

Closed Caption Log, Council Work Session, 04/14/12

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>> welcome, everyone. The city council of the city of lakeway, travis county, texas will now meet in a work session on saturday, APRIL 14th, AT 10:00 A.M.

At the lakeway city hall.

In at lohman's crossing, lakeway, texas.

We have all of the councilmembers present, so i call the lakeway council meeting to order.

Then I'll defer to you, mayor leffingwell.

>> Thank you, I'm austin mayor lee leffingwell, a quorum is present for us so we will call our special called meeting of the austin city council to order.

00 sharp, thank you, mayor.

We are meeting in the council chambers at lakeway city hall, 1102 lohman's crossing, lakeway, texas, with that I will turn it back over to the mayor.

>> Thank you, mayor.

If you would, would you all please join me in the pledge of allegiance to the flag.

>> I pledge allegiance to the flag of the united states of america.

And to the republic, for which it stands, one nation, under god, indivisible, with liberty and justice for all.

>> Thank you very much.

Thank you all for coming here today.

I -- I would particularly like to recognize the fact that -- that representative paul workman is here with us.

Paul, thank you for joining us.

Susan knowel representing senator watson's office is here, I believe.

I'm not sure that I've seen her.

>> On the way.

>> Okay.

I would also like to introduce doug lindgren the mayor of the village here, welcome, doug.

All right.

I will move on to item 3, which is the discussion and public comment regarding the proposed austin energy rate increase as it pertains to ratepayers who reside or are located outside of the city limits of austin.

This is conducted as a joint hearing with the austin city council.

No action will be taken, during this meeting.

I would like to point out that we will be working under the lakeway process today and the process is that there is a three minute time limit.

We have a three-minute timer that will go out after that period of time, I've got a call, signup sheets, quite a few of them, which I will be calling from.

If you have not signed up and you want to speak, please do so and bring it up to councilmember taylor here and he'll give it to me.

Each individual that speaks for three minutes is -- is welcome to do so.

But you are -- please do not try to share your time with someone else.

We want to hear from each individual as opposed to one individual speaking for a group of five or 10 individuals.

We would just like to have one individual speak when it's -- when the three minutes is up, I would appreciate it if you, you know, wrap up your comments and be able to sit down so we can get as many speakers in as we possibly can today.

If you -- if you start to go to a different topic.

I apologize in advance, but I'm going to have to cut you off and ask you to sit down.

If you would honor that three-minute limit, I would certainly appreciate it.

Okay, with that, let me -- let me start going through all of the speakers -- well, first of all, let me have a -- comments from austin energy representatives and i think that we have what, about a 10 or so minute presentation?

>> That's right.

That's right.

>> Thank you.

>> Okay.

So austin energy presentation first.

>> [Indiscernible]

>> three minute time frame --

>> hey, whoa!

If you would like to speak when you are not spoken to, I would ask you to leave right now.

Okay?

So what's -- are we going to be courteous or not?

Okay.

Thank you.

>> Austin energy, please, good morning, mayor, councilmembers.

The presentation by austin energy this morning is short.

I'll try to keep it down to 10 minutes.

And we'll roll through the slides right now.

I'm larry weiss the general manager of austin energy, what we have up here on this slide is basic facts about our service area.

The service area of austin energy includes 11 cities and towns, including the city of austin.

It was established in -- in -- in 1978.

437 Square miles, there's a better map online.

You can look at a lot of detail.

We are -- we are the retail electric provider for 418,968 customers, that's very current.

And the 48,000 residential ae customers are outside of the city limits of austin, the other customers fall out, but 87% are inside the city limits of austin.

Austin energy operates a transmission distribution system under one grid without recognition of customer location.

So from the physics of our electric grid, there is no recognition of any boundaries whatsoever.

With the same high reliability standards, same customer service programs.

The general fund transfer is -- is very common public power systems across the country.

Municipally owned utilities provide a direct benefit to the communities in form of payments and contributions to state and local government.

Municipal government utilities may [indiscernible] a -- earn a fair and reasonable return for risks of utility ownership.

Paid in lieu of taxes and franchise fees.

Similar to return on equity for investor owned utilities and similar to capital credits for electric cooperatives.

The general fund of the city of austin uses 105 million in this year's budget or 15% comes from austin energy.

The rest of the revenue is displayed in this chart.

That percentage of revenue has dropped relative to the transfer of the city and the relative percentage amount as the red line shows, 15% of the city's revenue comes from austin energy's transfer fees and to 105 million, you can look back to 1996, it was 57 million and 19% relative.

So -- so the relative share of austin energy's contributions to the city's revenue has declined over time.

We are recommending a change to the general transfer fund.

That is on the table.

With our rates proposal.

The transfer rate is 1% of revenue since 1999 except for an 8.9% in 2002.

The recommendation is a 12% transfer rate on a non-fuel revenue.

Specifically in our 3 billion operating fund we have approximately \$420 million is a pass-through for fuel.

That's natural gas, purchased power that we make and we've been putting the transfer on that amount as well.

But that is a very radical fund.

It can go up and down.

It has been pointed out by our electric utility commission on numerous times that -- that taking the fuel out of the transfer fund would provide disability, ability to forecast, and would only reflect true growth.

So the gft in this proposal would reflect true growth.

As we add customers and serve customers on that revenue basis, that's when the gft would go up.

The ae retains 100% of the fuel cost recovery.

The established floor of \$105 million was the proposal, that's what was in the budget for this year.

We would leave it at 105 and wait until the 12% of the non-fuel revenue catches up to the 105 number.

The next chart shows -- how that would work.

Real basically.

We see that that line would cross over in 2016.

So we would hold or keep a floor on the general fund transfers of 105 million in 2013, 14, 15, in 16 we forecast right now that that general fund transfer would go up above that line of 105 million and then from there on, it really depends on how the utility grows with customers and system growth.

Some advantages of public power, I will read these on the page exactly, but there's community focus, there's excellent reliability and service, value.

The most important part is the -- all of the dollars, the jobs, employees we have all stay within the service area, predominantly that we serve.

We have many employees that live in lakeway and live in other parts of our overall service area.

Environmental stewardship, minimize the impact of the environment, renewables, solar objectives, climate protection that we have adopted in our service area as a whole.

The energy efficiency is a priority.

We have provided assistance to 4,000 customers outside of the city of austin over the past three years.

Local values and needs we have 1400 low income customers outside of the city of austin and we provide jobs throughout our service area, responsive service, all of our crews, all of our operations are based in austin.

We have quick response to all parts of our service area and we have custom built this infrastructure.

This infrastructure is not built to go beyond our service area, it's built to serve it.

At the very highest, reliable level that we can.

The key drivers for the rate increase is fundamental.

That is it's been 18 years since we visited a formal cost of service and changed the rate structure and the last base rate change.

The only increases to customers since that time have been in the form of the fuel costs, as we've had additional costs for generation, entered into contracts for purchase power, that cost has gone up since 1994, approximately 27%.

Is what that's gun up over time.

Significant customer growth and capital investments to serve new customers over 18 years is really putting pressure on us.

A piece of wire, a transformer, tires for trucks, all of those things that have gone on since 1994 have been basically uncovered.

What has happened in the performance over the last 20 years, i will show you in a minutes, but the cost for ae's share of the system-wide investment and transmission and infrastructure and market operations in ercot, the ercot operations fundamentally changed how we deal with transmission and state-wide investments.

Cost of service studies shows that fixed costs are undercovered.

That's the fundamental reason for doing a cost of service study.

To make sure that we're not having transfers or subsidies between classes of customers, which typically what happens as the utility grows and does not visit its rates very often.

Ending balance and draw down for budgets.

We've had a working fund, I'll talk about that in a minute, but that has been drawn down for budgets, we need to protect the utility's long term financial disability.

This chart, for those of you who have been around here a number of years, the past two decades in particular, can recognize what's happened to the economy here, this is a story of austin energy as well.

