Closed Caption Log, Council Work Session, 04/17/12

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I'm

lee leffingwell and a quorum is present so I'll call this council work session to order on tuesday, april 17, and we're meeting in the council chambers, austin city hall, 301 west 2nd street, austin, texas.

I'll turn it over to general manager, larry weis, to lead us through the agenda.

>> Thank you, mayor, members of the council, larry weis, good morning, general manager austin energy.

What we have put together today on our agenda and we have slide no. 1, I think.

[09:08:04]

There we go.

On the agenda today we put together a deciding point list on the previous discussions, and we thought we'd go through those first and then we have a review of the 2011 audited financials, and then into some technical issues, nodal market and fuel adjustmen.

So on the decision points that we've discussed before, we have the cash flow methodology, the debt equity ratio, the reserve policies, those set by council and how we manage between those.

Our general fund transfer policy, we have a proposal, as you know, that's on the table on that.

How we handle energy efficiency, a proposal right now is in a separate line charge.

There's been some discussion of handling that maybe a little different, and then the scope of customers, there's assistant program coverage.

That is, how big and how deep that program is.

So, mayor, I don't know how you want me to proceed, but we can't take this an item at a time and talk about cash flow methodology and see if we get some guidance from you.

let's start that way, see where it goes.

>> All right.

Okay.

The cash flow methodology that austin energy uses is a cash flow return method.

That method basically is a little different than what is used in public power across the country, where they're using debt service coverage basis for that.

Aiming for a target, that is, every year.

The cash flow return method is used by the california -- or excuse me, the texas public utility commission, and principally because of the ercot charges and the transmission charges we have, the commission has ordered that all public

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utilities in texas use this method.

So with that, ann, are there any other details?

>> Well, this slide is mainly for reference because most of the decision points relate to the revenue requirements, and just to refresh your memory, we have it divided into two sections.

The top section represents the annual minimum need to the utility, and remember, those are normalized to represent nontypical items.

So represents phase 1 represents a $71 million increase for the utility.

The second box represents the reserves, and those are proposed to be added october the 21st, 2014, so in fiscal year 2015, and that would give us time to review some of those policies during that time period.

council member morrison?

there's one item that we didn't quite get to in our first session.

I had to leave early, and i think it might relate to this, and that is we had a lot of discussion about our debt service coverage, and one of the questions that i wanted to be able to discuss was actually how we calculate that, because it's my understanding that in terms of the requirements, we're counting our reserves, and what's been suggested to me is that gatsby says when you're calculating that you only count your requirements, the ones that are legally required.

And so that would actually change our debt service coverage.

Am I making any sense to you?

Because I'd be glad to -- i am in no way an expert in this area so I just want to throw that out there for your thoughts.

>> Yeah, I have some slides that might explain that.

One of the questions was

[09:12:01]

what would it look like if we had a two times bfc coverage, so I have a slide on that if you'd like me to proceed to that.

it's not so much that.

It's about which -- which funds actually get counted as non-spendable funds.

>> Morrison: okay.

Let me explain the process in the cash flow methodology.

It is prescribed by the public utility commission.

It was developed in 1999, and it was prescribed for municipal utilities or government entities that were required by law to balance their budget.

And so in order to do that, it looks similar to a budget, and there's prescribed line items in order to determine that return.

In comparison to other returns, there's other return methodologies, like the debt service coverage.

There's also a times interest earned, which is typically used by cooperatives, and there's a rate of return methodology that's typically used by investor owned utilities, and all of those are a result of ratios.

But I think the public utility commission recognized that for government entities, that in order to meet the financial policies, that was more important than trying to apply a ratio, because those were prescribed by long-standing policies.

So that's where the cash flow methodology actually lists those rather than coming up with a formula or a ratio, and those line items are actually listed -- let me go forward to a slide this column, the first column, shows the return components that are prescribed in the cash flow methodology, and actually austin energy has used this methodology successfully at the public utility and so almost all the other -- so have almost all the other utilities in texas for transmission cost of service.

So you can see that the line

[09:14:00]

items are debt service, general fund transfer, the cash portion of construction projects, and your contributions to reserve.

And I think your question was on those contributions to reserve.

>> Morrison: that's right.

>> And the way those are determined is you start with all of your cash, which would include, like for us, when we developed this it was in the summer of 2011, and at that time -- I can't remember the exact number, but it was around $250 million that we had to and that included the 138 million that we had in emergency and contingency reserve, and then our operating cash, and then all of the rest of ours were at zero.

And we also included the construction fund.

So all of those were started -- were put in a and then you look at your maximums -- you look at your financial policies and you start filling that with that, and there's a flow of funds that we follow.

And so when we filled that up then we came up with a $75 million deficiency in order to reach that limit, so we divided that by 3, because we said we wanted to replenish it over three years, and that's where the -- it was really 25 million on those, and then the nonnuclear decommissioning adds another 6 million.

>> Morrison: okay.

Thanks.

I -- it's a new arena for me, so I'll study it a little bit more off-line and let you know if I have any more questions.

>> Okay.

>> Morrison: thanks.

>> Spelman: mayor?

council member spelman?

I think I understood about a third of what you just said.

But let me ask you a different question in hopes that maybe I'll understand better the second time around.

You said that the only way -- the only method for AUTHORIZING -- FOR MOUs TO Examine our -- to determine our revenue requirements for the cash flow method.

Is that right?

>> It's not the only method.

You could probably use any of those four I mentioned, debt service coverage, times interest [inaudible] rate of return.

[09:16:00]

But it's not typical.

And once you set the precedent at the public utility commission it's hard to deviate and we have used the cash flow methodology successfully just as cps energy at san antonio and a lot of the other municipal utilities.

>> Spelman: okay.

SO THE STANDARD FOR MOUs Is to use this cash flow method.

>> That's correct.

and the basic idea is we figure out in an ordinary year without peculiar weather effects, just assuming ordinary wear and tear maintenance on our plants, things like that, how much money are we going to need in order to cover all the things which are ordinarily required of us?

>> That's correct.

and the big difference, it sounds like, between the cash flow method that we're using and something that an iou would be using, something like a rate of return methodology, is that our general fund transfer is determined by policy, and that's where that 105 on that first slide a few slides back came from is based on our policy of 9.1% of the average year.

>> That's correct.

if we were an iou instead of that 105 being included in our requirements, what would that rate of return policy look like, or what would the iou be using instead?

>> Let me go back to this slide.

The investor owned utility would start with the operations and maintenance, so that $824 million might be the same.

>> Spelman: okay.

>> Then starting with the debt service, the cip cash, general fund transfer and then down at the bottom decommissioning and the reserves, all of those would be part of the return on rate base.

So they would be excluded.

And you would be -- you would use, then, that percentage that was developed out of your rate base to cover all of those items.

And the same with the debt service coverage.

You calculate your debt service coverage and all of those things would have to be recovered through that

[09:18:00]

return.

So you can see that because utilities have defined policies and there's not much discretion in those items.

>> Spelman: right.

>> I mean, we have to pay those.

>> Spelman: yes.

>> And so that's why I think the public utility commission really offered the cash flow methodology to government entities, because they realized we had to balance our budget.

let me see if i can understand just a little bit better.

If I were an iou, that general fund transfer would not be set by policy.

It would be whatever I got over and above covering o & m debt service, capital requirements associated with having a proper amount of equity in our plans, things like that.

>> That's true -- they would also include depreciation expense.

depreciation expense because they're tax afnlt how would that -- how would that general fund transfer or dividend or excess earnings be used in determining requirements for an iou?

>> It would not be included.

It would be -- it would be a fallout of the return.

So if you didn't meet your return, then you wouldn't pay those things.

They have that flexibility.

but they would be allowed to charge rates over and above their basic requirements at a certain level?

>> That's true.

what's that level?

What determines that?

>> In the past the public utility commission has some guidelines, and the ones that I think are still out there show that the return on equity is around 11.25%.

I think recently during a competitive market and the results of that, they've come down a little bit, maybe around 10% for return on equity.

>> Spelman: okay.

So the return on equity is more or less equivalent to our general fund transfer in size?

>> That's correct.

and our general fund transfer is set by 1%, but an iou's

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return on equity would be set at somewhere in the neighborhood of 10, 11 and a quarter, roughly the same number, maybe a little bit higher?

>> That's correct.

It has been falling a little bit in the last few years, but I think that's still the target.

>> Spelman: okay.

If I were an iou and I set a return on equity rate of the .1% would that be lower than the average iou's setting.

>> Yes, sir.

>> Would it be lower than any of the iou setting or are some of them demanding a return on equity as low as # .1?

>> I'm not sure -- on --

>> as low at 9.1.

>> I'm not sure I can answer that.

There might be some but i don't think they would go lower than that.

1 would be competitive if we were comparing our return on equity, which is the return ON FUND EQUITY FOR IOUs.

>> That's correct.

>> And in most our setting of requirements is similar to most for the setting of requirements.

Is that accurate?

>> Yes.

>> They're also taking depreciation because they're taxable.

>> Yes.

>> Spelman: thank you, ann.

I just want to make sure it's clear that when we talk about return on equity, we're talking about basically a dividend that a corporation would pay; is that correct?

>> It's a little bit more than that.

You look at your debt and then -- and then you look at your weighted debt and your cost of equity, so it's more -- it includes more than just the dividend.

so it's a dividend and what else?

>> It's the cumulative earnings -- yeah, it's the cumulative earnings of the entity.

who is 1% paid to?

It's just internal?

