'm aware of is pedernales, and it has not been appealed to the puc, so it has not been -- it's the only one that has a delivery charge.

Again, this is a very regressive charge.

It's done on head count and not on usage.

So if I'm using -- well, let's say that customer a is using 500-kilowatt hours a month, and customer b is using 5,000 kilowatt hours a month, each of those customers, under this proposal, would pay the fixed, flat fee.

And yet, the customer that is using 5,000 kwh a month is using much more of the distribution system than customer a is.

And so it is inherently regressive and unfair.

Now, I understand the argument, well, we want to collect more of it in a fixed charge, because we don't want austin energy trying to sell more power.

But this is not the way to get there.

Definitely not the way to get there, because you are putting the costs on in the wrong place, and you're not collecting it, as it's being imposed on the system.

You have -- austin energy has always collected the distribution charges in the kwh charge, and it should continue to do so, because that is the way the cost is imposed.

And it imposes the costs on those customers who are imposing the cost on the system.

Now, somebody has talked about -- or a couple of people today have talked about, well, gee, the low-income people are not necessarily low-use customers.

They're actually high-use customers.

That -- I dispute that, and there was one -- I think austin energy put out one study on that, but I know that cooper and paul robins did analysis of that, and looked carefully at the low-use customers and the low-income customers, and came up -- came to a different conclusion.

So that I caution you not to take that to the bank.

That is in dispute.

That may be something else that you would like to have really resolved before you make your final decision.

A final thing I want to say, and I have addressed this in a memorandum to you, but i was very surprised that austin energy raised its fuel charges effective january 1, and the increase on the residential class is 16%.

That is a pretty large increase, and in combination with a base rate increase is going to be very hard for working class people to accept and live with.

And I would ask you to look at the procedures that you have for supervision of austin energy on these fuel charges.

As I understand it now, austin energy itself makes the decision without coming to the euc, without coming to council for approval, and while I'm not suggesting a particular procedure, I am suggesting that you look at this process and change the procedure because I think there needs to be some supervision.

We're at a time where fuel costs are dropping, dropping, dropping, and it's the gas costs which is usually a proxy or fuel cost for the utility business have gone down, so it's not at all clear what is driving this fuel increase, and i think we need to understand that.

We need to have some supervision of austin energy.

They need to answer to council or to some representative appointed by council before this -- before changing the fuel factor.

I'm getting the idea that council is very focused on the impact and the practical in this, and I applaud you for that.

This cannot be done strictly on a theoretical basis.

We have to look at, and i know you are looking at the impact on all the citizens of austin, and outside the city limits.

But I also encourage you to look -- keep in mind very big picture if you have the right revenue requirement, you scale this request back, then you don't have to provide so many subsidies, because no one will be hurt as badly as the way austin energy has structured it now and is requesting it.

I encourage you to take more time to look at the revenue requirements and ask austin energy to utilize a new test year.

Thank you for letting me participate on the phone.

(One moment, please, for ..) s.

>> -- 39% Of the total revenue and the commercials paid 40% and so even though they are many, many times more than residential than commercial, the revenue input is roughly equal.

And now look down to the fourth series of numbers, the cents per kilowatt hour.

6 cents per kilowatt hour.

The commercials are paying 9 kilowatt hour and at the bottom, the industrials are paying 6 cents per kilowatt hour.

And that's -- that's mainly those long-term contracts that don't expire until 2015 and of course, that is another story, but the other thing is the cost of service modern dolg.

Methodology.

The other paper has three columns and we are talking now about cost-of-se methodology.

And this is something that meryl did us for, and I have known him 20 years and he used to do cost-of-service methodologies on his home computer in the late 1980's and he took two columns -- three -- no, two co out of austin energy's comparison of aed and the key thing is the last column.

96% decrease and then it goes on down the way.

And the big story is those last three primary volten people under aed they get further reductions of 10%, 12%, 14%.

And that is what a lot of this discussion this year is about cost-of-se methodology because when they do rates for the 2015 increase, this is where -- and I say just give us 96% but if you don't address moth dolg methodology today, you're going to be stuck with -- and then the next time you do rates, this is what they want and you wrote y'all a four-page memo, and I watched all five hours of it and the only person that ever spoke with methodology was the man touting aed and this is why, this is why.

And they want their foot in the door and they want y'all to say oh it doesn't make much difference.

You just use aed when it's wrong.

And in that respect, I asked our residential rate advisors, very recently, were you able to verify that the consultants properly did aed and bib and he said, no.

He said they kept changing the numbers and he was never has able to verify it and so I have three requests for y'all today.

One of them is to hire contract with a local consultant named diversified utility consultants.

They live here and they practice here, but they practice nationally and they represent only municipal and co-ops.

And they have helped us two or three times on past rate changes, in the 80's and probably the '94 -- I'm not sure.