In 1993 to 2000, there were back to back years of growth.

In -- in percent change of previous fiscal year and those were retail sales.

And in 2001 and the dot-com bust and 9/11, you can see what's happened since then.

There's been growth years with hot weather and then there's been very poor years, very cool weather.

Avenue and during that time.

In the next chart, which is what we have been doing with our reserves, in 1994 we had a working fund, almost 200,000 less customers.

Austin energy was a much smaller utility.

Financial policies were put in place to stabilize the utility and get its credit rating up and provide the correct financial position for the utility to go forward, to be able to borrow money cheaply, as time went by, we got into the place about 2005, where we had 200 million of working capital.

That blue bar is really our checkbook for writing, paying for power that we need to buy or -- or any emergency expenses and also part of our capital planning.

So about 50% of our capital budget comes from cash as a prudent way to manage our finances much since 2005, and through 2007, the growth was good.

The money was there.

And as time has gone on, until 2012, you can see we are down at \$38 million in that cash.

We are doing two things, ... the residential customers, we wanted to update the cost of service recovery, better align our fixed costs, we want to promote energy efficiency, almost all customers, particularly residential customers, looking at this rate increase can use our energy efficiency programs to cut their costs, their bills significantly.

Redesigning our solar rates and a line item recovery of various pass through costs.

The commercial industrial customers, same thing, update the cost of service recovery, better align the fixed cost, reduce the number of customer classes, we had over 20 commercial classes, we needed to get that down to a reasonable amount.

Non-demand rates for small commercial customers less than 10 kw, promote energy efficiency similarly.

On page 12 is the residential rate recommendations.

What's on the table today our current proposal is the proposed phase 1 increase, which would overall raise residential rates 13.3%.

Introduces a tiered structure and the first minimum bill of 2 two dollars, included in that, is 200-kilowatt hours.

So a minimum bill of \$22 would include 200-kilowatt hours.

So you see it's zero cents for that first block.

Then each blockings up, a little bit, in steps, these rate designs, these tiered rate designs are used across the country.

They are new to texas.

But they won't be.

And this is the type of rate design that's being used in states where energy efficiency is very important.

To the resource programs.

And -- and basically i won't go into it, but we have a summer period and a winter period on this rate design.

Fundamentally, we have also broken out some of the line item costs, regulatory charges are the largest, that has to do with ercot and the state market and how we participate.

Our energy efficiency programs, this allows some discreet funding of our programs and allows us to change that as our programs change and customers demand more services.

Customer assistant program is proposed to be funded at one dollar per month per customer.

The rate mitigation in our commercial classes, we've heard a lot of comments from our commercial customers.

Today our proposal is that we would remove the demand charge for small worship and small commercial facilities beloww, remove the electric delivery charge for benefits small -- small worship, school portables and small retail businesses, rate structure is similar to .. maintaining those costs within the commercial class.

The other move that we have made it to offer a 10% discount to schools and a three-year transition on rates to non-demand for current non-demand customers.

What that means is [indiscernible] demand charges and it's difficult for them to -- to manage around those demand charges unless they have a little time to do so.

We are blending, phasing that in over time.

The city council of austin put together an ambitious work schedule for us to follow.

We have had all of these meetings to date.

Unfortunately, we had to cancel the meeting on April the 11th and today April the 14th we are here to meet with -- have this meeting.

Then the rest of the schedule includes these five work sessions and those will be conducted at the city council chambers in austin.

With that I will perhaps wait for questions and -- and unless you have any now.

>> Mayor, do you have any questions?

>> Mayor Leffingwell: Any questions?

You know, I think we've had a lot of discussion about this, we will just hear from other folks.

>> Being on.

>> Any questions from any of the lakeway city council members?

If not, okay, we will move forward with comment.

But beforehand, if you would allow me, mayor, i would like to read the letter to the public that I wrote to you a few weeks ago.

>> Yes, sir.

>> And that is mayor leffingwell, the residents of lakeway who are also austin energy customers, are concerned about the proposed rate increase.

While any rate increase is of general concern to those who are subject to it, this one is of particular -- has a particular issue that i would like to address.

As you know, austin energy transfers a significant amount of money to the general fund each year, that money is derived from electric utility bills.

I understand this practice is common, legal and beneficial to the city and to the public in general.

However, to a large extent I believe it is not beneficial to lakeway residents.

It is my understanding that the transferred funds are used to provide appropriate and necessary public services to your fine city.

I also believe that one can argue with sincerity that these services would otherwise be funded in large part by property taxes.

To some extent I envy your city's ability to do this.

However, the lakeway residents who are austin energy customers do not receive a benefit of the tax reduction provided by the transfer.

Even though they pay for it.

As a result, in this unfortunate situation, it is an unfortunate situation whereby certain lakeway residents are subsidizing a tax rate reduction which they cannot enjoy.

I believe this is clearly unfair.

Therefore, i respectfully request that you and the austin city council exempt lakeway residents from the cost of that transfer.

I believe such an exemption would be fair to all concerned.

Thank you.

[Applause]

>> let me start my list of speakers with -- with representative paul workman.

Paul?

>> Yes.

>> Thank you, is this on?

I'm not sure this is historic, but it is kind of interesting to see two full city councils together.

And I appreciate, i wanted to come together them providing a subsidy to the taxpayers within the city of austin.

So -- so thank you for being here.

Mayor deome, thank you for hosting this, i think this will be good, I hope you guys will follow through with that.

Thank you, any questions for me I will be happy to answer.

>> Good morning, representative, thank you for being here this morning.

Also thank you for all of the things that you do for our city and the way that you have represented us in austin.

It's my understanding that this is probably going to end up on the house floor for discussion in the upcoming session.

Any comments or -- or anything that you would like to share with us?

>> Well, I can't predict with any certainty what might happen at the legislature.

Concerning austin energy and this he -- this particular rate situation, but I will tell you this.

If the city council follows through and provides the -- the people outside of the city, with -- with a different rate than that that is in the city and does it in accordance with the way it should be done, then I would oppose any efforts to -- to move the city -- move austin energy into the competitive rate market.

>> Great, thank you.

>> All right, thank you very much.

[Applause] jim, swindiger.

>> Good morning, thank you very much for coming out.

I'm a resident here in lakeway, also an austin energy customer.

I've lived in houston for 18 years, I moved away, then I came back, I was very surprised by the rate structure that exists.

When I began to do my research on that, i discovered the now well known transfer fund.

When I asked about this fee and its origin, i was told it was mandated by the city council of the city of austin.

You know, the city of austin has every right and -- to elect leaders to follow the agenda that you feel is right for your constituents.

And I encourage you to do that.

That includes green initiatives, and initiatives for your parks, all kinds of other things, that's great.

But you should not have the right to impose an agenda or m non-residents pay disguised taxes for services we did not ask for through our energy bills.

I applaud state representative workman for raising this issue.

It's long overdue.

I urge you to carefully consider the rate proposal that's before you.

Failure to treat non-residents fairly will be the trigger to create an initiative that could include class action or certainly potentially legislative initiative to correct this injustice.

It's time for austin to pay its way.

Thank you.

[Applause] doug lindgren.

>> I'm -- I'm mayor of the village of the hills, which is a neighboring community here.

I've been authorized by our board of alderman to present a letter in regards to the residents of the hills who are customers of austin energy.

Austin energy provides about 50% of our residents with electrical service, the other 50% are provided by pec.

It's a little hard to figure the rates on how they compare, but they are roughly the same class now.

If austin energy raises their rates and we have a situation where half the people are paying more, it will obviously cause us a lot of political problems.

Many of our residents do understand the need for rate increases to cover the rosts of operating the -- costs of operating the utility, as well as capital expenditures, some, also believe it is fair, for austin to receive a profit from their utility.

The difficulty is that the large amount of the proposed rate increase and the amount of profit being transferred from austin energy to the city of austin, our residents feel that austin energy must remain competitive with pec.