>> Yes, it would be used to pay for construction projects or principal on your debt service, things like that.

that's not directly comparable to our transfer?

Because our transfer isn't used for any of those things, correct?

>> That's right.

it's essentially dividend of --

[09:22:00]

>> it would be in addition to our transfer.

so considering for iou's dividend alone what would that number typically be in texas?

>> I'm sorry, I can't answer that.

I don't know.

would it be 3%?

4%?

>> I'm not sure.

could we check on that number?

[Inaudible] I'm saying what is typical and ordinary.

>> We can check on that but it is usually in the lower single digits for return on the shareholder return.

council member morrison?

I need to ask another question now that I've heard these questions.

I wanted to focus in on the debt ratio that we have to calculate, and that depends on how much cash on hand we have, and I know when we were talking about possibly lowering some revenue requirements, you know, looking at various scenarios, we didn't get to just subtract that number because sometimes there would need to be an adjustment to keep our debt service coverage up so the net that we could actually subtract from the revenue requirement was a little less than we might first think.

And so I think the thing that I was focusing on and wanted to get into a little bit more is what do we determine is our cash on hand?

Do we include our reserve requirements in that cash on hand number, because that then affects the debt service coverage, which then affects how -- you know, our revenue requirement.

So I think the question i really wanted to ask is, do we include our reserves in our cash on hand calculation that goes into our debt service ratio?

>> The cash on hand really

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doesn't go into the debt equity ratio.

I'm talking about the coverage ratio, 1 --

>> yeah, the debt service coverage ratio is just your net revenues and the components of it are the net revenues and your debt service.

Let me go back to this slide right here.

And then what you do is, for instance, to do a two times dfc, you would take that $168 million and you would multiply it times two so that's the $336 million.

And then you would just -- that becomes your return.

So it has to cover those other items.

So the cash doesn't really come into the determination of the dsc other than the times coverage is supposed to cover the contribution to reserves and the cash portion of your construction project and your general fund transfer.

So you can see it's inadequate in that scenario.

Does that answer your question?

I'm going to have to think about it a little bit more, but I know where to find you.

Thank you.

>> Spelman: mayor?

council member spelman.

let me see if -- I think you and I may be in agreement and we may not be in agreement, but I'm going to ask a question of ann because I think she'll be better -- in a better position to tell me whether the mayor and I are speaking the same language or not rather than having us talk about it, because I'm sufficiently at sea.

I'm not quite sure where i am.

I'm an iou.

I've got o&m expenses same as the city of austin.

I've got debt service, same as the city of austin.

I am purchasing some of my capital goods with cash, some with debt.

Same as the city of austin.

So that capital from current revenue is going to be equivalent kind of number.

It's going to have the same

[09:26:01]

meaning.

I've also got transmission revenues or losses and other revenues or losses, same as the city of austin.

And presumably I will have some reserves set at some -- there will be some corporate policy set for how much reserves I need to cover myself in the event of a bad year, same as the city of austin.

And the thing which is different between -- and I've also got depreciation to deal with, which we don't.

Other than depreciation, the only thing which the rate of return polic the puc uses to determining the rate of the iou the difference between that is -- are they called retained earnings?

What's the line item.

>> Retained earnings.

so retained earnings is basically the same thing as what we have in the general fund transfer.

The general fund transfer, that's what we do with retained earnings but it's still retained earnings.

>> I would think that would be true.

>> Spelman: okay.

So we have, as a policy, decided to take all of our retained earnings, or that equivalent line in our spreadsheet, and chosen to transfer that to the city's general fund.

What corporations do -- it could make different decisions.

They could transfer some of it or all of it if they wanted to to their shareholders, or they could choose to use some of that retained earnings for some other purpose that they think would be better fitting the role -- the value of the corporation in the long run.

>> That's correct.

what other kinds OF THINGS DO IOUs DO WITH Retained earnings that we have chosen not to do?

I think you explained them a minute ago but they came by fast and so I wanted to be sure I understand them.

>> They can change their capital structure with that, like buy back shares.

Some other things that they do, they're a little bit different.

Their reserves might not

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need to be as high as ours because they typically have lines of credit that they can tap into and they can use that line of credit for operations and maintenance, research and development, a lot of things that we can'tborrow money against because we have a lot of limitations on how we issue debt.

>> Spelman: okay.

So I want to do r&d on energy production or transmission or something.

If I'm an iou I've established a line of credit, I can borrow money.

It's real easy for me to do it.

If I'm the city of austin i actually have to build that into my budget proposal.

Is that right?

>> That's correct.

If it's not typical, then it wouldn't be in your revenue requirements so it would have to come from reserves.

>> Spelman: okay.

If as a matter of policy we decided that rather than take those retained earnings and plow them all into the general fund, we took some portion of those retained earnings and did the sorts OF

THINGS THAT IOUs DO With them, restructure our debt, spend some of it on r&d, would allowable?

>> It wouldn't -- it would not be allowable to include that in the revenue requirements.

>> Spelman: okay.

>> -- For us, I don't think.

And it wouldn't be part of our operations and maintenance.

So we would exclude those.

So our structure would look quite -- a little bit different.

Typically, I mean it would be more conservative on things like that, so their operations and maintenance might be slightly lower because it wouldn't include things like that.

It's more at the minimum level.

if I'm an iou and I want to restructure my debt, I can use retained earnings for my purpose?

>> That's correct.

if I'm the city of austin and I want to restructure my debt, how do we go about doing that?

>> Well, we have some pretty strict guidelines on what we can do with refundings and things like that, or if, for instance, we wanted to change from the 50/50

[09:30:02]

structure to a 60/40 structure, then you couldn't just start issuing debt to get to that level.

>> Spelman: right.

>> You would have to have specific assets.

So if we were going to buy some type of a generation plant and it would be eligible then for a larger percentage of funding, then we could do that, and you could gradually start increasing that.

But it couldn't happen overnight.

And you couldn't include it in your revenue requirements because your debt service and all of the items in your revenue requirement need to provide support for used and useful items.

>> Spelman: right.

>> So it would be difficult to change your structure quickly.

That would be a long-term strategy.

but if I were an iou I could just issue debt and do it much more quickly.

>> That's correct.

>> SPELMAN: SO MOUs AT Least in this respect are restricted with what they can do with their capital goods than an iou.

>> Yes.

>> If I'm comparing apples to apples, retained earnings is retained earnings.

They have more flexibility what they can do with those, sending all of them to shareholders, doing other things with them.

We can't.

Our retained earnings have to go back to our shareholders or else we don't take them.

Is that accurate?

>> That's correct.

>> Spelman: okay.

Thank you.

>> I wanted to add something if I could.

Reason debt service is important for us to watch is because wall street watches us with debt service coverage, but in terms of the methodology we're using to determine our revenue needs, we're using a cash flow methodology.

So I want to be clear that we're not abandoning debt service coverage measure measurement.

We use that, it's a critical tool by the rating agency, to compare utilities.

[09:32:02]

would you like to move to the next decision point or discuss that -- or look at some of the responses that we have to previous questions on some of the -- on the next topics?

i think probably we can move on, but I think several of us have indicated we're still mulling this over and trying to sort it out.

We may need to come back to it.

Him.

>> Okay.

And one last thing on these two methodologies.

As larry said, the dsc is important to austin energy, but it's a fallout of this methodology.

The cash flow methodology is a prescribed line item, and so we can determine the dsc and we're in line with the median for the aa minus utilities like ourselves, and their average is 2.48.

Okay.

One of the questions asked was, can we increase debt funding on construction projects?

And we've talked a little bit about that, and this slide kind of talks to that.

We're actually railroad already -- already doing that, and that shows in this slide.

In 2006 the blue bar to the left shows that the debt funded portion of construction was only 35%, and if you move to the right, in 2012 we're using approximately 56% of debt funding on construction.

But if you look at the red line at the top, that's the debt equity ratio, and that's what we use in the revenue requirement, and you can see that that's fairly and it takes years to and that's why it's a good so the annual portion of debt versus cash funding on cip is not the -- not the indicator because for

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instance, we may be close to the maximum amount of commercial paper that we can issue before we're required to convert it to long-term.

So it may put a limit in some of the years on that, especially if you have a large project, like a generation project, that would automatically go over the $150 million limit.

There's other things, and we've talked a little bit about this before.

For instance, each business unit is a little bit different.

Like the transmission business unit, we do not like for the debt funding to go over 60% in that fund -- in that business unit because the public utility commission has recommended that that be the maximum amount on that business distribution facilities have the most flexibility, and typically we fund 65% or maybe even higher, 70 or 80% in some areas, for distribution.

And then on the general funds, that's like our vehicles and computers, things like that.

Those do not have a 30-year life, so it wouldn't make sense and we cannot finance those with 30-year bonds.

And so those have to be cash funded completely.

Now, when we have buildings, like the system control center that we're building, we're financing that 100% with that.

So where we can we try to finance with as much debt as we can, but there are limits on all of that, and that's where it fluctuates from year to year and that's why for revenue requirements we really need to use that stable debt equity which is at 50%.

>> Mayor?

mayor pro tem cole.

ann, I need to understand a little better about limits, because I know we've talked a lot about being able to use the debt-funded part of the capital to reduce our reserve requirements, so when you talk about commercial paper being -- having $150 million limit,

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what do you mean?

>> Well, we share a commercial paper line with water, and our portion is half of that -- of $150 million.

So we'll go through the year and as we complete these construction projects or pieces of them, then we'll issue commercial paper throughout the year.