And it takes an engineer and a financial guy to do this and you get the engineering data for each generator and then the numbers and the load curves and everything.

But diversified was one of the bidders on this contract, and i don't know anything about the staff evaluations but they were not recommended.

And I will say that all of these -- well, I would say 90% 0% of all the consultants that do rate cases they make their living off of representing investor-owned utilities.

That is where the money is, and these people -- I don't know how many there are, but they are wonderful guys and I haven't talked to them in several years and I'm not trying to make them to the commission or whatever, but if they studied the proper computation of these methodologies, I would believe it.

And until that time, I don't believe it and our rra told us that he was not able to verify.

And so I think that is very key.

Now, another thing -- and my second request is I wrote y'all a four-page letter because i could not come to that five-hour meeting and on the third page i asked for a study request of us austin energy to just make four charts.

And sheryl, and the other councilmen, you were told about impacts.

Well, in september we had a one-page chart of the rate proposal for all the classes and a one-page thing that showed the bill impact on the various consumption levels and those charts included fuel.

And so when they did the december proposal that came to council, they didn't have fuel; they just had the base rate numbers, which is better, but the bill proposal had rates on a chart and the impact has a graph, and I would say if you would have them make four charts and use base rates without fuel and put them all on charts then I think you would all know what we were trying to talk about.

Even I would know what we are trying to talk about, because you can't -- you can't -- you can't assess this with so many different things.

And the december charts had a fuel price spread across the middle of it, and they didn't have fuel in the numbers but they had a fuel price three point something, and then about a week later they announced it 61 higher than whatever they had there.

And then my third request is to please allow the uc to go back and study more on time of use, rates, the small commercials, the religious facilities and -- so there is a -- the third question is that we now have a nondemand general service rate class.

That is the commercial people that use these than 20kw.

And so what I don't know is how many of them -- you know, there are 40,000 something commercials and I don't know how many customers are in that general service nondemand, and I don't know what type businesses they are.

I strongly suspect they are very diverse and they are little guys trying to get along and they don't have a lot of options about where they can do this or that.

They are just trying to serve the customers and make a living, but if we had a who many and who they are, we would have a better idea of what you're talking about, and the uc unanimously recommended that you start commercial demand charges at 20kw.

And so you have that class already isolated under another name, but there are no demand charges.

The demand charges also bring look something called a power factor adjustment.

And I don't know how many of those little guys there are, but I have a vivid picture of the wonderful people at austin energy trying to explain to the little restaurant owner or repair shop owner what a power factor adjustment and what a demand charge is and all he wants to know is what is the bottom line on my bill.

This utility lives and dies by its system load curve, its overall system load curve.

It's lower in the spring and fall and higher in the summer, and blah, blah, blah.

But these people -- those demand charges and power factor adjustments are to try to encourage the customer to improve their load factor.

And my contention is those little guys don't have -- they have enough diversity that they don't have squat influence over what the system load curve is.

And so now as far as religious facilities, we didn't -- we didn't talk about those and we didn't make a recommendation.

I listened to it and I think time-of-use is something very important.

And I don't know if we have time-of-use optional rates now for anybody, the residentials and I think small business.

I don't know whether it adjusts in the summer time or just on week days.

I don't know what the deals are, but there are different ways of looking at it.

And there is a facility -- as i understand it, all but the sanctuaries are already in the commercial rates and so these -- the sanctuaries that have services on saturday or sunday, and that is generally in the morning.

And they may have to heat that building the rest of the day, but if the load curve is lower on weekends, I don't know whether it is or not -- if the load curve is lower on weekends, then you have time-of-use rates for week days but not weekends.

And we didn't talk much about that.

And I don't know much about it.

You need a lot more data and discussions.

And I've got, let's see, a few more.

About the fuel charge, I was shocked too, with natural gas prices in at a low to get that half-cent increase on january 1 and I do want to say that for nine and three-quarters years from 1988 until april -- yeah, january 1, 1988 to april 1 of '97 we had a monthly fuel charge.

It was a three-month moving average.

The actual cost.

They had the last month we got the bill, we knew what we spent and then a forecast for the next month and then they adjusted it by what they estimated, over or under the previous month and so you were getting actual charges.

What we do now is we overcharge -- it helps some people in the summer, but some people would object to knowing that austin energy is being big poppa and overcharging for fuel so you don't have to pay as much in the summer.

I'm not going to get into that, but anyway, there is such a thing as monthly fuel charges that we could find out where this came from.

Residential rate design, in this letter I wrote.

And I've talked to larry weis and I think he agrees with it.

And I've talked to the mayor, and I mean there is a good possibility that instead of that -- we want a fixed dollar customer charge and instead of the delivery charge we want what I learned this from austin energy in september, a bundled charge -- a bundled charge, and it's so many cents and it covers whatever it ought to be.