If there is going to be a large rate increase, we ask you to try to time it over a -- over several years instead of doing it all at once, so that residents can adjust their personal spending to take it into account.

The second thing is the relationship of the rate between the residential customers and the commercial customers.

We would ask that you carefully consider this and do not put an extra burden on the residential customers to help the commercial customers.

As mentioned before, the residents also believe that since they live outside of the city of austin, and do not benefit from the profits transferred from austin energy to the city of austin, the non-resident rate should be adjusted to take that into consideration.

The board of alderman appreciates your time, we thank you for your consideration of our ideas.

[Applause]

>> thank you.

>> Dave benson.

>> I would like to express my appreciation, too, for the city of austin, city council for coming out here.

I think it is historical, as far as i can recollect, that i have ever heard --

>> could you give your name and address.

>> Sorry, david benson, 409 [indiscernible] here in lakeway.

It certainly is unprecedented, in recent years, at least the past 20.

I appreciate you coming out to hear from us.

I am an austin energy customer, my issues are pretty much the same, I'm not going to belabor them.

But I think it is a question of fairness.

To note the fact that -- that yes it is certainly withi prerogative of the city of austin to transfer austin energy revenues to fund programs within your budget, that's clearly true.

And the services that you provide for the city of austin customers are very valuable.

On the other hand, we provide our own services for those out here and so -- so really our contribution to those of the city of austin really probably reflect a contribution on our part that -- that we already provide for ourselves and may be considered as something that you might want to think about in the rate design, if you are going to contemplate, a separate rate design for non-city of austin customers.

I think that -- that -- that when you look at -- when you look at the overall picture of your rate design, it does get complicated, the slides indicate that.

It's pretty hard to comprehend.

But nevertheless I think you ought to look at the non-city of austin resident customers, separately, and design a rate for them which -- which reflects really a -- our part and parcel portion of what should be paid in order to operate a really fine utility.

I don't have any complaints about city of austin electric in itself.

I think it provides very good service and I just ask that -- that you look at it separately and that you design a rate that takes into account that we have no political standing in the city of austin.

We cannot vote for you and we cannot vote for programs.

Yet, you do run your city the way you see fit and you are doing it with contributions for us that we provide for ourselves in our own community.

So I wish that you would take that into account and -- and in the interim, I would suggest that maybe you consider some kind of more tomorrow on any increase -- moratorium for any increase on the out of city of austin residents until you design a rate which is fair to us. thank you.

>> Thank you, david.

Earl foster.

>> Good morning, earl foster, I'm the general manager of lakeway utility district.

Again, thank you all for listening to us.

I only have a couple of comments.

I concur with everything that's been said.

I ask that you look at the utilities and look at them maybe on the same basis as the school districts and giving us a break on it.

Because if our -- if our energy costs are increased significantly, we have to pass that on to the residents and then if the residents are also paying an increase in their costs, they are -- they are hit with both of those increases.

So -- so that is my main focus is -- is on our utilities.

We pay about 180,000 a year to austin energy.

So any increase would be significant to us.

So I just ask that you -- that you look at that and maybe bring us about a being to a classification like the school districts to give us a little bit of a break, also, again, thank you for your time and - and thank you for being fair.

[Applause]

>> earnest [indiscernible]

>> my name is earnest altgelt, I live in make way.

Mayor leffingwell, i think you know who that is, he was the man of the year by johns kelso, he got \$191,000 for 20 hours of work.

He was in the 30,000 -- he lives in a 30,000-acre ranch, the truth is with the help of accountants and lawyers, for 30 years, it was the enron of the hill country.

We have class action lawyers in austin that walked away with millions of dollars.

We got a \$23 million bill credit, which is worthless, and the fact is we had to borrow money to pay the 23 million.

You know from business, if you borrow money to pay your dividend, you've got problems.

What I'm asking you to do, mayor leffingwell, is to get on to this issue.

We cannot stand corruption.

We cannot stand public officials that walk away, not one of these people, according to senator [indiscernible] sworn testimony before congress, \$50 million was stolen.

You have the documents this year would show absolutely we're spending \$50 million a year at the pec every year in excess costs.

For trips most recently going to san diego.

For a convention, no less, to see the animals.

We have to get ahold of this, mayor leffingwell, it's your job of a large city to make sure that our system works, so the people in high school believe that you go and rob a bank, you'll go to jail.

Just so you know, [indiscernible], an expert, says austin energy's rates are basically less than pec.

And I'm asking earl, instead of giving special breaks, i understand there's a back door deal when all of this is over, what's going to come in, the industrials are going to come in and you're going to give them below cost electricity, that's what's going to happen a month from now.

Speak honestly to the public.

The deal that's going to be cut to make the poor people on food stamps pay top dollar and the other people get it below cost.

Thank you.

[Applause]

>> gerald daugherty.

>> Mayors, thank you very much.

My name is gerald daugherty.

I especially want to thank the city council for lakeway for opening your doors this morning and for coming out on saturday and likewise for the city council members from city of austin.

People said how many of those people do you really think are going to come out on saturday?

Well, I'm very proud of the fact that all seven of you have shown up and I think this room ought to be proud of the fact that you all have had the gall and gumption to come out and do this because you knew this was not going to be the pleasant meeting.

[Applause] mayor leffingwell, I have worked with each and every one of you, kathy I haven't had the privilege, but perhaps pretty soon we will get the chance to do that as well.

I think you all know me to be a very reasonable, sometimes a little more cut to the chase person than some people would have.

Or would feel comfortable in doing.

But I want you to know that I think that this community, this community meaning this austin region, can get together and to come up with something fair and equitable.

The reason that people are so exercised about this y'all is the fact that there has been this large number thrown out where there is going to be a great inequity to people in western travis county.

You all wouldn't sit back, your constituents wouldn't sit back and tolerate that any more than we need to in western travis county.

There should be a way that we can get to the table and work something out that's equitable.

Whether that's going to be a different rate, whether that's just going to be -- everything pushed down in order to make this work, I think that that is something that we can get reasonable people at the table.

The last thing I really want to do is to be part of having to go to the puc to put a -- a light on ae.

Unfortunately, I think that that is something that's -- that probably will happen.

You all know that it's only going to take 3500 signatures in order to do that.

You can get that from one of the large neighborhoods in western travis county.

That also will be expensive.

It also will put ae in a position to where quite frankly you all know that that electric utility transfer that you all take will be -- could be in jeopardy.

I think that we can keep from having to do that.

If you all will allow us to get to the table, work with you all, just be fair with the people in western travis county and I really honestly think that we can make this thing work.

Again, thank you for coming out today.

I look forward to working with each and every one of you.

Thank you.

>> Thank you, gerald.

[Applause] larry flower.

Ned ross.

>> Good morning, ned ross, I am a resident of west lake hills, almost a 30 year energy professional, but I am here on my own behalf today.

I'm not here on behalf of my company.

I appreciate y'all coming out, I really do.

Saturday morning, it's April and folks are outdoors.

Ment there's a conspicuous absence of younger parents here, they are all other doing little league, I saw them at the doughnut shop this morning.

It's hard to find time to do this.

Out of respect for time, I have prepared comments.

But I think that I will just abbreviate them and say the fund transfer is one thing, we have the benefit of understanding this rate making process, I think the bigger issue is what's going in the rate the grand scheme of things.

I would really like you all to visit the accp, i don't think that you have begun to really look at the billions of dollars that will be necessary for that to go into our rates.

If you're going to have a 10 year plan for energy production, 10 year rate [indiscernible], so the folks in this room can plan accordingly.

We have really just begun to look at the rates that are imminent, just to cover your debt service.

So I appreciate your time again and look forward to working with you again.

>> Mayor Leffingwell: Could I make a quick comment on -- [applause] -- we have considered the impact of climate protection on our rates, we have already adopted a policy to limit any of those impacts to no more than 2% a year in the future.

That's already in place.

>>> For how many years, mayor?

>> Mayor Leffingwell: Two percent a year.