When that commercial paper reaches $150 million, we have to roll that or convert that to long-term debt.

let me ask you this.

When you talk about commercial paper and sharing it with water, I understand that, but I'm trying to understand the overall, what is limiting you?

Why can't it be more -- i mean, why can't it be $500 million or 200 million or 200 for you and 200 for water?

>> It's based on our capacity and all of our ratios.

Before we roll that we have to go for a rating, and of course that's why it takes so long and that's -- or a few months, anyway, to get that done, and to roll that to long-term, and then our line of credit, our commercial paper starts over again at 150 million.

I guess I'm trying to figure out if our financial policy as it exists now, is that what is really limiting you or is it another limit, something we can change, like the financial policy we can change so that if you could go from, say, 150 million to 200 million, would we be able to use more debt for the revenue requirement and --

>> when we go to wall street and ask -- and get a rating that we're going to issue a lot of commercial paper, we would have to work with our financial advisers and see how high we could go, is really what it is.

I always simply explain it, it's like getting a new limit on your credit card, and what happens is you keep pushing that limit up, you have to have really good credit to push it.

[09:38:01]

So -- strong rates, other things.

But you keep pushing that limit of that card, and then at some point in time when that card is filled up you have to go and get long-term debt for it.

So that's how it works.

>> Cole: I see.

>> So we have a program that's been put in place with water and with financial advisers and with the market, and it's 150 each, 300 million total, and that's -- that's how that works.

So we could, yes, go and increase the commercial paper program, but then, of course, that's for what reason and what are we planning to do with it and there's a whole story behind it that we would have to -- okay, I know our rating agencies are watching very closely what we do with the rate case, and I'm assuming from what you just said, if we were to increase the amount of debt just on commercial paper, that may have an increase on our rating, but is it possible to discuss with them what impact that would have before we ever did it?

>> Well, the bottom line impact is you're going to have more debt service and then you need to talk about your coverage and then you need to talk about the revenue to coverage.

So it's really an entire story that -- a business plan, if you will, that you take forward when you go to the agencies and you lay out everything you're doing, whether it's, you know, you're raising rates, typically you've already done that and you go and you talk about new capital programs that you're going to do.

Typically you would go and talk about your new capital programs.

When you do a take-out, in other words, you convert the commercial paper to long-term debt, it's really not talking about a new acquisition or a new business plan.

It's really talking about the strength of the utility and where we are and what that is to get a rating for

[09:40:00]

that new take-out of that debt.

Does that make sense?

it sounds like it's a lot more of a comprehensive analysis than just one instrument, and that makes perfect sense to me.

I'm just trying to figure out if you have a recommendation in terms of the debt-funded capital cost having had your experience of past discussions with them.

>> Well, there was an earlier discussion with council when we first brought this issue up about going to a 60/40 guideline.

>> Right.

>> And working with that going forward, and we're certainly prepared to do that.

And as ann talked about, that's only going to happen as we acquire new -- for example, we come before you and we're going to build a new generating plant, we're going to go out and borrow for it and we put that into our forward plan for capital, and then that way we grow to 60/40.

We can't convert today.

We will grow to it.

And if we have that target in place and that's our policy, that's fine.

We go about it, we meet that, we issue debt accordingly and we make that our plan, because that's our policy.

Is it done that way?

Well, I can tell that you some public utilities that are very, very small don't have generation, not like us, they might go almost 100% financing, you know, for their capital for the following year.

Not advisable to get your rating up, but that's a metric.

Excuse me.

Financial advisers across the country have -- in my opinion, have most of the public peer group and our peer group, most of the real big healthy ones are around 50%, like -- and I'm sure that's why we are the way we are, but it is not uncommon to go 60/40 and depends on your appetite too for debt and projects.

Everything is out there.

Summarize I think from austin energy's staff point of view, going to a 60/40 policy will work for us, and it will not allow us to get there right away, but we will get there and we can work with that.

[09:42:01]

>> Cole: okay.

Thank you, mayor.

>> I would like to add one thing to that.

When you increase your debt, then -- what we're doing now with a 50/50 debt equity is we're saying that our financial risk and our operational risks are the same.

So when you create -- when you increase your financial risk, those are your fixed costs, like your debt service, and you have to pay those and there's absolutely no flexibility on that.

With your operational risk there's a little bit more flexibility.

And when you move to a different structure, then you usually have to offset that in order to maintain your ratings with something else.

For instance, more reserve.

So if you really look closely at utilities that have the same rating as us, and possibly at 60/40, they probably have something to offset that like higher reserves.

So you have to -- that's why it's a long-term strategy.

We have to figure out how to balance that.

You can't just increase one side of the ratio without losing some of your credit quality.

so it sounds like it might not be that helpful to go to 60/40 if you have to offset it by increasing reserves at the same time.

It's kind of a -- just shifting -- shifting chairs on the titanic, spoke to speak.

>> Yeah.

sorry for that analogy.

>> Well, it can -- as you see up here, we actually are varying it substantially year to year, so by policy, being a 50/50, but also operating the utility in a leaner time, maybe going above that, is certainly a practice that is done.

You can see here that that has been done here over time, that when cash was good or there wasn't any debt issue issued, it was down to 35%, and over the last year with cost pressures and stuff we've

[09:44:01]

issued agents a little bit more.

Also depends on the project we do.

Like ann was talking about if we get into a plus 30-year capital, very large projects, that issuance will go up and then tend to go down at large capital projects aren't on the horizon.

i understand it's kind of an average over time, 50/50 and also depends on the type of project it is.

But I guess the key question is if you move to 60/40 without increasing reserves to offset that, would that potentially have an adverse effect on bond ratings?

>> It possibly could because it increases that financial risk, and if you don't have some way to balance that, just like larry said, we have the flexibility now because we're at the 50/50 mark to increase -- if we have cash shortages like we do now, then we can go and increase our debt for some of as much as we can -- according to the limits on our construction projects.

But if we were already maxed out, then the only alternative would be reserves.

So it's just weighing those risks and that's what the -- [inaud [inaud ible] would increase your risk, potentially lower bond rating.

>> That's correct.

council member tovo.

I have a few questions.

I just want to respond to that last discussion.

You know, we did have the auditor look at this very issue, and what that audit showed is that there are -- there are other utilities that have similar -- the same bond ratings that have different debt equity ratios.

And so, you know, I think the discussion that we've had with austin energy reps and also with -- and management and staff, and also with the auditors is -- and frankly from the bond rating agencies and the information they provided to us, is that it really is a holistic picture that the bond ratings are considering.

I mean, we're not going to

[09:46:01]

get our bond rating lowered, as I understand the material presented, just because we've adjusted the amount of debt we take on in projects and have done so for good reason.

Would you just speak to that, confirm my understanding of that is correct?

Because we had the auditor do pretty extensive looking at other utilities on this very issue.

>> We did, and the automatic reports showed that -- audit reports we were at the maximum for the debt equity.

The 50% is pretty much the top of the range for utilities with our rating, and some of them that are higher rated than us will have higher -- like a 60/40 ratio, but then they have other things to balance that risk.

And so that's why, like you said, it is a holistic picture.

You can't just look at one piece and raise that without looking at the others.

so when we discussed this before at our work session, we also looked, and maybe even looked specifically, at some work that data foundry had done, which showed that even once you balanced out some other things, there was a savings in terms of -- it had the effect -- or could have the effect of reducing the revenue requirement.

And I know in the answer that I was provided, or we were all provided, in answer to a question I asked on -- let's see, in the rfi process on january 30, austin energy response suggested that there wouldn't be a resulting lowering of the revenue impact if we adjusted this because it was -- well, maybe I'll let you explain.

>> I'm not sure what question you're talking about.

Would you --

>> tovo: sure, I'll back up.

So I think we're all interested in considering ways to reduce the revenue requirement, and it's been suggested to us by a variety of people that one way of doing that would be to adjust this debt equity ratio.

The answer that austin energy provided in the memo I just cited sugges

[09:48:03]

that -- suggested that because it was sort of a snapshot in time -- let me just see if I can find the actual language.

I can't right now, but would you just speak to whether or not adjusting this would decrease the revenue requirement for the rate case and then I would like --

>> I went back to slide 7 and I think that might help.

In a rate filing or any type of a rate case, you're allowed to make known im -- known and measurable adjustments, but they have to do that known and measurable.

For instance, our debt service is $168 million.

In order to make a known and measurable adjustment to increase that, you would have to purchase used and useful assets, and they would have to be recorded.

So to just make -- to increase your debt service would probably not qualify as a known and measurable, especially very large amounts.

You could do small amounts but probably not large amounts.

But then on the flip side, if you reduce the cash portion of the funding on the construction projects, then you c reduce that but you wouldn't be able to recover the debt service side.

That's why for revenue requirements they typically allow you only to use historical items.

So you can't change that structure in midstream or combine the debt service coverage with the cash flow because they don't match.

Another thing that -- like in -- with san antonio and that memo you referred to from data foundry, san antonio does have a flow of funds policy that's different from ours, and if -- their flow of funds actually takes that general fund transfer and changes the priority and puts it

[09:50:02]

down at the bottom.

So in order to force -- or incentivize them to keep their reserves at an adequate level, they have to fund their reserves before they pay their general fund transfer.

So again, these are fundamental changes and structural changes that could be considered, were you they can't be implemented in a revenue requirement without that long-term strategy changing and maybe in the future we might want to consider some of those.

For some reason -- I mean, that's really one of the reasons that we divided this into two phases, so that we could look at those reserves and policies over the next year.