In september they proposed a bundle charge for the first 300 kilowatt hours at \$30 fixed charge.

Well, I looked at my bills for the last two years and half of my bills were less than 300 and so I used to save 150 or not over 200 but that way, it may not be as transparent as our wonderful chairman likes to talk about but it could effect the bottom line of a bill and thank is what most customers look at and I would recommend the bundle charge at not more than 200, i think that is a little high and I think we can go back to the 201 census and find out how many thousands and thousands of unoccupies dwellings there are in our service area that maintain electric service while trying to rent or sell the house and a few people are on long-term overseas and they've been getting away with a \$6 customer charge and hardly any usage and so they have just had a gravy train for all of these years and if you had a bundle charge it would probably be 19 hours of whatever charge you get and that would take care of the unoccupies dwellings.

>> Commissioner, I have a question about that.

You're suggesting that the delivery charge would go away --

>> yeah, yeah.

>> -- And be replaced by that.

>> And the city could get its fixed numbers, and probably an even 19, and they want -- 23 [inaudible] and they do 19 or 20.

20 at 200 and if there is one person living in a small dwelling in an apartment or house and they don't have air-conditioning but have lights and a refrigerator, a tv, lighting and some fans and i don't know how much they use.

And that is what we are talking about.

>> And I wondered, do you have any other thoughts philosophically speaking about a delivery charge --

>> oh, I'm totally opposed.

I use my house as an example.

We built our house in 1965 in a little subdivision in a neighborhood and the last house, and when we moved in, the wires or down the street and the wooden poles were in, and what they were saying is this was to pay for what you put on the system.

If I had been paying \$10 a month since 1966 to deliver my electricity, now I know that is extreme, most people are not as blessed as I am to live that long, but what these fixed charges [inaudible] type ratepayers are being asked to subsidize and it's the same issue.

Barbara didn't talk about it but on debt service coverage, austin energy does 50/50, and your financial policies say you can do anywhere from 35 to 60% cash versus debt.

Well, most people think if you did 40/60 instead of 50/50, that is how much cash you would save every time you go out and build a new gas turbine or substation or you know, a high-dollar capital improvement.

>> And just to be clear, that is a part of making up our revenue requirement --

>> that's right, that's right.

>> Okay, thank you.

>> [Inaudible]

>> yeah, yeah.

I think I'm through.

>> Thank you, appreciate that.

And before we go to questions from the group listed here, i would like to give other duc members an opportunity, some of you or all of you.

>> [Inaudible] study this not not only austin but throughout the nation, and one comment is about the revenue needs and how much we need, and this is actually not a number we are going to figure out.

All you can do is predict and guess and come up with a model that makes sense and the answer is rough any \$100 million plus or minus.

To be honest, we are like from zero to \$200 million --

>> you're not helping us -- (laughter).

>> But the point I want to make is we are arguing about whether the revenue needs have been overestimate and I think we have underestimated because natural gas prices could double and we could have a power plant or stp go off line for environmental or other events and we could have other new environmental issues kick in, and [inaudible] a cost of some sort.

We have potential downing of lines due to hurricanes and all sorts of things that I could think of that would cost tens of millions or hundreds of millions that are really not a part of the conversation.

And I worry that we are underestimating.

And I don't think we are overestimating.

And I just want to make sure that you hear that.

Another piece and I want to give a four-year perspective and when I first joined four years ago, roger duncan said we are going to run out of money in about three years and a year ago he said we are about to run out of money, and now he says okay, we are really running out of money.

This is like a slow-moving train, and we've been warned for a long time and it's very predictable that the revenues are not going to be there because of rising costs like the cost of health care and things like that.

[Inaudible] I don't think we're going to come up with a really good number in all honesty and whatever number we come up with will be wrong by tens of millions and we should accept that and I think we need to rais revenue.

And another issue on the table [inaudible] I think that is the fundamental philosophical question at hand.

Our only plan was invented about 100 years ago and it's what has led us to -- run out of money.

If this is the plan that the whole nation uses it's not a very good one.

And [inaudible] energy efficiency -- these are all novel things for the business model that bring on efficiency and they have better financing and they are cheaper in the long run because it avoids expensive power generation -- mark.

And if we think the rate increases are expensive, piecing buying power from the market is even more expensive and building is -- than many of the obvious choices that a traditional business plan goes through and it's also traditional goals and a mix and smaller -- that is the n model and it has rate adjustments in it.

The older models make us bankrupt and also putting austin energy in the middle of the pack -- [inaudible] philosophical fundamental question -- I'm pretty convinced it's not working and I say that not only as a team member, but we are grappling with the same issues.

-- Natural gas -- retail prices are going up.

There is no question retail prices are going up nationally but they are not only a function of pricing but smart meters and new poles and all of the other things we are debating.