Per year.

>> Thank you.

>> Mayor Leffingwell: That would be a total rate increase, whether it's from employment protection or any other factors.

>> Is that the base rate or is that the fuel as well?

>> Mayor Leffingwell: We're talking about the base rate.

>> Not the fuel?

So if you purchase, for example, more solar as a power purchase agreement instead of an asset, that wouldn't count in terms of the rate increase.

>> I would anticipate the 2% a year includes the total impact to the customer.

That -- that is my understanding and that is the policy that we have adopted.

>> Very good, thank you.

>> Thank you.

[Applause]

>> emilio nicholas.

>> Thank you, good morning, my name is emilio nicklaus, I'm currently homeowners for fairness, I appreciate the opportunity to speak, I can relate a bit to your positions as a former commissioner for the city and county of san francisco, california and it's tough, but thank you for being here.

We believe that the amounts diverted from austin energy and spent by the city council for non-utility purposes are excessive and unreasonable.

In that they far exceed the norms for electric utilities in both the private and public sectors.

And austin energy -- an austin energy document stated that "as a community owned electric utility, austin energy returns to its community a dividend that is comparable to funds distributed to shareholders by investor "

as I will explain this analogy does nothing more than distort the truth of the true state of austin energy.

The so-called dividend paid by austin energy is currently 9.1%.

If you refer only to the general fund transfer.

As stated earlier in the presentation, it's 15% of the total amount -- the total amount is 15% of non-utility expenditures.

Now, examination of representative sample of investor owned electric utilities in texas reveals the amount annual dividend yield for example of el paso 5%, it's 3% for centerpoint 5% for american electric power.

Therefore, austin's energy transfer funds, transfer of funds, is double the typical rate of private sector dividends and more than three times their dividend when including all non-utility expenses.

Dividends are paid retrospectively, according to profitability and after financial results are known.

Austin energy, however, pays large sums into the city's general fund at the beginning of the fiscal year, obviously without regard to profitability, or actual financial results.

Dividends are, by definition, derived from profits.

But austin energy has no profits.

And has suffered operating losses of more than 300 million since 2007.

Yet millions of utilities gross revenues to be allocated for non-utility purposes.

As for publicly owned electric utilities, according to the american public power association, such electric systems in the typically contribute 6% of their revenues, although some make higher payments, they are the exception and are typically much more efficient utilities.

Austin energy is often erroneously compared to city public service energy in san antonio, while cps energy has returned as much as 14%, there are notable and relevant differences.

For example, c.p.s.

Energy's payments to the city fluctuate from year to year, according to the utility's profitability.

San antonio considers it a priority to protect the financial integrity of the utility.

[Buzzer sounding] by contrast, austin energy's payment has increased year after year.

Even though it has accumulated major operating losses.

And has a proportionately lower operating fund balance and a lower bond rating.

Best of austin, san antonio customers pay less than austin energy customers, a difference that will be further magnified with our next rate increase.

energy seems to have its act together.

With a business model worthy of study and emulation, you won't of san antonio comparing itself to austin energy, thank you very much.

[Applause]

>> dick brown.

>> I'm Dick Brown of West Lake Hills, I'm a board member of here, this year the city council will spend \$163 million of Austin Energy's gross revenues on fire, police, parades, music festivals and other items for the specific benefit of Austin residents.

Suburban ratepayers constitute about 15% of Austin Energy's total customers.

So we will pay 15% of the \$163 million spent on services for Austin citizens.

15% of \$163 million is \$24 million.

That's the total amount that suburban customers are paying to provide services for Austin citizens.

That's a big number.

Divided by the number of suburban ratepayers, which is 55,000, \$24 million yields an average of \$400 per year per rate pair.

That is the yearly amount paid by every suburban rate payer to finance city services for Austin residents.

It's money also that could be spent on our own community services.

The city council charges us for these Austin specific services by including an undisclosed 15% surcharge in our monthly bills.

The 15% surcharge is mandatory, just like a tax.

We cannot vote on the councilmembers who impose the surcharge.

It is taxation without representation.

We are captive customers of Austin Energy, so we cannot avoid the surcharge by moving to another utility.

The surcharge is unjust.

It requires us to fund services in a city where we don't live.

The public policy of this state probably does not anticipate that one jurisdiction could use its electric utility to impose a \$24 million levy on the citizens of another jurisdiction.

This practice cannot be sustained indefinitely.

We appreciate Representative Workman's suggestion of a two-tiered rate structure.

We also appreciate larry weis's recommendation that outside customers pay a reduced portion of the general fund transfer.

Some political in austin are opposed to rate discounts for outside ratepayers.

They think that we somehow owe austin for the value of services we use when we visit austin.

If this argument were valid, which it is not, why shouldn't austin residents pay a 15% tax to suburban cities when they drive on our streets?

[Laughter] also, 238,000 travis county residents live outside of the city of austin.

Some of them visit the city and use the city's services.

So why shouldn't all of them pay a 15% tax to austin, why single out the 55,000 ratepayers of suburban ratepayers of austin energy?

Thank you very much.

[Applause]

>> thank you, dick.

Mark pharr.

>> Good morning, my name is mark fararr, I'm with -- I will concentrate with the energy chart structure.

We believe this structure is punitive, unfair, overly complex.

The five tier rate structure is unfair because it is largely divorced from the cost of service being delivered.

Tier 1 energy coverage -- while tiers 2 through 5 are above the cost of service.

Tier 5 averages 250% of the cost of service.

Austin energy's own residential rate advisor has concluded that the 5 tier rate structure does not pass the fairness test because upper tier rates are so out of whack with the cost of service.

Short of selling their homes and moving to bungalows and caves, customers in already energy inefficient larger homes or large families have no way to avoid the punitive rates .. also trapped.

In fact virtual the only way for owners of large energy efficient homes to escape the penalties in this structure is for them to install roof top solar.

We know from the residential rate advisor reports this is austin energy's true ends game, to try to force homeowners to spend their own savings to buy roof top solar, whether it's it makes economic sense or not.

This is an incredibly an bus c14-05problem.

In order to reduce from stats fear rick to mere ... proponents of the five tier rate structure claim that a drive to -- a flow will be addressed by a later speaker.

But if efficiency is the goal, austin energy should seek wherever possible to reduce the need for peak load power.

The five tier rate structure is a very poor means to that end.

Tree efficiency would be by -- finally the five tier rate structure is too complex.

The other 170 plus electric utilities utilize a declining two tier rate structure.

Austin energy is proposing essentially the same structure that was phased out by pg and e in california two years ago because it was found to be punitive and overly complex, I read now from their march 2010 press release, france california, pg and e yesterday asked the california public utility commission for permission to streamline its system of residential rate -- electric rates next year to make them simpler and more equitable for customers across usage levels.

Pg and e proposes to replace the complex five tier rate system with three tiers to lower the rate or price that customers in the top tier pay for electricity.

Maybe we could learn from their experience instead of emulating their mistakes, thank you very much.

>> Thank you, mark, roger borgelt.

>> Thank you, mayors, councilmembers again to being here on saturday morning, for taking your time for this, I'm roger, legal counsel for homeowners united for rate fairness.

Although I am a resident of austin, just to make that clear to all of my mayor and councilmembers here.

I am here today to follow up on what our representatives have just said about herf.

We are concerned about a number of things.

You have heard about them talking about -- about the lack of benefits to the out of city ratepayers, the -- the excessive amount of the general fund transfer and the five tier rate structure.

There's frankly a more fundamental issue that i think a lot of your ratepayers both in and out of the city share and that is frankly the excessive amount of the rate increase that is being requested here.

We basically are looking at -- at a rate increase that -- that for various reasons can be reduced and we've been looking at a number of ways to do this.

I know that you have heard from other parties about some of these issues.

Your debt equity ratio is one.

There's no reason for you to continue the 50-50 debt equity ratio, particularly with the kind of financing that's available to you, 40% equity, 60% debt can certainly be available to you.