>> Tovo: right.

And I understand the second proposal that you presented.

You suggested tabling some of those issues, but since we are talking about those issues right now I think it makes sense to, you know, plow on through them, because I don't think the council has decided yet sort of how to approach -- how to approach the rate proposal, whether it would be a phased thing or in two shifts.

But I guess I'm still not completely understanding why this -- wouldn't a known and measurable change be that instead of -- instead of putting this much cash forward, we would be putting less cash and relying more on debt with the corresponding need to replace our reserves to make sure that we have --

>> I'm going to try to explain it a little bit simpler.

There -- as I understand it, you know, when everybody is trying to get our revenue requirement down, they're taking -- when we talk about a snapshot in time, what they're saying is, well, if you just changed immediately, changed your debt equity ratio to 60/40 that changes how much revenue you need to cover debt service coverage and everything else.

But what really happens is we have to phase into that, and what happens is we have to do it over time.

We have to balance, like ann was talking, if we're going to go 60/40, we're going to make sure to keep our credit ratings the way they are we're going to need enough to accumulate a little bit more cash, with reserves.

[09:52:00]

So we're probably going to have to move into that.

So it's -- it's easy to say, well, if you did that your debt -- your revenue requirement would be less, but that's not anything to -- year 2009, that's to do with the future.

Ann is correct.

If that's where we're going before the second rate of the rate increase we would need to demonstrate what the impact is and demonstrate that we're moving towards that, not that we can just do it instantaneously.

Does that make sense?

well, I understand and hear what you're saying.

It just doesn't jibe well with what we've heard from other parties who have been involved in this discussion.

>> Right, and customers, on enobody wants a rate increase.

So customers will do whatever they can and certain -- in certain regard to try to get the amount of money that we need down, and this method of doing that does not get it down immediately.

What it does is it phases in a different policy over time and you can manage around it, but as ann described, it also has some other impacts relative to being in a strong financial position.

right, but, you know, the memo I was referring to at data foundry did seem to track -- it was quite specific in terms of making sure there was an increase in the level of reserves and we still ended up with, you know, a reduction in the revenue requirement.

I wonder if I might just ask churnic, welcome, thank you so much for joining us in this process, and I know that you and I had an opportunity to speak along with council member morrison about this issue, and i wonder if you might just comment on whether -- whether a change in policy at this point would -- could have an impact on reducing the revenue requirement with regard to the debt-equity ratio.

before you start, council member, would you mind if I just ask one quick clarifying question before we turn to this?

Because I have to leave in a couple minutes.

[09:54:00]

But I thought I heard you say that comparing us to cps, correct me if I'm wrong or oversimplifying, but in their case they meet their reserve requirement first and then vary the transfer as necessary, whereas we -- we make the transfer and then vary the reserves as necessary.

Is that correct?

Okay, I just wanted to make sure I heard that right.

Thank you.

>> As I understand, your question is can anything be done in terms of the capital structure to reduce rates in the short-term?

And I think there's some confusion between two kinds of ratios, both of which have been set at about 50/50.

One is austin energy's overall debt-equity ratio, and that is for all of its investments, how much is debt financed?

And that's about 50%.

The other question is each year as you go along, how much do you finance from debt and how much do you finance from cash?

And it becomes a contribution to the equity invested in the plant -- in the equipment.

Every once in a while I slip into utility jargon, where plant means investment.

But anyway, I think a number of times the people from the utility have pointed out correctly that you can't change the debt-equity ratio very quickly, but that's not directly an input into the current rates, or the rates that you're going to be setting.

It has implications for it.

[09:56:01]

The more debt you have, the more interest payments you're going to have and so on.

But the thing that you're adjusting directly, as shown on the slide that's up right now, is the cash portion of construction projects, and you could cut that back quite a bit without significantly changing the embedded overall cost -- ratio between debt and equity for your investments.

It's the difference between the annual contributions, which is what determines the rates in the short-term, and the -- the accumulated debt and equity.

So I think you do have a lot of flexibility in terms of how much cash you put in for construction in the short-term.

As you reduce that number you're going to be building up debt, which will increase debt service payments over time, but the -- I mean, the fact is that the city, austin energy, can borrow it at rates much lower than the customers can borrow at, and so given that choice between customers running up their credit card bills so that you can fund construction with cash and putting in some more debt and charging customers for that over time, that seems like a good way to go.

The other thing is that given that you haven't had a rate increase in 17 years,

[09:58:00]

if you have one now that's going to take care of the utility's cash flow problems for a long time to come, that would be quite a shock to the system, and so it's also reasonable to fund cash for capital at a lower level in the short-term than you intend to use in the longer term and gradually catch up which would perhaps require rate increases but would spread those out over time so they would be less disruptive.

council member morrison?

thank you, mr. churnica.

That very point that you just made, that we could potentially look at a smaller amount of cash going into our revenue requirement for this rate increase and then looking at something -- at another rate increase in much less than 17 years, i believe I'd like to remind my colleagues is essentially what I understood we sort of had on the table when we had our first work session and were talking about this, but it was ca a little bit differently, the thought that I was hearing some consensus forming around was the idea of going with the 60/40 now into finding our revenue requirement and thus taking advantage of low rates now and mitigating the shock of a large -- a long-time needed rate increase, but with the understanding that we intended to reevaluate that, so this 60/40 would be sort of a short-term goal and go back, as you said, and evaluate it in the near future and that that would be one reasonable way to help to mitigate the rate increase right now.

>> And when you talk about 60/40, I assume you're talking about the contribution basically in the test year.

>> Morrison: exactly.

>> And that's very different from a 60/40 capital structure.

You're not going to get to 60 -- 60% debt for many years because you've got so much investment already which acts as like ballast that keeps your ratio from bouncing around very quickly.

You got a big number in there, you're adding small numbers to both sides of the balance each year, and so going 60/40 would not be a big change in any respect, and in terms of the rating agencies, I'm sure they would be, you know, comforted to know that this is an interim measure and it's going to be reevaluated if the city council announced that, whoopi, we just found a way we can reduce rates by running up rates higher and higher, that might cause some concern, but the actual movement in the numbers that they're going to look at, certainly in terms of the debt equity ratio, that's going to be very slow and shouldn't in itself cause them any problems.

>> Morrison: absolutely.

So really what I meant -- what I should have said, i guess we need to get our semantics correct, to swim for a 60/40 in determining the revenue requirement but knowing that we're at about -- plan for that, but knowing we're at about 50/50 right now, and if we had that plan and followed it for two years, that 50/50 would change in a minor way and look at it again, say, in two years?

>> That seems like something that should not cause any great problem.

and if we were to do that, then the question is what would be the change in the revenue requirements?

And I think we have some numbers on the table.

I know data foundry threw out some numbers, but I'm not sure if you all have that.

>> I don't have it right handy, but I want to say that I agree with the comments from the adviser and that the revenue requirement that -- some of the folks that have suggested this.

It's almost like had we been 60/40 your revenue requirement would have been less.

Does that make sense?

So it's sort of like had we done that in the past our revenue requirement would be less, but we can -- we can move to this over this time period, and the amount of money -- you asked about the amount of money.

That moves the revenue equation like $10 million, in that neighborhood, so it isn't a large piece of it.

Over a long period of time it becomer -- bigger number -- it becomes a bigger number as it accumulates depending how we manage that.

So -- I think that's the answer.

So our thought was, with the rate proposal we have on the table now, we can work on this issue -- we can take directions, certainly, and start working towards that, but that number is not big enough that it changes ything with respect to a rate increase on the table.

with all due respect, 10 million is 10%.

If we can find another 10 million, that's 20%, and so I don't think any of us are going to -- hoping to find the answer, the silver bullet, but hopefully we can find rational and sane ways to chip away at it.

So I guess I'd like to ask my colleagues here -- and i don't know if we're taking motions or preliminary action, but I'm very interested in getting this option on the table for us to consider, what you said, mr. weis.

[Laughter] in terms of let's look at it for what it does to the revenue requirement if we take an approach of, you know -- for the revenue requirement, looking at 60/40 with the understanding that we would definitely need to -- we would want to be revisiting this in a couple of years, because it does have the potential to decrease our revenue requirement for this rate case by 10%.

So are we like in a position to be taking motions or just sort of consensus direction to stuff?

I think we are posted for action.

Is that correct?

And we certainly can give directions to staff for -- to give you that type of analysis or provide that type of analysis for us.

I think that we should kind of tally up the potential motion sheet for when we all are here to make those motions, because the mayor is not here, and I don't see any harm in us waiting to do that, and you can get the information from the staff, but -- and we can all comment on whether we want to do that in terms of procedure.

Does the attorney have any comments on that?

>> No, council member, you're posted for potential action if you want to, but you can also give direction to staff to come back with something so that when you meet later this week you can take that action that you'd like to take, official action.

I guess my response that I -- you totally can make the motion because we're posted -- I'd like to be able to respect that.

The only thing I want to keep in mind is this is complicated stuff, and we've had -- we had this conversation a few weeks ago at our first work session, and we sort of have to re-create the conversation.

>> Every time.

every time to get to the same conclusion, and so I'd like to somehow memorialize this conclusion that it seems from a preliminary standpoint to be a reasonable approach to consider in our rate case, and that is just what we've been talking about, the 60/40 for the revenue requirement.

>> Mayor pro tem?

council member riley.

I just want to ask one question about that.

As we move towards 60/40 ratio, my understanding based on what you've said is that we would -- in order to maintain the stability of our credit rating we would need to see some corresponding increase in our reserves.