Retail rates are going up and wholesale is dropping and we are a part of that revolution and we have to figure out if we want to lead on that or not.

My last comment is recognizing how this rate plan makes a lot of people very angry and it was arrived at in a very deliberate and slow process but I want to remind including us on the uc this was the least ire we could come up with, and if we -- it's going to make other people angrier.

And I hypothesize that what we have now is a least angry mix.

And if you know what I mean -- a lot of people are angry but then in we shift things around to subs this or that class, we are going to make other people angrier.

And so this is my thoughts on what we've been through [inaudible]

>> thank you, I appreciate those points, and what I'm hearing you say about you know, changing the business model, none of that really addresses if I understand you correctly, the issue of the [inaudible] or was there something implicit.

>> It doesn't address it, the different models address peak costs differently than other models and the residential and the commercial consumers are where we see the largest -- with the large industrial -- so they have different exposure on the calculations of the cost and whether you care more about total or peak consumption depends on whether you're worried resiliency rather peak problems and the commercial and -- [inaudible] driver of the base consumption.

And this methodology affects how your pricing -- load versus user -- and then the new business model is more peak oriented and you're putting higher real-time prices and we are not debating

yet but the newer models that open up the door for real-time prices impact 00 in the afternoon users more than -- [inaudible] hope i answered your question.

>> I think I got it.

Aed is more about incentivizing a flat load, flat usage where this is more about identifying the use of less --

>> I don't know if they are incentivizing but they are looking at costs and looking at what the actual costs are today.

And I think -- they produce roughly the same answer, and i don't think there is a huge departure in all honest, and i don't see much difference -- again, they kind of give the same answer --

>> but it looks like some of the information that that is not quite true when you look at businesses costs and we'll leave that for later --

>> I think the industrials are far more sensitive to this and see how they are hit by the assessments more than the others --

>> well, some -- gains, that is one of them -- [inaudible]

>> different.

>> Karen, can I make just a quick comment in front of the fellow engineer?

>> Yes.

>> In my day, if somebody gave me a number that was specific to digits, I would assume that number was very accurate, eight of those digits were very accurate, and I'm wondering if it's that much of a stab to \$100 million, if it's plus or minus \$100 mi shouldn't that be somewhere in the equation?

Would you care to comment, and i engineer and I'm only a b.f.

>> And we all know what b.f.

is -- when students turn in a paper to me with a number bar and no arrows they lose points, and so error bars are not required as a part of the assessment.

I believe probably the first two digits, maybe 110 million, or 90 million, but I don't believe the next seven digits.

I think it's a pretty big error bar, but it's not a part of the assessments to include that, and they added up the cost and they had a clear methodology, but they are not clear error bars.

>> Okay.

>> -- Nine digits.

It's the ones on the right that are accurate, it's the one on the left that you can't count on.

>> I have a question.

>> Feel free to use it.

Michael, we have had barbara largely contradicted what philip said and I think it's something that we've been hearing so many contradictory statements and hope that you can help us to move the ball forward in terms of what I can say about this and that is that the whole business needs more than we've been giving it, and so how does this work.

>> So let's call austin energy a drug pusher.

They selling drugs, electricity and the more they sell the more they make and in addition you have fixed costs.

If they had their fixed costs covered and their revenue was based on existing as opposed to how much they sell, they intention to sell would be lower.

The more they sell, the more money they make and if we give them more fixed charge, their incentive to sell is lower and that makes they can make money selling efficiency or conservation and could be a financial stakeholder in the process and a winner.

Right knew they do efficiency by a social mandate but it's a money loser for them, but not exactly.

Because they make their money based on sales.

And if you recover more for fixed charges they don't have to be a drug pusher anymore.

>> I think I understand that and I think most people would understand that wonderfully from the suppliers side, how about from the demand side.

>> If you prepay for your drugs you are going to consume more, and if you make the fixed costs too high, it does not -- [inaudible] and so if the actual fixed recovery costs are \$45 per customer and you charge the whole thing, people say i prepaid for \$45 and I might as well use it all, and so actually you have higher fixed costs better for the utility and worse for the consumer and at the present you don't find the accommodations -- pretty good compromise to that, one that brings on some of the conservation measures --

>> would it be accurate to say that my choice of how much to conserve -- whether I turn the thermostat to 72 or 74 should be driven not by my total bill but by the amount I'm paying for the difference between 72 and 74?

>> It depends on the information that the consumer has, most are driven by total bills but if you have a higher fixed charge and start to see more clearly what is the connection between your decisions and your bill, especially if it's hourly, and so we are almost there, and people can start to -- but the estimates will be clearer i think.

>> In the way that the rate structure before was set up you pay fewer cents per kilowatt and that increases as you go further and further down and the conservation argument would be that last kilowatt hour is the expensive one and if I back off, that is going to reduce my bill by more than if it was just a flat fee all the way through.