Reserve funds are too numerous and too high and you are proposing to replenish them too fast.

All of that needs to be simplified and doing so -- could possibly do away with about a fourth of the increase in the revenue requirement that you are looking at here.

I know that you are looking at some of these things in the workshops, but I have to implore you that it adds insult to injure when we're talking about the things that my colleagues have already talked about and then you are asking for a rate increase that's too high.

We think that there are perhaps upwards of \$50 million worth of reductions in the latest proposal that came from austin energy that could be made to your revenue requirements.

Your rate stabilization does not need to be funded immediately.

Part of the reason for that is because of the new rate structure that you are going to.

Your new rate design with the higher fixed charges does away with some of the volatility that all of these reserve funds were designed to deal with.

And so -- so some of the other things that you are doing with your rate design can cause you to -- to basically remove, simplify, some of these reserve funds.

I also wanted to talk about -- about the fuel charge because that's something that a lot of people have not talked about today.

Quite frankly, when i hear the mayor say, you know, with all due respect to the mayor, that we're limited to 2% increase under the climate protection plan and yet austin energy announced that effective January 1 there was a 16% increase in the fuel charge, now, to the people sitting here in this audience, they don't really understand the difference and when they see a 16% increase in their fuel charge [buzzer sounding] that's to their pocketbook.

So keep that in mind as well.

And -- and please do know if you will allow me just a few seconds here, there's been some discussion as to whether or not there would or would not be an appeal to the public utility commission.

Let me assure you unless this is dealt with, herf is organized, we have our positions drafted, there will be an appeal, thank you.

>> I hope I get this right.

Greg stramiska, close?

Wow.

>> Thank you very much, I'm greg, I live at 8947 wimberly cove.

And I appreciate the -- the council being here, both councils being here, it's historic, i have worked in austin and the surrounding areas for many years now.

I have to say this is the first time that I've had the opportunity to speak in front of two councils at one time.

So thank you all for being here.

As -- as councilmember -- as commissioner daugherty mentioned a minute ago, I'm really surprised at the turnout, really pleased with the turnout.

You all show the interest that you have here.

I wanted to talk to you about a few items today, I won't repeat all of the stuff that's been mentioned thus far.

Been a few councilmembers, I know the irritation that goes with that in terms of redundancy, I would like to just mention in terms of our out of city ratepayers, I do think there's some differences that should be considered in the structure of the accident for overlap.

In the account for overlap.

I don't know what efforts have been put forth to address those items.

I do know there's some differences, I think.

It would be a very worthwhile effort to climb into the items that are funded through the transfer out of austin energy and look at what should be pulled out to come up with an appropriate percentage.

I've heard different numbers floating around, but I think one of the things that we could do together is roll up our sleeves and take a hard look at that and come up with a compromise number to avoid some of the things that -- that -- [indiscernible] touched on earlier at the legislature.

I think our time would all be better spent.

Working on things we can do to come to agreement rather than to push ourselves further apart here.

Secondly, I would ask that the rate that we are moving into alternative opportunities, austin is a great city.

It's known for its quality of life.

It's known for its green and proactive measures.

Austin has been the leader in the nation and -- in that effort, i think it's a beautiful city as a result of that.

But I would just ask as we're moving into the alternative energy measures for wind, solar, geo thermal, so forth, that we do that at a pace that we can all afford.

We step into it, mayor i like your approach with a 2% cap, I hope we can continue monitoring that pace carefully.

But finally, I think again we have an opportunity, this is a great step, having all of the folks in this room together, to talk about specifics.

I think there are some real issues to put on the table and work out.

So I think there's a great opportunity here for us to -- to sit down, work out these inequities, come up with a solution that works for all of us.

I realize every one of you are ratepayers as well, and this is not anything that you are throwing at a single group of folks.

We're all in this together.

I think if we can recognize where we're different and come to agreement on those items, we will all be better in terms of time spent, energy and dollars at the end of the day, thank you very much for your time.

>> [Applause]

>> thank you.

John brian.

>> Good morning, I would like to thank your honorable mayor of mayor leffingwell, and all of you councilmembers.

I am president of travis county wcid 19.

We provide water and wastewater services to approximately 500 residents in our small -- three subdivisions in barton creek are the foot hills, the ridge and the woods.

Our district is outside of the city of austin and in its e.t.j.

All of our residents receive our electricity from austin energy.

The increase will unfairly impact the residents of our district, all of whom reside in the e.t.j.

We understand from our consultants that austin energy rates must be cost based.

We have no problem paying our fair share.

However, we understand that the expenditures included in cost of service analysis must be reasonable and necessary for operation of the electric utility.

We request those costs be reviewed individually, to see if they are valid.

Also, the rate structure needs to be fair and based on actual costs of providing services.

The proposal five-tear system is punitive to high users of electricity.

Without basing the higher rates on the true cost of services.

Most of our residents are high users, [indiscernible] disproportionate and unfairly impacted.

Any expenditures by austin energy not related to the utility are, in our case, actual of 78,000, almost \$79,000 per year, for our small -- this is also true of any transfer by the utility to the city which is also then used by the general fund benefiting the city residents only.

I would urge you to review all non-utility expenditures, for example the \$10 million spent on economic development department, which should be paid by taxes rather than out of city customers.

Our residents receive no benefit from the economic development expenditures.

Your own electric advisor -- advisory commission has repeatedly recommended removing the funding of the economic development department from austin energy's budget and moving it to the general fund.

I'm sure other people will address the same type and have addressed the same topic already this morning.

We understand from our consultants that an appeal of the proposed rate increase could be heard by the Texas Public Utility Commission.

Although the utility has implied or represented in news releases that the rate increase is in accordance with rate making standards, it has been reviewed by the [indiscernible] P.U.C.

We understand that no detailed review of the expenditures of this rate -- has been [buzzer sounding] conducted by the P.U.C.

That review should be done on appeal.

Close scrutiny of the expenditures and rate structure by P.U.C.

Will -- will in our opinion greatly decrease the amount of requested -- the amount requested by the utility.

We urge you to reconsider the creation in light of these issues and avoid a costly [indiscernible] to the P.U.C.

In closing let me sincerely hope that all parties can reach amicable agreement.

Thank you.

Thank you [applause] [one moment please for change in captioners]

>> captive, non-participating customers of a monopolistic utility and paying out landish rates.

So after four and a half 6-million-dollar battle we have taken control of that system.

Part of what I want to tell you is the water plant and the wastewater plant are located essentially in Lake Point and across the street in the uplands on Bee Cave Road.

We are primarily focused on the processing from water that comes up through the Lake Point subdivision to the water plant so the majority of electricity that is consumed is consumed here.

The breath of our system includes Western Travis County and Northern Hays County, District 4 in Hays County, and so while there are parts of that which use electricity from the PEC, the vast majority of electrical use comes from the Austin Energy monopoly that we are contained in.

So I come asking several questions.

The first question really is since we are not in the Austin City limits or the ETJ, would you release us from our obligations to Austin Energy so we can go find the cheapest energy available?

Secondly, I want to ask while I applaud your attempt to go for green energy, i think most of what you have done has been totally misguided and I -- [applause] I would ask that you look seriously at economic ways of producing electricity.

And at any time with a 200 year reserve of natural gas in america, I find it difficult to understand why you are not operating a single natural gas power plant.

[Applause] the price of natural gas two days ago went below two dollars per mcf.

And it is a fraction now of what coal is that we've been shipping by train.

The only thing that competes with it at this juncture is nuclear.

Having grown up with sons and daughters of the los alamos physicist, I've been aware my entire life of the dangers of nuclear energy, but it is one of the cheapest forms.

Natural gas is another alternative.

Bio mass neighbors no sense and wind energy makes for sense.

What is the calmest day of the year?

Usually the hottest day of the year.

Therefore you have to have reserves able to cope with the lack of wind energy when you most need it.

Thank you.