Is that accurate?

>> Normally, yes.

Normally, yes.

And so -- and that's something that you would want to do gradually over time, and at the same time that you're moving toward 60/40 you'd want to be increasing your reserves.

Is that right?

>> We would do a new forecast with our capital based on 60/40, and then we would have to measure that as to what we would need, and we would do that analysis.

So if you give us the direction to do our future planning for whatever period of time, we would have to go back and do that calculation and look at our capital plan going forward to determine whether or not -- generally I would say yes, how much, how big, I don't know.

We would have to go back and do that work.

>> Riley: okay.

So you would need -- in order to determine the amount we'd save this year, you would also -- you really have to do two calculations.

You'd have to --

>> well, it would be one entire calculation of the utility, so we would look at -- as we have capital plans going forward, the different -- for example in the next couple years we have another combined cycle unit that we need to add, so we would look at -- if it's going to be 100% debt but then we look at our other capital and we would have to figure out with all the projects we've got what the impact is year to year, fiscal year, year to year, as to how much debt we're going to be issuing and what the -- what that would -- and we can do that.

>> Riley: okay.

But we've heard the number $10 million.

Are you saying today that if -- if we're prepared to move in the direction of 60/40 and make a corresponding increase in our reserves, that we could reduce the revenue requirement by $10 million this year?

Well, for this test case?

>> Well, I think to answer your question, if -- you know, going back to the revenue requirements in phase 1 and phase 2, phase 1 was the minimum requirements, and that's assuming that nontypical unusual items wouldn't occur.

We wouldn't be able to recover those.

So if -- and just like we've all talked about, that would be a long-term move.

So if you reduce the cash funding of the cip, then you would probably, in order to -- the solution would probably be to move some of the reserves that we postpone to 2015 into phase one and that way you could start increasing your reserves so we could balance it.

That would be a consider.

>> That would be an offset in the reduction of the revenue requirement.

>> I don't know what the numbers would be, but it would definitely be -- it might not be a one-to-one offset but it would have to offset it.

>> Yeah, I agree.

It wouldn't be one to one and we'd have to leverage that but we'd have to go back and do the calculations on that to see what it is.

But generally speaking, would it save?

Yes.

I mean, it does.

It would.

even taking into account the --

>> yeah, if you had to fund more reserves but you were issuing more debt, then depending how much tt debt is, that's the leverage that you would be attaining, so you would be 20% more leveraged, right, in terms of where you're going forward.

And so right now we have -- we do five-year, ten-year capital planning, so we would have to fold that in and we'd have to analyze that back, and we can do that, but I'm not sure that's dependent upon your decision.

It does reduce the revenue requirement but then it increases some other contribution.

so even with the need to step up reserves to some extent, you still expect that we would be able to cut the revenue requirement by about 10 million?

>> Well, I would reserve that 10 million number.

I thought that was kind of a guess to an earlier question, but we'll come back with that to be more exact about that.

>> Riley: okay.

Thank you.

council member martinez?

Was that you?

>> Martinez: yes.

I wanted to ask, so as we go down this row, there really is no -- road, there really is no way of knowing whether or not our bond rating is affected until after we've taken action.

Is that correct?

>> That's correct.

so we are going to -- and I want to go through this.

I think we should go through this process to see what it looks like, but at the end of all of this discussion, it's really going to be a decision that rests at council and it's going to be based on our legal council, our bond council's advice as to any ramifications and impact.

If our bond rating is affected, it could cost us more in terms of interest on existing debt right now.

So nullifying the savings potentially or reducing the savings, full.

Is that correct?

>> Yeah, that's -- you are correct, and that's what you don't know, but I think that, you know, what the rate -- when you tell the whole story to the rating agencies it's really not just this piece as you know, it's really the whole thingment and I think you've captured it exactly right.

That if you have a long-term capital plan and you tell the story that you're going to move to a different metric for a period of time and then you're going to move back and that's your long-term goal, achieving those goals and achieving the plan that you set forward is probably more important to the rating than what the specific metrics are, based on the experience I've had with agencies.

So -- so I just want us to keep that in mind, that we may be saving some money in the short-term by issuing further debt, but if our bond rating is affected the debt that we currently have on the books could cost us more in the long run offsetting those savings.

>> Well, the debt that we currently have issued is probably unaffected.

It would be the new debt that you would take on.

So let's say we went out to buy a new wind project, for example, or we -- we might have to take a haircut in terms of the interest rate that we would get based on our rating.

But we can manage around that.

The trick is long-term knowledge and stability and being able to plan around these various metrics.

That's the fundamental, and we can manage around those issues.

is there -- sorry.

Is there any process by which we can get preliminary indication of the impact of decisions?

I'm just trying to --

>> I think that's a great idea.

I just don't know.

I mean, I think we're taking a risk when we make decisions but how do you minimize that?

>> You raise a good point.

I think the financial advisers to the city are key in that.

They are our gatekeepers, as you know, to the agents and to wall street, and we have had two wall street agencies.

We have had standard & poor's and fitch meet with us already, and these are familiar people to us and we've sat down and told the story that we have and they know what's going on.

And I think as I said, as long as we carry out the plan that we say that we're going to do and we achieve it and we -- and we have the growth and competitive rates and all the other good things that we have, I think we're okay.

It's just a matter of knowing where we're going.

council member spelman?

thank you, mayor pro tem.

It sounds like we are discussing either of two not polar opposites but very different approaches to struck tur of our debt.

What we've proposed in the past is 50% cash and 50% debt and what we're talking about going to, so far as i can tell, is a change in our long-term policy to 60% debt, 40% cash.

It seems to me that we're letting the tail wag the dog a little bit here.

We have a 50/50 ratio because that is a good conservative policy for funding capital projects.

We have not in this particular year and for maybe the next couple of years, we are in a very specific temporary position that we have not changed our rate since 1994, and if we ratchet up the rates too quickly, there's going to be a whole lot of pain and anguish among our rate payers, and if there's a way of reducing that increase over just the next couple of years, ramping it up a little bit more slowly and not jolting it right up, that's going to go down a lot more easily and cause people to have fewer difficulties in balancing their own budgets.

In addition to that we've also got the situation where revenue bond interest rates are extremely low, and this is generally a good time for any utility to be issuing debt and spending relatively little cash.

So it seems to me another way of thinking about this is not changing our long-run policy from 50/50 to 60/40 but maintaining our long-run policy at about 50/50 but taking advantage of the fact that interest rates are especially low right now and taking advantage of the opportunity, or the crisis, depending how you look at it, that our need for reducing our cash requirements right now is peculiar -- is different than it usually would be.

And maintaining our long-run 50/50 target.

It also seems to me that that is sending the right kind of a signal to the bond rating agencies and to the bondholders, that, no, we haven't changed our long run policy.

We're still adopting a rather conservative policy, but there will be a couple of years when we will be slightly at variance with the policy, and what is a way of sending that message, if that's the direction we chose to go in, is there a way of sending that message that would be reassuring to the bond rating agencies and the bond purchasers that, in fact, we haven't really changed our long-run policy, there would just be a couple years here where it looks a little bit different for very specific reasons?

>> Well, I think the way that you just explained it is the way that it would be captured, and, you know, the business plan going forward, I would suggest it would probably be more than a couple years, because as i talked about before, if you look back at our history of debt service that we've issued, we don't do big projects every year.

We do -- you know, they go up and down.

So -- and pending any rate changes or anything like that, we don't have any big capital projects that we have out there.

But we do fund -- have a robust growth in our system and we do have that funding, and so we would make that a part of our pitch to the rating agencies and going forward.

I think that's -- I think that would be a good policy.

But I wouldn't tie it into two years.

It may be that we find that the 60/40 method works for more than that, and maybe we would come back to council and update that, you know, monitor it for an extended period of time, not be limited to two years but to be some other way to report how it's working and, you know -- I know we do it all the time so we could see it.

>> Spelman: sure.

>> If that makes sense to you.

And the agencies are going to want us -- you know, you tell them that story, then they're going to want to know, well, what's the other story?

And the other stories are the other business pieces that are out there, so it would just be one part of it.

well, going along with this, there's also the issue that in any given year what it is we're proposing to purchase is going to have some restrictions as to how much cash and how much debt we can issue.

>> Exactly.

Exactly.

and there are also some things which we're going to have to issue debt on that we don't foresee and there will be restrictions on the debt equity ratio associated with that.

So any proposal we have going forward is going to have some limitations put on it by events beyond our control.

If there were -- am I right in presuming that if we move from 50/50 to 60/40 as a long-run policy, we're also going to have to have a long-run policy as to how much reserves we put away in order to cover ourselves in a 60/40 world?

If we stay with 50/50 as a long-run goal, our reserve requirements are going to be less than, even if in any given year we're going to 60/40 because our long-run policy is still 50/50 in any given year, 60/40 or some other split is going to have a very minimal effect on our long-run debt-equity position.

Is that accurate?

>> I think it is.

It's not one for one and that's the point we've made.

It's not really one for one and it depends on the strategy we take.

Depends on the capital projects we have lined up.

>> Spelman: right.

>> And, you know, we have only one large one coming in the next couple years, and we're still working on whether that's the right thing to do or not.

I mean, exactly.

So the point I'm making there is the way the capital planning goes and with the way we review our budgets, we're going to change that capital forecast year to year depending on things coming along.

You know, if new substations pop up, all of a sudden we have this huge amount of growth, we may come up with a significant amount more capital that year than we ever planned on three years ago.