>> What we are missing is this inverted block structure which has good incentive for conservation and it will be good for the grid but also not just the worse generator [inaudible] it has better than marginal -- better than average marginal benefits for the environment and resiliency and cost.

And so we can get -- fish ti of efficiency o utility -- save money in the long run -- I guess that is good news --

>> probably is.

Going to be more effective for people with large consumption like the industrial and commercial --

>> yes.

>> And I don't know the answer to this question which is why I'm asking and I don't know if you know the answer either but seems to be that a lot of the value that inverted block structure comes only if we can make information available to consumers as to what the consequences of their decisions are.

Right now I don't know what that looks like.

Is there something on the horizon --

>> giving real-time information to the consumer.

Right now when you get a bill, that is consumption from 45 days ago and your payment is not in the time of your actions and if we get that real-time it's must have closer in time and so people can recognize oh that decision is expensive, I will do my laundry later or set my thermostat lower.

And what it looks like is you give more information to the consumer and better thermostats exist, and -- it's like at the gasoline station when you're putting gas in the car you watch the money particular, and we don't have that with electricity and that would solve a lot of problems, if people had that information, they would figure it out quickly and save money.

>> I have it like the theory on my telephone.

Don't touch that dial, you're about to increase your monthly bill by \$10 or something.

Is that likely to happen any time soon.

>> We are not debating that piece -- part of the new business model -- set the stage for that to happen -- real-time pricing -- where we are headed -- within two years if we want it to be, and we are a national leader -- [inaudible] we would like to keep that going but that structure, a big piece of that puzzle --

>> so even if that inverted block structure is not before us today, but it's not just of academic interest.

It would actually have practical value once you can get the information in people's hands which we are likely to be able to do in the future.

>> It has practical value -- public health benefits this is the most important thing we do in terms of the resiliency of the grid -- real economic and public health value to the inverted block structure.

>> But to be clear, the inverted block structure is before you --

>> one of the few parts that is not controversial.

>> That correct, and we are just celebrating that we have it --

>> I'm with you on that, thank you.

Sheryl?

>> Thank you, I just wanted to go back to the inverted block structure, I think they have something that says -- forgot they started that -- do you see us being able to do that because I think 99% of the people that are angry, they are not just angry proposed rate.

They are angry because they cannot figure out what is going to be on their bill.

And because you can budget for it -- I mean, take it away from very low income customers and I think the premiss that oh, \$15, \$20 is not that much a lot of it is I can't deal with it when I don't know what it is just like I can go get a full tank of gas or I can go and get \$5 worth of gas.

Is there any plan -- could we do it on a pilot basis --

>> I think the only approach to that is the suggestion from the public of possibly slowly introducing the higher rate structure while people are getting used to it and while the numbers are coming home to roost.

>> Inverted blocks have been done in dallas and irvine, california and that itself is not highly controversial, that utility roll-out, in austin for water, and it's been done, and i don't think it needs to be piloted because it's not necessarily that novel, although I recognize that [inaudible] i think we need to slow it down and make it less confusing --

>> so how long does it take to roll out the inverted block --

>> rate case.

>> We have had an inverted block since 1981.

The first 500 is cheaper year round and then it goes up and above 500 goes up more in the summer than it does otherwise, ..

>> Very quickly, we've only got about 20 minutes left.

>> I don't think that we need do it on any kind of a pilot basis.

It's a very good message to people, but remember that it doesn't have to be done in combination with a fixed charge.

By itself, it does the job.

>> Okay, thank, kathie has a question.

>> Yes, I wonder if it's appropriate at this point to move beyond our list?

It seems to me from the comments that I have heard that the inverted block structure is not what is causing the controversy, that there is a lot of support for that, as I think everybody has spoken to it today has talked about it how it is a value to increase conservation and decrease usage but I think there is -- I have heard controversy about whether the fixed fees are so high that they get the inverted block structure off track.

cooper who is on the list might --

>> I'm sorry --

>> thank you.

>> Okay.

>> Speak and then we'll go to speakers.

>> I drew the short straw and so I'm going to bring up a difficult topic.

I've been on the aec to four years.

I want to talk about the question of transfers from the utility to the city because it's kind of the large elephant in the room.

A large number, I'm coming up with roughly \$150 million a year in 2009 time frame and other folks have come up with \$170 million.

That ends up being roughly double the national average for transfers for a publicly owned utility to its city.

And this is a very large number.

This number has been growing at the rate of between 5 and 10% per year for as long as I've been involved and it goes back quite a ways further than that.

One of the effects of this -- I'm looking at the utility and noticing two major problems.

The first is that reserves at the utility have been drawn down.