[Applause]

>> I want to thank the mayor of lakeway and the entire city council of lakeway for inviting us here today to hear from your citizens and other folks from outside the city of austin.

I assure you that we are listening and we want to get all of your input, butt reason I'm saying this now is unfortunately I have to apologize, but due to a prior commitment I have to leave.

But I have heard you.

A few members of my staff will continue to brief me on additional comments that have been made.

I appreciate being here and I appreciate all of you.

Thanks for your input.

And again, I apologize, but I do have to leave.

Thank you very much.

[Applause]

>> thank you, mayor.

Good to meet you.

We shall continue.

All right.

Okay.

Todd wickersham.

>> Some of you may know -- the mic is too low.

My name is todd wickersham and I am a travis county resident outside of the austin city limits.

And I am here because I to use some of the city services and I can understand the general fund transfer for some of those services.

I understand that austin energy has not had a rate increase for number of years and so this is a big number we're all having to swallow, but I am primarily up here for three reasons.

One is that I believe the high fixed charges are unfair to the low income folks.

I believe that austin energy should figure its costs on its variable rates to take into account what money is needed to keep the utility running efficiently.

I don't believe that austin energy has done a good job for the people outside the city, showing residents how they can reduce their energy use.

There is a number of ways through efficiency and other measures that the city -- residents can reduce their bills, but you have to be an engineer to figure out how to do it.

So there could be more assistance to high end use rate payers and low income people on ways to reduce their energy use.

And some of the advantages of doing this is from what I've heard from austin energy and from other utilities around the state is that energy efficiency is the least cost energy available.

Something that you don't have to produce and run through the wires, lose all the line losses, pay all of the ERCOT fees is much cheaper than producing energy in a power plant, paying all those fees and breathing all the pollution.

So I think there's an opportunity to help out of city customers reduce their rates through rooftop solar programs and energy efficiency programs.

And take advantage of all the economic benefits available from that for us.

So with that, thank you very much.

>> Thank you.

[Applause] I will point out that I'm down to five speakers who have signed up.

If you do want to speak and you haven't yet spoken and you do want to do so, please give me a sign-up sheet and pass it up to councilmember Taylor, if you would, please.

Ryan downtown.

>> Good morning.

My name is Ryan Downtown.

I live at 13113 Mansfield Drive.

I'm running for the Republican nomination to represent District 47 in the Texas House of Representatives.

Thank you all for being here today.

I'd like to echo the comments you've heard all morning.

The constituents of this area, of Travis County outside the city of Austin, are concerned with what we perceive as inequitable situation.

Most of us believe strongly in free market.

Austin Energy has a unique monopoly.

If Austin Energy desires to maintain that monopoly, we really need to all work together to create a rate structure that's fair, not just for the citizens of the city of Austin, but for the citizens of all of Travis County.

I think the proposals so far have been a good first step, but they seem extremely complicated in some ways and they seem unfairly punitive to some homeowners outside of the city of Austin.

Again, I just want to echo everyone's comments here and thank you for your time and I look forward to working with you to address this situation.

[Applause]

>> david steed.

>> Mayor, councilmembers, thanks for taking your time this saturday morning to be here.

I'm david steed.

I reside at 4008 tejo circle.

I'm the board president for water district 17.

I think we're one of the -- austin energy's larger customers, especially one of your larger customers not receiving some form of a discount.

We pay nearly one and a quarter million dollars a year to austin energy.

We have over 100 accounts.

And we've already been subject to a 12% surcharge on many of these accounts.

We're told that we should run our pumps at a time -- out of peak periods, but most of these pumps, most of these accounts are for operation of lift stations for wastewater.

We have over 80 wastewater lift stations, and in this terrain you can't provide treated wastewater without many lift stations.

But you have to pump them when the wastewater is coming in.

You can't wait until off-peak hour to pump it down.

[Laughter] otherwise you would have untreated sewage spreading all over the surface.

We think that the 12% surcharge is excessive, especially in years when there are no profits or actually you're operating below-- you're operating above your costs.

The fuel charges themselves, you've had some 16 or so of those in the last several years.

And the last increase was i think 12 percent.

We're already paying that too.

We recommend that you provide a special rate for publicly owned utilities that are providing life support services in the form of water, wastewater treatment to maintain health, sanitation and safety, including fire protection.

Our customers do not benefit from the transfer to your general fund, and we operate in the etj and partially in some of the corporate limits of some-- of at least four corporate boundaries.

[Buzzer sounds] including parts in the austin etj.

A special rate for nonprofit public utilities would be reasonable, much like the consideration you give to school districts.

We also recommend that you do a real cost of service analysis, that's how we base our costs for water and wastewater is on cost of service.

You increase our costs, we're going to have to increase our costs eventually to each and all of our customers.

>> David, if you would wrap up, please.

>> Yes.

Thank you.

This cost of service, if you can do an audit of that using an outside expert, particularly looking at things like removal of this economic development function, put that back in the city's general fund.

Thanks for your time.

>> Thank you, sir.

[Applause]

>> craig williams.

>> Greetings to the austin city council.

I appreciate your time coming out here on a saturday.

My name is craig williams.

I live at 3303 winding creek drive.

And I'm a board member of the estates of barton creek property owners association and a resident of austin for 35 years.

I work in the semiconductor industry and I also own a moving company based out of austin.

Austin is a great place to live.

It offers a quality of life like none other.

I frequently travel throughout the united states and I'm amazed with how many people have heard such great things about austin.

We are definitely in a position for substantial growth in coming years, however with growth comes many challenges, including keeping austin an affordable place to live as well as the surrounding areas.

For the past six months I've been closely monitoring the events around austin energy's attempt to restructure company rates and I'm greatly concerned with what has been proposed with little consideration to the impact on energy users.

Not only for limited income families, retirees, churches and middle income folks, the impact is significant.

For example, several days ago, just to get an idea of what's happening, I ran the austin energy calculator just to see what the impact would be on me.

And I was greatly surprised to find out that my increase will be over 15%.

That's 12% in the winter months, but a whopping 20% in the summer months.

That level of increase is unacceptable and I strongly urge you to reconsider the first, reject austin energy's recent proposal for the progressive rate structure as it leads to an unfair system that significantly penalized all types of income homes throughout the austin area.

For additional details, I strongly urge you to review letter that was sent to the honorable Laura Morrison by the homeowners united for rate fairness.

This letter outlines both the direct and the indirect impact of the progressive rate structure.

Second, remove the burden for austin energy users outside of the city of austin by contributing to the general fund transfer.

It is not fair to force austin energy users outside the city limits to pay for city services that we don't live in or use.

Especially considering that what the -- especially considering that we have no other alternatives for energy usage.

The structure is unfair and must be reconsidered to help reduce the drastic increase that is before us.

Third, please closely review the internal operations of austin energy.

As my mother told me years ago, where there's smoke, there's fire.

In summary, we are relying on the austin city council to drive a fair solution -- us.

[Buzzer sounds] -- that is not only resolve current issues with austin energy, but have the best option to leave austin an affordable place to live.

If you follow through with the current proposal, deregulation will be upon us.

I strongly urge you, please, let's work together and make this thing work.

Thank you.

[Applause]

>> bryan sampto.

Have I got that right, bryan?

>> I'm chairman of the board for steiner ranch neighborhood association and I'm here also to support concerns that have been raised by homeowners concerned for rate fairness.

I'll focus my comments on the rate structure for austin energy which we believe is unfair and highly ineffective for achieving its stated goals.

Let me summarize ae's own goal structures.

Have equity as defined as being closer to cost of service, promote energy efficiency via energy investment and efficiency improvements.

Provide a stable cost structure and support off peak usage and other technologies beneficial to the environment in the system.

The five-tier rate structure misses the mark on all of the stated goals.

It has the consumption of energy to identify pricing, allocating the rates high above true costs to only the top two tiers or 18% of customers, who then subsidize the remainder of the residential rate class.

This is a fundamentally flawed approach because energy consumption is not a fundamental measure of energy conservation.