>> Spelman: right.

>> That's the type of flexibility we have to have, and if we go into a position like that where we're going to issue 60/40 type of ratio, we're going to have to have planned on that and know what our reserve requirements are, what our coverage requirements are so that we maintain our good credit rating.

>> Spelman: right.

>> So typically -- we talked about this earlier.

Typically the way you do it is you load the credit card up, you make sure you've got your strategy just right on your commercial paper, you take your commercial paper out to do it.

When you go to do that take-out of that commercial paper and turn it into long-term financing, that's the time you have to have your complete story, your good business plan in place.

>> Spelman: okay.

>> Going into that.

And then as you do another take-out of that commercial paper later, then again, you have to do that.

So it's kind of a cycle.

actually the point where we do the take-out is where we really make the decision as to how much is going to be cash and how much is going to be long-run debt; is that accurate?

>> No, because as you go along you are assuming that as you accumulate debt and commercial paper, eventually you're going to turn that into long-term financing.

You have to.

so to the decision -- how much commercial paper we issue is more or less exactly the amount of long-run debt eventually we're going to be issuing?

>> Yerk it's part of the strategy, so --

>> spelman: okay.

>> For example, right now the way the capital spending has been going is 150 -- is $150 million enough?

I think it is right now based on what I see.

So it really wouldn't be an ask to take out more credit line, if you will.

It would really be an ask if we would possibly be going to the market more often, for example, as a way to do it.

>> Spelman: sure.

Last question.

Let me just get a rough sense for where we are right now.

For the next two years, just -- obviously we'd be making a decision for a longer period than two years, I understand that, at that point, but just so i can get a sense for what it is we're dealing with, the big project you have in mind -- that's the sand hill turbine, isn't it?

>> Yes.

and how much is the total capital cost of that projected to be over the next couple years.

>> About 250 million total.

250 million, that's for sand hill and presumably we'll have other projects as well as that which will be creating capital needs.

How much are you projecting in the cip for the next two years other than sand hill?

>> It's about 126 million this year.

Is that -- I'll let ann speak to that.

She knows --

>> well, the total cip construction projects stay right at about $200 million, so then you look at that at 50% or 60%, and we -- just like I described earlier, we do try to debt fund as many of our projects as we can, and with sand hill and some of the others, even with higher than 50% funding and for buildings like the system control center where we're financing 100%, even with those fluk weighings in the forecast the -- fluctuations in the forecast the debt equity remains at 50/50 in the long run our capital structure only flips over on a 30-year basis.

One of the things I have -- I don't -- I am leery of asking you a top of the head question so let me just plant the idea.

I understand there are limitations -- there are hard limitations as to how much debt we can incur for some of the capital projects that you're talking about.

Others we have made a policy decision we're going to pay for it in cash, but we could make a different policy decision.

So as you answer council member morrison's question, or I've lost track of who is issuing direction and asking the questions, but as you answer our questions about the options available, if you could clarify what of those decisions are actually policy decisions that you've made or we've made and which of these are really hard, fast rules established by the bond -- the bondholders, by the puc or anybody else as to what it is we can and cannot do with respect to cash and equity -- cash and debt.

I think that would be real helpful for us to work through.

>> That's a pretty difficult question, but in order to maintain the rating that we're at right now, the 50% is at the top level.

Unless you can prove that you have -- that you can reduce the risk, which would be by having reserve levels.

>> Spelman: right.

>> Right now if we were to go to the rating agencies our reserves are below the minimum level.

>> Spelman: right.

>> So it would be difficult to -- I think, to explain that we would like to go higher than 50%.

Is that -- is that kind of what you're asking?

actually I was asking a different question, but that's important for us to know.

The only justification -- the justification we have to use to whoever is looking at us is that we are going to be increasing our reserves to cover the slightly lower cash position we've got in the newly purchased capital projects, and that's part of what we're talking about.

I think council member riley was talk about an offset.

That's the offset there, is we're saving 20 million bucks.

By putting in less cash we're having to offset with $10 million more in reserve to cover that.

That kind of thing is what we're talking about, right?

And presumably we could make the argument, if we're only putting in 40% rather than 50% as is our usual, but we're covering ourselves over here and so you're even steven from the point of view of risk.

Is that about right?

>> I think you could make that argument.

>> Spelman: okay.

The only additional direction I guess I would give, then, is that in addition to the 50/50, which is my understanding for the current proposal, we look at two different possible changes in our capital project structuring.

One of them is a movement toward a long run 60/40 split where over the long haul, over the next 30 years we will shift to 40% cash, and another diddling position, which would maintain the

50/50 split as a long run target but allow for short-term fluctuations over the next two or three years or the next few years to account for the fact that our interest rates are exceptionally low and therefore it makes more sense to go into a little bit more debt for a little while, and that will change, at which point it makes more sense for us to use more cash as we've done in others, and also to cover ourselves over the next few years to ease the pain of that big jolt in our requirements.

>> That's correct, and due to cash constraints, we have to do that anyway.

We have to debt-fund the projects as much as possible just to get through the next few years.

>> Spelman: well, okay.

So that's the idea.

If you could differentiate between a long-run change and a short-run change with the long-run goal of 50/50 remaining constant I'd appreciate that.

Is that a doable thing?

>> I think so.

>> Yeah.

Well, it's doable, and we'd have to roll it into forecast, I guess, if you were to ask me what my preference would be, it would be that the -- that the council's policy is, is that you do 60/40 planning short-term and that you end up going to 50/50 at some appropriate time when we come back and can do that.

Because it's going to take about -- a lot of work for us to roll forward with our capital program and do this forecast, if you will.

And I know what you're asking for.

well, I guess what I'm saying is does it matter in the long run?

If we're going to do 60/40 for the next two or three years is that all you need to know or does the long run --

>> that's all we need to know.

That's all I need to know.

>> Spelman: okay.

>> 60/40 For a few years until -- and as we've discussed, if that's part of our business plan and we go to the agencies and say that's part of our business plan, reduced our revenue requirement, gave us a chance to look at this, it's doable in my opinion.

I'm just suggesting that I don't think it should be part of our business plan going forward over the long haul.

I think our long-haul position ought to be about 50/50.

>> Right.

>> And I think the direction would be to maximize our debt funding of construction projects.

It might be as high at 70% in some years, maybe 50% because of the limitations that I talked about.

yes, but only for the short run.

>> Yeah, you have a -- it would have a similar [inaudible]

>> spelman: right.

Okay.

Good.

Thanks.

>> Thank you, council member.

I think professional staff has heard from council direction and recommended that we give direction about -- to simply maximize our debt ratio to the extent possible for the short-term and then they will bring back a consideration in the long-term.

So I'll entertain a motion.

Council member morrison?

>> Morrison: thank you.

I need to add one thing to that, and that is the direction includes a calculation for us that on that line where it says cash portion of construction projects at 111 million, it's my understanding that's related to the planning for the test year requirement of 50/50.

The direction would be to change that number to whatever it would be if our test year was accounting for 60/40 instead and do the ripple calculation so that we could get a net change to the revenue requirement, we could understand what the net change to the revenue requirement would be with this policy.

do you want to put that in the form of a motion?

>> Okay, we understand that and we can do that.

so we'll get some numbers back and we will see that -- whatever effect it might have on the revenue requirement.

>> Council member riley?

and that calculation would include any necessary increase in our reserves to ensure that our credit rating remains stable?

>> Right.

>> Riley: great.

>> Morrison: But with the understanding that, long-term, we would be looking to maintain a 50/50 ratio.

>> Cole: We have a second.

>> I want to be clear that our existing financial policies allow for fluctuation between 35% and 65%, so we're not, effect, changing what has been adopted as a council policy because that is our existing policies.

I think what we're doing -- and if I understand it correctly, that allows management to use that fluctuation, you know, if it makes sense.

I think what we're doing is providing -- we're adopting -- you know, to borrow the rate advisors, the residential rate advisor's language, we would like the 60/40 to be the debt funding assumption for the rate case.

I think we all understand that.

I just want to be clear we're not adopting a new council policy here.

We're not adopt ago policy that is out of -- that varies with our existing council policies.

We're well within that range.

We're just saying we would like for the near future to readjust that practice a bit.

>> Cole: Counts member to have to seconded council member morris' with clarification.

Passes.

We'll continue with our presentation.

>> The next is reserve policies, and that begins on page 11.

>> Okay.

I included these slides just for reasons.

Remember, earlier, we talked about our working capital requirements that required 45 days of o&m less fuel, that is operating cash similar to the checkbook.

Three savings account which is repair, replacement, strategic reserve and the decommissioning.

Then just to refresh your memory, those are guided by financial policies and the policies set the maximum balances over on the right.

And then currently we have $138 million in the strategic reserve.

The others are at zero balance.

The maximum for those to cover non-typical events is the $353 million.

Okay.

I think one of the questions that was asked in earlier sessions was could we change the recovery period for the reserve.

So that's really why I wanted to have those for reference.

We could do that.

The reserve replenishment in the 2009 tests are $75 million, and, so, if we recover that over three years, it would be $25 million.

That's what's included in the revenue requirement.

I thi came up what would it look like if we recovered that over five years, that would reduce the revenue requirements by $10 million.

So instead of $25 million, you would have $15 million in the revenue requirements.

But the question has also been asked, if we use the 2011 test year, then what would our revenue requirements look like?

So just moving forward, if we used the current balances, $75 million deficit would increase to $153 million today because to have the further depletion of cash.