I saw 257 million in reserves and it's probably going to hit zero and that is roughly \$50 million a year of drops in reserves and it hasn't been going to pay for the things it was intended for.

It's mainly been transferred into the city budget, and revenues are running roughly 10% less than expenses and the issue is that the expenses and the fixed overhead of dealing with transfers to the city are very high.

And I guess I want to make sure that you understand that it's totally possible to reduce rates for any class that you would like to have, but there is a limited number of places where those dollars can come from.

You could take a dollar from the transfer.

You could take a dollar out of the generation plan and climate protection, or you could have customer pay that dollar, and that is how the dollars are going to be working and I realize these are policy and political decisions but the level of transfer is extremely high and we have been talking for years about it and it's up to you to make some decisions about how you want to proceed, but complaining about rates, you're also complaining about the level of transfers because the level of transfers is in part driving the rates.

If the utility needs an incremental 100 or 110 million, whatever the number is, keep in mind that the transfers to the city budget from utility are roughly 15 to 170 million and it's dwarfing the size of the rate increase.

>> I understand what you're saying and I've been saying for this for years especially the fuel charge which has become such a big part of the total revenue, 35% plus, is that about right?

>> Roughly any two-thirds of the transfer are implicit in the general fund transfer --

>> I'm talking about the 1%, 1% is off of gross revenues which includes a pass-through charge basically that is about a third of the total.

And I think we have to address that.

And that being said, address the entire issue, but I don't think that it's practical to consider addressing it in one year.

We need to get on track to start making that adjustment but it would be I think traumatic to our city budget to try to take \$150 million out of it in one year.

Mike?

>> Just I want to agree with you on that point.

I do appreciate the recommendations that come in regarding the transfer and understand that we need to contain our costs but we also need to understand that is a benefit to the citizens to own our utility.

If it was a public company, that would be passed on to the shareholders and here the citizens of Austin are the shareholders and we are the board, and if you want to cut that, tell me which 15 fire stations and which 20 libraries you want to close but that is the reality of where those funds go, they pay for critical city services.

Not all of them continue to be justified.

We have to wean ourselves out in some regard but there is a benefit to owning a utility and I don't want that to be lost in treating it as a business, but because not only is it a corporation but it's an asset to the citizens.

But I just wanted to keep that in mind.

>> I couldn't agree with councilmember Martinez more, and also we get those resolutions every year and not only -- there are sources of revenue that we need to make -- that are available to the city for park, for library, for police, and for fire, and for sidewalks.

It's sales taxes which we cannot control and it's property taxes and user fees and it's a transfer from the utility.

So that is a very real hit when we talk about not making that transfer, and I don't think it's any of this conversation -- and I am so glad that Keith has brought this up and we have really put on the table the pull push-pull of this decision, that it's not only about raising the rate or only about Austin Energy.

It's also about all city services.

Thank you.

>> Okay, so part of what I'm going to say is a bit redundant but let me reshape this.

First of all, the rate increase is necessary and there is a counterintuitive mission going on here.

Austin Energy is no longer long tasked with selling as much energy as possible, it's charged with cleaning up the environment and the air by selling less over time.

And so saying that we can just grab the money as it comes is tough on the utilities and there has to be in my eyes some recovery of fixed charges to acknowledge that as more energy is distributed and the costs put on solar panels on people's homes, Austin Energy doesn't own the physical plant to get a return on investment.

There has to be a way for them to recover the charges that are out there and established.

And even the residential rate advisor indicated this needs to be reworked.

Right now in collecting money off of a pass-through as every acknowledged it is on the fuel charge is akin to the government saying in I'm sorry that your inventory costs have gone up but we are creating taxes because of it.

Austin Energy is not making money from the fuel.

And I don't think there is an argument that there is a place for a general fund transfer.

It has to be fair and has to be sustainable and has to be, just from an accounting stand point, legitimate.

And I've been on since '09, and by the way again, Bernie, the commissioner, sorry.

>> [Inaudible]

>> but before I came on board they were also trying to get the city council to acknowledge the need to rework it and we received absolutely no response and I think that is why the voices have grown louder because we felt like we were being ignored.

The whole issue with the general fund transfer is a part of this.

Paying money as if they are making more profits which in fact they are not and the other gso and other city services another 50, 60 million in expenses and the argument over the legitimacy of the expense is an issue of where it's coming from.

The issue in the past has been that it's prop ae to share the bulk of the burden because we they are getting more customers and -- so since it benefits the public at large, this is the main thrust behind the argument that it needs to be sitting in the general fund.

How you pay for it, obviously is a difficult thing.

All right?

That is why you're paid for your job more than i, but it is an issue that the fact that it's been done incorrectly is the past is no argument to continue doing it that way, and so that is the discussion there.

\$50 Million to \$60 million above and beyond the funds transfer chunk out of the 126 million that austin energy feels it's fallen short.