Under this policy some of the most efficient homes as newerred by improvements and conservation measures will be penalized most with no reasonable avenue for obtaining fairer rates closer to the cost of services.

Large families and relatively large homes may be the least able to absorb this punitive tax.

The plan does an ineffective job of proceed meeting efficiency.

It is both unfair and bad for the environment in the utility system.

Consider the following examples, consumers in larger homes with improvements will not be rewarded with fair cost of service rates as their net consumption will change bin laden a fractional amount, resulting in continued penalty.

They can't fully move down the rate structure to fair cost.

This greatly limits the incentive to improve and conserve.

Also customers with large families who consume more inherently will be penalized severely for their very inefficient behavior per capita.

Also customers in the lower two tiers, about 65% of the total residential customer base, will receive virtually no pricing incentives to save energy, even though that their consumption accounts for nearly one-third of residential load.

The result?

Result that this plan punishes large homeowners with little recourse for fair rates while providing little incentive to other customers to help meet austin energy's stated goals.

Ineffective state structure aligned with the goals would have each customer to move towards optimal efficiency.

A reward system that would give fair cost of service rates and encouraging those who have not taken such measures to do so.

An effective system for aachieving this would have the consumers closely monitoring their consumption and self regulate undesired behaviors, such as consumption during peak energy period when the highest costs are incurred by the utility, which has been completelily ignored in the proposal.

[Buzzer sounds] I would ask that the honorable councilmembers study these flaws of the five-tier rate structure which were echoed by austin energy's residential rate advisor and ask ae also to revisit its residential rate policy and stay true to its stated goals.

[Applause]

>> and last but not least, mr. bob stokes.

>> Thank you very much.

It's a pleasure to stand before both councils and i am bob stokes.

I refuse on autumn oaks in the hills.

I am currently also the chairman of the board of the lake travis chairman of commerce.

I've been sitting here listening to all of the residents we have and the utilities, but I haven't heard anybody say anything about the businesses, so i thought I better get up and say something.

The businesses here in lake travis, we're growing, thriving, we have 450 plus members currently.

Anything that effects the bottom line is of interest.

And most are residents, so you get hit twice.

A lot of the things that have been brought up today are respective of what we want as businesses, and we hope you keep that in mind.

Thank you.

[Applause]

>> well, bob, you weren't last but not least.

Bryan clifton.

>> Good morning.

My name is bryan clifton and I appreciate the public servants coming out today on a saturday morning, but also all the concerned residents that are here as well.

Evident of the concern over the austin energy rate increases.

I'd like to address two issues.

By the way, I'm a public services committee chair for the steiner ranch neighborhood association.

So very concerned with austin energy rate increases and then also from the water district 17 that serves steiner ranch.

The rate increase that would be passed on to the residents in a double whammy, in effect.

I do understand that there would be a need for a rate increase, especially when there hasn't been an increase at the base rate for so long.

But the idea of a -- somewhere upwards of a 22 to 24% rate increase for the homes there is exorbitant and unacceptable.

Looking at an example of the medium to larger houses of worship, looking at a rate increase of 75 to 80% where they are today is just one other example.

In reference to a letter written previously by debra degenres at the water district 17 to mayor leffingwell and the city council, it is stated that austin energy does claim that they have not raised the rates since 1994; however, they have raised fuel charges by 28%.

28% By their own admission.

Austin energy has been negligent in seeking gradual increases over the last 17 years.

It now appears that they will attempt to make this deficit up all at once.

This practice would set a bad precedent.

It's clearly unfair and bad public policy.

So the idea of maybe coming out with a two to three percent rate increase may be adjusted in a couple of years if that's not sufficient.

It might be a more reasonable idea.

I'm not in any position to tell you how to run the business, but as a concerned citizen, that would be my input.

One other idea is if the -- in summary, wrapping up, without effective management within austin energy, maybe the idea that has already been proposed, are they opening it up to a competitive marketplace where those are on the decline right now.

That might be another alternative.

Thank you once again.

[Applause]

>> pav rob ins.

>> That would be paul.

I guess my handwriting needs improving.

>> Sorry about that, sir.

>> I am a research writer and I wanted to a you have a municipal utility district in lakeway, right?

>> Yes, sir.

>> Does it charge for rates inside and outside the district?

I don't live here.

>> Sir, I'd rather instead of getting a question and answer period going, I'd like you to speak for three minutes and give us whatever opinions you would like to give us.

>> Okay.

Very good.

I just complete add report on water utilities and I am going from memory here, and I don't believe that the city of lakeway has two different rates for its water district.

In fact, if my memory serves, you actually charge slightly higher for people living outside the district than in.

Going further than lakeway, I'm thinking that of the 14 suburbs that I surveyed in a recent report, there might be six or so that charge more for their water utility outside the city than inside the city.

Some people in suburbs outside of austin are served with natural gas.

I do not believe that there are two separate rates.

They are served with cable.

I don't believe there are two separate rates.

Some people here would like to see this area served with a private electric utility.

I do not believe a private electric utility goes without a profit if it works outside of the city of austin.

So if you're looking for something balanced, consider the precedent.

Thank you.

[Applause]

>> that's the end of the speaker list.

I don't have any other speakers that I see that want to speak.

So I am going to close the item 3, the discussion and public comments.

And let me just ask the councilmembers for the city of lakeway, are there any comments you would like to make at this time?

>> Well, I think I have -- is this on?

I think I have a comment and a question.

>> This happens every council meeting.

>> Try that one.

>> Is this any better?

Okay.

In my career I've worked very closely with the electric utility industry, and I feel like sitting here today I've gone back 25 years before deregulation when electric utilities needed more profit, all they had to do was put together a fancy presentation, go to the city, whether it's corpus christi or houston or whoever they're serving, ask for their rate increase and get it.

And that's basically what -- what we're going through here today.

Deregulation occurred in -- somebody can help me when?

Early '80's?

Oh, that late?

1999.

Deregulation affected investor-owned utilities.

And let me tell you that the blood letting that went on at that time was something to behold.

Those companies were bloated.

Their operating expenses were off the chart.

And they had a term they called downsizing.

And that was to try to get their expenses, their everyday operating expenses in line so that they could compete.

Cleverly the electric utility industry finally changed that to right sizing.

They thought it had a better sound.

Now my question is has austin energy ever been through a downsizing process, and if so, when did that occur?

>> Thank you.

Larry weiss again, austin energy general manager.

In 1999, coincidentally, there was a study done of austin energy in 1998, 1997, that time period.

I wasn't there obviously.

As a result of that, today we have about 1800 employees and we measure that metric across the utilities, how many customers we serve.

Plus operate all our generating plants.

We're extremely pet u.t.

We're at the lower tiers of that.

But back at that time there was a study done with the same intent.

In fact, public at that time tilts thought we would be deregulated -- public utilities that would we would be deregulated at that time.

Public systems looked at their cost.

At austin energy approximately 300 positions were eliminated from the utility.

And since that time and over the past decade austin energy has held its employee count where it is, serving considerably more customers.

So that downsizing was done a number of years ago and since that time the management has kept a very close eye on the size of the utility and the number of employees that we use.

>> Thank you very much.

>> Any other comments or questions?

>> Just one question or comment, I guess.

You made the point very early that the general fund transfer was similar to a return on equity or similar to capital credits.

You're leaving out 55,000 people who have received that dividend.

I hesitate to call that a return on equity.

The risk is taken by the customers, not by the city of austin.

>> Right.

I understand your point.

I understand your point.

But there is -- in the electric cooperative business, everybody is a member.

And in order to receive the benefit, the capital credits, over time you have to be a member.

Municipal -- austin -- stint is unique across the united states.

There are not very many cities that have a large public electric utility that they own or even a water and electric utility.

Los angeles department of water and power in los angeles is the largest in the country.

They serve about 3 million customers.

The san antonio, austin, nashville, jacksonville electric, very small list of large ones.