So if we recall calculated that, when the revenue requirements would include a replenishment for those reserves at $51 million, if we recovered that over three years.

And if we recovered it over five years, it would be $31 million.

So you can see the longer we wait, the greater the need is going to be for those replenishments.

So I just wanted to show you that there are some options there and possibly, especially due to the previous discussions, the recovering it over the five years and using the $15 million revenue requirements must be a good option especially if you move that up to phase 1, and that might solve some of the questions that council member riley had on the rating.

>> Cole: Do you want to continue?

>> I just included this slide for reference.

It shows the fluctuation in all of our cash balances over the year and how they have been depleted currently.

[Technical difficulty]

>> -- the 90 day calculation.

This is 90 days of the power supply cost.

That would be equivalent to $98 million.

If we reduce that to 60 days, it would be reduced down to $65 million.

So reduces the rate stabilization amount down to 60 days and recovering that over three years would reduce it $11 million, and over five years would reduce it by $7 million.

So in the bottom section of the bullets, the contribution to the reserves and the revenue requirement, if you reduced that maximum on the rate stabilization, would reduce it to $14 million, if you recovered it over there years, or $8 million if you recovered it over five years.

>> Let me ask you a question.

Can you briefly explain the down side of this decrease?

>> Well, you would not rebuild your reserves as quickly, and then you would never reach the maximum of $98 million, if you actually changed the policy.

So it would -- you know, we talked about our risk, and, over time, especially in this modal market, there is a risk.

The rate stabilization fund was built in order to try to stabilize and prevent a lot of future rate increases.

So if you build this fund up and you have the flexibility of drawing our adding to this fund so that you can levellize your fuel adjustment in the future, and any excess, then, of course could be -- could produce or defer rate cases in the future because you could use that to bill generations.

So that could be part of your cash funding for future generation projects as well.

So that's kind of the purpose of the rate stabilization fund.

So by reducing it down to 60 days, you just have less flexibility and, in essence, would increase your risk.

>> Cole: Any other questions?

Council member tovo?

>> Tovo: If my colleagues are ready, I'd like to talk about each of the funds and get mr. turnik's thoughts on them.

Did you have a question?

>> I would like to ask one question about the rate stabilization fund.

Is there a relation between that fund and the need for a high, fixed charge in terms of -- the purpose of the fixed charge, to some degree, is to achieve stability.

Is this the reserve that helps address that?

>> In a manner of speaking, it does.

In other words, keep in mind, i think I mentioned this before, that what we call these reserve funds and how we use them is particular to austin energy, your policies, the city and how we operate.

There is no standard in public power about what to call them.

Having said that, the rate stabilization fund is that, it is a fund used at the discretion by policy to cover any short-term revenue loss.

So, for example, if you had a bad operating year, we were very wet, we didn't have any sales and, rather than try to affect a rate increase or anything, you would, by policy, use this reserve fund to cover that.

>> Riley: Because if this were a huge reserve, we wouldn't need much at all in terms of fixed charges, because, if we had a bad year and we didn't recover what we expected in the volumetric rates, we could look to this reserve to offset that.

Is that right?

>> That's right.

As a matter of policy, what I've seen is the customer looks at you and says, I've got lots of reserves you're holding.

You're holding lots of my money to cover some kind of stability in revenue.

The other way to do it is to ask for that stability to come in the form of how your rate is designed so you have the money coming, whether you have bad weather, good weather or anything like that.

So, you're right, I mean, it is a tool.

If you look back at this chart we had up here on page 15, that $138 million is the minimum that that fund can go down to, that strategic reserve, and you look back over time, the difference between 138- and some of the 200s IN THE RED BAR, IN 2000 And 2001, that's when we had rate stabilization funds in there.

So what's happened is we spent those funds off.

Then we have the operating fund down there, but that's different.

>> Cole: Council member tovo.

>> Tovo: So it has been a really long time since we talked about reserves.

I think we took this up at the beginning of march.

I just want to be clear that the strategic reserve fund has three components, the emergency reserve, which is 60 days of non-power supply, and that's sort of our last resort in terms of disaster or changes in federal and state legislation, then we have the contingency fund, planned addages, other planned cost increases, and those are the two I assume you try not to touch and those are, as I understand, fully funded, right?

>> Yes.

In a perfect year, all reserve funds are fully funded.

They don't have to be refunded, typically.

But sometimes you have some fund, like maybe rate stabilization, where, by policy, you put so much in every year.

But it's very flexible.

>> Tovo: Right now our emergency and contingency are fully funded.

Those are the things we would rely on in there is some kind of disaster?

>> And we have to come to you to get permission to touch those.

>> Tovo: The rate stabilization once was called the competitive reserve fund and also considered part of the strategic reserve fund.

I wondered if we could talk a little bit about that.

One of the concerns people raised, and I think it's a good concern, is what we're doing -- what we would be doing is collecting money from current customers to build up a reserve fund to prevent -- to try to guard against future rate increases, and we're doing that through a rate case.

So we're charging our customers, now, to build up a reserve fund to minimize rate increases in the future.

So in terms of really parody with existing and future customers, that may not suit our goals all that well.

So I wonder if you would respond to that and then I wonder if we turnik about rate stabilization funds and whether it seems to be a critical part of this.

>> It is a unique situation to public power only, frankly, and how you manage that.

You're correct.

You framed that perfectly, is that customers, in particular, industrial customers, very large customers have always been critical of public power for holding reserves too high, because what they're interested in is next year's rate and the year after rate.

They're not thinking 30 years out, like we are, for our customer base.

So there is a conflict there, and it's a matter of policy with the governing boards of public power to determine what the right balance is, and that right balance is healthy reserves and healthy utility, good credit rating, everything else, and the tradeoff is don't have reserves, let the customers keep their money.

There is a balance point there.

There is no perfect place in it, I think, but by all accounts, what I've seen austin energy do over the number of years with its financial metrics, it's a very healthy utility.

And, so, going back and rebuilding these rate stabilization funds with reserves from customers, i think, is a prudent thing to do, but on the table, of course, right now, we don't have rebuilding any of those year term, you know.

That's something we have to do longer term.

>> Tovo: That was in the second proposal.

Just to be clear, one of the challenges we have right now is that our biggest industrial customers are not part of the rate case, so they would not be --

>> well, they are.

>> -- Helping replenish the reserves so we have the added difficulty of replenishing the particular curve or building up the rate stabilization, and i think it is a valid point it could have too much impact on the residential customers, because they are participating in this rate case.

>> I'm going to turn to ann on that for some of the details, but they are still paying us, and we are still building funds off of that.

Out of the initial rate proposal which was a 12% overall revenue, 3% of that was the industrial contracts.

So by the time we get to phase 2 of our rate increase, we're making the fiscal assumption that those contracts are gone and that we have a different set of circumstances on the revenue that we get from those customers.

>> Tovo: But it's my understanding they're about $20 million under the other commercial rates right now.

That, every year, the difference between the industrial contracts and the commercial rates is about $20 million, a $20 million gap that we would have an opportunity to make a different decision on in 2015.

>> Excuse me, but that is part of our rate proposal.

That $25 million comes from that specifically.

In other words, the difference between what our industrial rates are with the contracts are would bring them up and that's that $25 million.

>> That's true.

All of the other customers classes are paying their fair share in the rates proposed of the reserve.

They're not paying more in the first few years ago until the contract customers expire.

>> Tovo: Okay.

Can you tell me, do we have -- I've misplaced the handy chart that listed the different reserves.

Can you tell us what the existing council-adopted financial policy is with regard to the rate stabilization fund?

Is there one that sets a minimum for the rate stabilization fund?

>> Yes.

Well, there is not a minimum.

There is a maximum, and it's the $98 million.

>> Tovo: Okay.

But we're not -- having zero dollars in the rate stabilization fund right now does not put us out of compliance.

It's not like the emergency or contingency reserves where we have a stated council policy to keep a certain amount of dollars in it?

>> That's correct.

But then, if we have a non-typical event or anything that is unusual that happens, right now, we will have to go into the emergency and contingency reserve in order to cure that, because we don't have adequate cash anywhere else.

That's why the other funds are important or additional operating cash.

It doesn't have to be named any of those things, we just need additional cash for more flexibility.

>> Tovo: Is one of the non-typical events like last summer where it's unusually high fuel costs, you have the opportunity to assess that to customers?

>> And that's a really good example of how we would use the rate stabilization fund.

In 2011, we actually reduced the fuel charge by 15%.

Because of the outages in the hot summer, we had to increase the fuel charge 16%.

This is just the fuel charge, not the entire rate.

And if we would have had adequate funds in the rate stabilization fund, we would have probably pulled from that and left the fuel factor exactly where it was.

So those are the kind of things that we -- the ways that we could stabilize the rates in the future, if we had some of these fully-funded or even partially funded.

>> Tovo: But in terms of balancing risk, if there is an event like last summer where the rates are very high, the fuel costs are high, there already is an existing mechanism for you to recover those from customers?

>> It is, but it's over a 12-month period.

Like now, we have cash constraints because we're recovering the money that we spent last year very slowly over the next 12 months.

>> Tovo: I thought there was a provision for some kind of an emergency.

>> Well --

>> Tovo: -- To go back to the customers more frequently if there is a dire need for fuel costs.

>> The emergency is the 138 million strategic.

If there was something that happened and we didn't have the cash, that's where we would have to go.

But what we talked about last summer, we have outage at a big power plant, we have to go out and buy power.

Let's say, by example, it was $30 million.

We have to write a check and pay for that.