I believe if these issues are addressed, if there is actual work being done on reformulating the general fund transfers, if expenses are allocated and shown in a proper set of books, one, the people who are not living within the city of austin will you are serviced by austin energy that are threatening to take this to the tec, that will mitigate a part of that argument, and if a serious effort is made by council to address that, I think the tec will look more favorably on whatever we are trying to put forward, and at the end of the day, austin energy is going through enough to cover expenses wi taking the political flack for something that is beyond its control, which is how the city takes the funds.

And so putting a task force to get this dealt with and I will bring up the methodology.

I think a number of us agreed -- well, first of all, we questioned when austin energy was supporting this and then changed its mind at the last minutes.

I didn't get an answer I was happy with, but when the residential advisor showed at that point there was not much of a difference at the end of the day that is why I think we decided to agree with going forward with that methodology.

There is certainly room to argue going forward and I'm willing to consider my decision in light of new numbers but I would just ask the city council to aside what it brought up seriously pernmay .>> may I just say a couple of clarified at the public meeting and -- gave -- customers per square mile in the versus austin.

And the -- general fund transfer, that money outside of the transfer, part of it is what they call shared administrative expenses and austin energy legitimately owes its proper share of

administration, ip,t, vehicles, and find out what all they are, but the allocation factors have never been very clear.

We've asked about it and we scuttlebutt that a few years ago they said we have to have examine amount more and we'll fix it next year and that never happened.

So that is something you need to look at.

Whatever our proper share is, ought to be charged but not more than our proper share.

>> I agree again that this is something we need to be doing and credit for several years just happened to be coincident where a major recession swept the country and we have not been able to make that adjustment and it's --

>> [inaudible]

>> we are the easy cash cow.

Well, we could use a couple of others.

>> One other note on redoing this on the general fund transfers recalculation, all of the shares that energy does is based on what the definition of the revenue is.

And if the argument that I'm using is that the revenue that is being used is not correct, that skews everything else that austin energy is saying whether it's for shared expenses and anything else.

And so if we can get a revenue number that is correct and supportable, then I think the argument over what our percentage share of those expenses should be will be dealt with in a more supported way going forward because it won't feel like we are being sacked.

>> Totally agree.

And kathie -- I think everyone has had an opportunity on the commission to make remarks and you had a question from one of the other folks on your list.

>> I do, and now I have another question for these guys and I'm aware that we only have eight minutes, six now.

If I could just ask for a quick answer.

We have heard a lot about the audit and we have received it but not had an opportunity to discuss it -- you have had an opportunity discuss it?

One issue that I had like a quick answer and I think this is a subject for further discussion, one of the items in the audit is a common sense one that austin energy be asked to reduce expenses particularly in discretionary spending.

Have you as a commission had an opportunity to determine the degree to which that has been implemented in the years since the audit --

>> absolutely not.

We only received the audit in the last week, and we didn't even know it existed.

And to the folks overseeing Austin Energy, the city manager, had that report, but we did not have that report, we are very interested readers but my take-away is different from your take-away.

You could just as well say that that report shows that Austin is spending too much on reliability.

>> Sorry, what?

>> On reliability, and the report makes that statement, that maybe Austin should be spending less on reliability, more on.

>> And just a point of clarification, I'm still determine what is my take-away is, but I think we should discuss it as a council and thank you -- the question I was asking earlier about is the vertical block structure and if Cooper is willing to provide input, that would be useful.

>> [Inaudible] -- pull that mic up really close.

>> We've talked a lot about cost allocation but the cost allocation we've been talking about is how much each customer class has to have to pay for the utility.

Rate design is the cost allocation within the residential or the commercial class and that is one thing that is really missing here.

A lot of the statements I've heard is there is this assumption that all residential customers are alike but it's contradictory because the next thing they say is we need inverted block structures.

I passed out this exhibit at the rate hearing and it shows the rate adjustment impact on the residential class and it tells several things.

First of all, Austin Energy says it costs more, costs more the more we use.

Well if you look at this, when they say the bill is the cost of service, they are saying that large commercial customers cost less on a cents per kilowatt basis than small users.

That makes no sense.

That is a 1960's mentality, large users cost more and the only way you can show that is I have highlighted one of the sections that says estimates kilowatt use per month because usage and kilowatts is the same, it's just a different side of the coin.

Usage is how we look at it and how we want it, and kilowatts is how the utility looks at it as what we need and so it's the same thing.

And there is no other customer class -- except lighting which is always this weird stepchild, no other customer class is being asked to pay a fixed distribution charge.

Why?

Because usage is a responsible cost driver in distribution costs.

If we were just to take the current proposed small business distribution charge, which is about \$2 a kilowatt hour and applied it to this chart, what we would find is someone who uses 250 kilowatt hours as a business customer would be charged about \$1.