Coincidentally there are many small ones, like the city of lake that operate their own electric system and those are typically buying power from a wholesale provider and redistributing it to their customers.

So I want to put that in perspective that when it comes to comparing austin energy to other publicly owned utilities across the country you really need to look at those big cities and see how they do it.

But the analogy to private utilities, getting about a 10% to 12% return on investment, is very common across the country.

>> Yeah.

Their customers don't take the risk.

Your customers do take the risk rather than the city of austin.

It doesn't wash to call that any kind of a return.

It may be permissible, but i don't think it's beneficial with policy long-term.

>> Any other comments?

>> Well, it appears that you're on a goal of green energy and everything, and i guess one of my questions is that -- it was brought up in some of the questions here is there any plan to go -- gas is a very green energy right now.

It's cheap and it's available and here for a long time.

Has austin energy got any plans to do gas with five electrical plants instead of --

>> I'm glad you asked me that question so I can correct it.

About five percent of our operation is done with natural gas and the largest capital project we have in the next couple of years is an addition of a combined cycle turbine at our sand hill facility out past the airport.

That is going to be about a thousand megawatt facility when it's complete with the additional turbine.

Today we have seven turbines there.

We actually have a steam turbine, gas turbine.

So we use a lot of gas.

In that fuel factor I want to correct that too that we do not increase the -- the fuel factor went up 16 percent this year.

Last year it went down 15%.

But that's not on a whole bill.

That's on a piece of the bill.

61 cents a kilowatt hour right now and we succeed that of that 3.61, not the total rate.

So it goes up and down, i want to emphasize that.

And natural gas is the primary reason for that.

And we hedge and 10 sure our to make sure that we're not doing any speculation in the market.

This is common with publicly owned utilities.

Therefore the common that we have two cent gas to go out and buy, we cannot operate ourselves as a utility prudently by just being on the spot market for gas, but we can for spot market for energy.

So we buy a lot and a lot of what we're buying is generated in texas with natural gas.

So it depends on the given day, the given hour, but we use a lot of natural gas and in the future we will probably have additional base load generation that will be provided with natural gas.

I may also say that we've provided about 291 megawatts with wind contracts recently and the wind in south texas is extremely good.

This is in the ERCOT system way down south of King's Ranch in that area is where we are.

And that, the recent contracts we have for that are frankly cheaper than gas production costs.

So it's very competitive, those contracts.

Solar, difficult, but it's a very small part of our portfolio.

But anyway, that's what we're doing with natural gas.

>> Thank you.

>> Anything else?

>> One more.

I just have one question.

I wanted to know what percentage of Lakeway does Austin Energy serve?

>> In the -- I'll go to the first slide here.

It is -- it's about 20%.

47% -- 58% Of the service -- 53% of the service area is outside of the city limits of Austin.

But we currently have 419,000 customers.

There are 48,000 of those customers are outside of the city of Austin proper.

Then we have 7,000 commercial customers that are outside, but it's approximately about 20%.

>> 20%?

Thank you very much.

>> I'm sorry, mayor.

That point, though, is out of that 48,000, that's not lakeway residents.

That's all.

The city councilmember's question was specifically what lakeway -- how many lakeway residents do we provide?

>> I'm sorry, I missed that point.

2100.

>> It's less than half of the residential customers in the city of lakeway.

>> Okay.

Yes, I know some of are serviced by pedernales, some by austin electric, so I was curious on the percentage that was austin.

>> I think it's 2200.

>> Thank you.

>> Before I adjourn I'll prefer back to mayor pro tem cole.

Is there anything else you would like to say?

>> In addition to thank you and thank you for coming, and we enjoyed and listened to your comments, but I'd like to say a couple of things.

First, austin and this region appears on about every best of list in the country and sometimes the world.

So this is not just about electric rates.

And we've gotten there because of regional collaboration.

On everything from transportation to social services, to economic development.

How many people right now will venture to raise your hand and show me who works in austin or their spouse works in austin?

Okay.

I really don't know.

I know the numbers for lakeway and westlake as a city are very, very high, but I bring that up because austin does not survive without you.

And I don't think that you survive as you are without austin.

And if we don't resolve this in a manner that is beneficial to both of us -- and I'm not trying to suggest that the points that you made were not valid because I agree with many of them.

Number one what I agree with is that we have to make sure that we have our internal operations of our electric utility running in an efficient, economically succinct manner.

And we are taking that on.

The second comment that was made was that, okay, guys, what about your debt equity ratio?

What about your reserves?

We're looking at 'em and we're looking at them closely.

I believe you saw that schedule.

A city council has never had that schedule before and they certainly haven't had it at election time.

[Laughter] and someone made a comment about cps.

We've looked at it.

Cps has modeled themselves after us at times and we have modeled ourselves after them.

I know they have a governing board.

I know we have floated around different ideas about a governance structure that would be more cohesive to what you have asked for.

brown, who I've known a long time, brought up the point that about \$400 a year is being paid by out of city residents, and i calculate that to be about \$33 per month.

I just ask you to realize we are concerned when you talk about resolving \$33 a month at the legislature or at the puc, given our relationship.

And I know you want us to be and that's why we are here and I want you to know that we heard you.

As you know, we have not raised rates in 17 years.

That means we are looking for a whole lot of councilmembers that this has been up to doing it.

And we've taken it on.

And so we want to work with you before we get to the puc and before we get to the legislature, before we start battling each other in a region that has thrived like we have.

And I would assert that to the extent the gentleman testified that business is good and business is good and getting even better in austin.

We're number two in the country.

It won't be that way when we start tearing each other's hair out at the legislature.

So we're here to listen.

We're glad that we heard you and we want to work with you even before we get there, and we appreciate your right to take us there.

Thank you.

[Applause] councilmember martinez.

>> Martinez: Mayor, councilmembers, thank you so much for opening your house to us and welcoming us in.

I want to thank the lakeway residents as well and also want to thank our staff and fellow councilmembers for taking time.

Folks, we absolutely hear your concerns.

And quite honestly, these are not really new concerns.

We hear them all over austin every time we have a work session.

Just because you live in lakeway and western travis county, it doesn't mean that your concerns aren't any less than those that live in eastern travis county or in austin.

We truly do appreciate and understand the predicament that we're in.

We are working hopefully to a resolution.

I personally will commit to you that my hope is that we resolve this amicably and not necessarily in a fight at the puc or at the legislature.

It is not in our best interest to engage in fights.

It's in our best interest to serve our customers, and to do it as efficiently as possible.

Some of us did propose a modest increase so that we could continue this conversation for a much longer period.

This council, which I fully support their final decision, chose not to adopt that interim rate increase.

We will get to a final decision at some point.

And I promise you that your concerns will be taken into consideration and we really appreciate you taking the time to come share with us today.

Thank you.

[Applause]

>> councilmember morrison.

>> I'll just echo my colleagues' comments.

I really appreciate being able to meet you all and sit with you on this beautiful saturday morning.

And really what is significant to me about today is three things that I'm seeing.

One is that there is a lot of commonalty in our concerns because I can assure you that we are working to reduce the revenue requirement, to make sure that the cost of service is fair and look at all those issues.

Working very hard, as mayor pro tem cole mentioned.

We have a pretty rugged work session schedule, and i encourage you all to watch them online or come down to city hall and join us in person.

There's a lot of commonalty.

I've heard some new things that I hadn't heard before about the other public utilities and impacts on them.

So I appreciate being able to get out here and do that.

And most importantly, i appreciate the comments that say let's work together and see if we can't find some resolution together because there's a lot of very creative and innovative and smart people around here.

And I'm certainly dedicated, I think along with everybody here, to doing that.

[Applause]

>> Cole: If there's no further comments, this meeting of the austin city council is now adjourned.

What time is it?

>> It's 15 minutes of 12.

>> Cole: At 11:45.

Thank you.

>> All right.

Thank you, councilmembers, from the city council, mayor pro tem cole.