Instead, austin energy wants to charge them \$10 and they are the ones driving the huge costs into the distribution system.

The residential class was assigned based on kilowatt usage means that the bigger users have a lot more cost to be assigned to the residential class, and so who was in the residential class should pay for that increased cost?

Well, it should be the people who cause that cost to come and that is the large user.

Now, I gave y'all a memo, I'm not going to go over it, there are like six or seven other reasons why I say you should not have a fixed distribution charge.

It doesn't make sense.

And here a another one.

On december 14 -- stood before you and said low load factor customers are more costly to serve than low load customers.

Small users have high low factors and large users have low lode factors and when I asked for this study, they have not done them within the commerce class, they are once again assuming that every kilowatt hour a customer uses is the same cost to the system when it's another contradiction.

Load factors are more costly to serve and they should pay more.

And another assumption, they keep on talking about fixed cost.

Well, that is a five-year planning horizon.

We should be look at incremental costs this is why we have energy efficiency.

We want to keep the usage the same or the lower if we can get it.

And I looked at the historical data and the oldest I could get was 2003 and if you compare august rates with august 2011 you see there is a 20% increase because of fuel and I agree that is one issue that y'all should be looking at more seriously because I'm very concerned about that, but the second thing i found very interests is they took last year's kilowatt use this and for 2002 the average user was 1303 and for 2010 it was 1336.

36 More kilowatt hours and if you compare february, what you see is that actually in february 2003, less kilowatts were used -- well, in 2002 -- that in 2010.

And so we are a very weather-oriented customer base.

I'm not trying to discount that but what we are trying to do with energy efficiency is make that more consistent and bring ta load factor better, and it doesn't help by having a rate design and if you look at the billing analysis that creates a declining block rate until we get to about 1500 kilowatts.

Until you get to 1500 your bill on a cents-per-kilowatt hour declines.

And this is why I think we need five tiers.

I don't know how much clearer i can be, but I think we have one of the most prerogative rate designs in the country.

I think it's a good one and you might want to consider adding a another tier, I five is very confusing and the last time you look at your telephone bill it's just very confusing.

You try to keep it simple for people -- and if you want your customer to really understand it, I think breaking out all of the costs is really more confusing and I think it hides our efficient a company is and i think that is another problem of breaking out all of the costs.

Another big problem I have with the rate design is because of the special contracts, we have some that continue the old way and they want to c some of those and I'm concerned that that may be a situation where we'll be moving more costs and we'll be bearing more of the costs for what the industrial should be paying and I hope that you look at the rate design because they have done significant changes in the rate design.

And I don't know if I have anything else --

>> thank you.

And I think you make a really good point about the complexity of billing.

I know my telephone bill is five pages and it's hard to stumble through that, and I don't think you want to get into that.

>> Mayor.

I have a question.

>> Sure.

>> One of the things you mentioned in the enormously long public hearing last thursday --

>> nawb.

>> [Inaudible]

>> in five and a half hours i think I missed a few things but one of the things I recall hearing you talk about were hook-up fees and whether they have too high or too low and what they should be.

>> They did not look alternate at many of the rates that affect people and particularly people of low income.

One thing with advanced metering is we should be seeing huge reductions in customer costs because automating that, and so why is the customer charged that when the automation should make it significantly less and we should certainly get rid of the same day connection, disconnection of \$50, and there are a lot of folks in austin making \$10 an hour and that is is half day of fee because they could not get the money that week before the disconnection notice, and that to me is a problem but they did not look at the disconnection fees or the impact fees and I think those are very important fees because austin's new business model is asking current rate payers to pay for future development.

More so than they have ever done.

When the utility started out we had a debt equity of about 80/20 and that is a good thing.

And if you were a private investor they would not have dead equity, there is no construction in progress that rate payers pay, unless a utility shows they are financially distressed.

And so you have to put all of the construction costs in the rate all right through dead debt service and then it becomes important to see are we using current rate payers to pay for tomorrow's service and we are in we have debt service that puts a whole lot of current cash in and so I agree with the commission that we need to really seriously look at this debt service.

And in their past spending, at paper 14, since 2006 even if we use 50/50 as a cut-off, they spent \$67 million more in cash and so they are coming here telling you they are starving to death but then you look at how they are carried throughout financial policies and even under 50/50 they are spending more.

So we need a efficient utility that cares about their rate payers and that puts the future costs on future rate payers.

This is an important issue of their financial policy and their rate design in making sure that current rate payers only pay for their fair share of the cost of utilities.

>> Thank you.

And obviously we're going to have a lot more public testimony, the next public hearing is scheduled for the february 2 council meeting and i think there's least an outside chance there may be public hearings beyond that.

With that, thank you all for coming today.

I think it's been very helpful and useful testimony.

Without objection, we stand adjourned at 12:37.