We don't get to recover for it till the following year, and that's what ann is talking about.

So we had to come up with cash to cover the power, and then we've got to recover it over the next year.

>> Tovo: I must be misremembering something.

I thought there was an ability to do fuel recovery more frequently than once a year, if there is -- I thought there was an emergency provision that allowed fuel recovery more frequently than once a year.

>> If it changes more than 10%, then we can increase the fuel factor.

>> Tovo: So if there is a very unusual circumstance and the change is more than 10%, you could recover that more quickly than the following year?

>> You could, but it would create a lot of fluctuations in the rates, which most customers do not prefer.

>> Tovo: I would free it's not ideal but it's an avenue that's open in case there is an increase in fuel.

>> That's just the fuel.

Usually, when there is outages, there is additional charges, repairs, replacement in capital costs, and those can be large and we have no way to recover those charges.

>> Tovo: Thank you.

>> Cole: Council member martinez?

>> Martinez: Do we have that information going back?

When I look at the charts of the reserve funds, 2000, we're at $222 million in reserves, and then, since then, over time, it's gone to 138- and starting in 2009, it kind of stayed there.

Do we have the information as to where those reserve funds were spent over that time and how much it was used to stabilize fuel charges?

>> Yeah, we do have that.

We could supply that.

I don't know that we have that in today.

>> Martinez: I think it would be good to see how much we were able to use this historically to stabilize things like fuel costs that happen in an anomaly.

>> We could do that, and it goes back into some history.

That would be useful.

>> Martinez: And it would help me understand how we got from 222 million down to 138- as well.

>> Cole: Council member spelman?

>> Spelman: What is the basis for setting our emergency strategic reserve at 60 days at o and m less fuel?

Where did that come from?

>> That's a good question.

These financial policies are very long-standing, and that 60 days was established decades ago.

When any of these are established, we look at what the rating agencies prefer, and we also look at how we -- what our risks are.

They're always based on risk.

So the 60 days for both the reserve and the contingency at least gets us to the minimum levels of cash on hand that the rating agencies usually expect.

So that at least covers some of that risk.

But those do have minimum balances, and we have to cure those within two years.

So they're restrict add little bit more than the other reserves.

So once you dip into them, then you're breeching your financial policy.

So that's why the other funds are important, too.

>> I wanted to answer that, too.

It really is done by peer groups in our industry.

>> Spelman: Okay.

>> If you look at -- as I said before, all public utilities call reserves something different.

Some just call it cash, simply.

So I usually just call it cash.

So, anyway, that's how it's derived and, you know, the working days, to try to get your ratings up so you can get low interest rates.

>> Spelman: So I shouldn't read too much into the fact that we have an emergency fund for one class of things and a contingency fund for another class of things.

Realistically, we need $138 million in the bank at all times in order to meet the expectations of the people who are loaning us the money?

>> Is that correct.

>> Spelman: And the rate stabilization is different.

That's not established for that purpose, but a different purpose.

Is that correct?

>> It's established to smooth out the unpredictability revenue impacts.

So it could be used for a variety of things.

I'll give you an example.

Hydro-based utility, for example, that generates the water, there is no impact changes year-to-year.

Usually, you would have a stabilization fund or adjustment, so if you didn't have any water that year o hydro intersection, you wouldn't have your rates impacted.

So you might set that on what the financial impact would be if you had low water.

So we might set a metric based on some type of rate impact that we may know.

For example, looking at the affordability work going forward with our plans and all of that, maybe we would want to have a fund that allows us to guarantee that we were only going to be 2% per year or something like that so we can use that fund in a tool like that.

So it's very flexible.

>> Spelman: Okay.

Really two values to this.

One of them is it allows us to dampen rate increases or considerably dampen rate increases, so where I've seen large fluctuations, we can absorb some of that.

>> Correct.

>> The other issue is we do not have to go back in the event of a rate increase next to the puc and ask for a rate increase.

If our costs go up, our revenues don't, or something else happens.

We don't have to go back every year to puc, we can go back, for example, every 5 or 14 years, if we were gum enough to continue to do what we have been doing.

What's the basis for the rate stabilization reserve is the amount of volatility from year to year based on events beyond our control.

Like weather demands.

>> Right.

It would be.

I think that you can also use it in emergency situations, like ann was talking about, whether it's used to cover an impact of fuel charge that might come up or could be used -- but, ultimately, it's used to stabilize rates in whatever way you want to view rates, whether as a charge or a fuel charge or anything else.

>> Spelman: To come extent, this is a policy decision to how much stabilization we think rates need.

As council member tovo was mentioning, we could conceivably make a policy decision of, other than the fact we can't recover fuel charges on a year to year basis, we can lumped it.

If our go up, our rates go up and go back to the puc every year and get the adjustments as necessary.

That could be a policy decision we could make.

>> It could.

The rating agencies like the reserve because of that very reason.

Increase or request is a risk.

So if you have reserve to keep the rates stable and ensure them you have adequate revenue and can balance your budget all the time, they prefer that.

>> Spelman: You were talking about different kinds of risk and there's a political risk associated with going to the puc that they might say no.

The basis for that reserve fund ought to be the amount of actual volatility in the revenues.

Is that the basis for that 90 days of power supply cost?

Is that where that comes from?

>> Sorry?

>> Spelman: We need a basis for rate stabilization.

There is got to be some reason for setting the number at --

>> oh, the numbers of days?

>> Yeah.

>> Of rate stabilization?

>> Spelman: Yeah.

>> I don't know what's been done in the past.

Maybe ann does.

>> We actually ran scenarios to develop that amount, and it's just like we've seen in the past, and with our aging generation plant, it's just a matter of time when we will have outages.

You never know when it's going to occur.

So we ran scenarios and assumed that one unit -- one of our nuclear units was out and, in the same event, when a nuclear unit is out, a lot of times, it will drive the price of the market up.

So, on top of that, we assume that gas prices or replacement power would increase by 50%.

When which ran that scenario, it could be as high as $90 million for that one event for a few months in the summer.

So we felt like that was a good scenario to prove that we might need that much as a maximum balance and, remember, those are caps.

There are maximums on those reserves.

>> Spelman: If a nuclear unit were to go out, then -- I don't have the background to understand how this would work exactly -- but presume the fuel factor would go up sufficiently because that's the cheapest fuel is nuclear so the if you feel factor would go up by 10%, or would it still probably be another year before we could recover that?

Do we have to absorb that in cash or is there some way to get a change in rates to make up for that?

>> There isn't an immediate ability, if the fuel is hit with more than 10% of the budget, i think.

So the fuel is 460 million, right now, roughly.

So I'm presuming, if there was a hit bigger than 46 million, the option would be we could do something with the fuel.

The preferred way to do it is do it with the reserves and rebuild those over time and hopefully you don't have those back-to-back.

>> Spelman: I understand.

I'm trying to get a sense of our big our risks really are, what alternatives are available if something happens to us in a year like the next year when the rate stabilization reserve is extremely low.

>> If we had a $90 million hit, whether in fuel, repairs, replacements or any of those, we would have to pay the $90 million right then and there.

>> Spelman: Right.

>> Even if we set an emergency surchar some sort, we wouldn't be able to recover that quickly.

So you have to have a certain amount of reserves to cover those things so we can pay our bills.

>> Spelman: And there would be a dangerous in going into the emergency or contingency reserve?

>> That would definitely be an alternative, but $90 million out of $138 million would put us at risk.

>> Spelman: We would have to have those replenished more quickly than the three to five-year period.

Okay.

I have a sense of it.

And the $90 million is not pulled out of the ware.

You actually did analysis of not unrealistic scenarios to see how much cash would we need to have on hand if we had to recover ourselves and $90 million is enough to cover the risks?

>> (Inaudible).

>> Spelman: Thank you.

>> Cole: Council member tovo.

>> Tovo: I want to verify a note.

Is the rate stabilization in the original proposal you did for the full revenue requirement, does the rate stabilization account for $5 million to have the revenue requirement?

>> It depends.

Remember how I explained we take all our cash and put it in a bucket and you start filling those up?

It depends on what the amount is that you start with.

So at that point in time, that was the deficiency as we went through the flow of funds.

It changes every time we look at the cash.

>> Tovo: On the chart you gave us, I think you had a column that indicated how much of the revenue requirement was attached to each reserve fund.

If I'm remembering correctly, the rate stabilization was about 5 million.

>> Again, that was how we applied the total amount.

So you can't change the contribution to the reserve with each of those.

You have to look at the whole amount.

So you would start with the amount of cash, which would include what we had available in the construction funds, the operating funds and the strategic reserve funds, at the time of the rate -- of the revenue requirements were calculated, and that was in the summer of 2011.

Then you start filling those based on your flow of funds.

So that chart is correct, but what it comes down to is a $75 million deficit from all of them, and then you divide that by 3, if you want to recover it over three or five years.

So you have to put the whole formula in place in order to adjust some of those.

That's why, on these slides i have, I calculated the adjustment to the reserve component in the revenue requirement on each of those.

Like this is on the rate stabilization, so if you reduced it from 90 days to 60 days, then the line item on the revenue requirements would change from $25 million to $14 million.

If you chose to recover it over five years, it would change to $8 million.

>> Tovo: And, so, if we decided, as a matter of policy for the near future, not to have a rate stabilization or not to recover it through our rate case, do you have a sense of what that -- how that would reduce the revenue requirement?

It sounds like it's not a simple matter of taking out $7 million.

>> I would have to calculate it.

>> Tovo: turnik, when we were talking the other day, we were talking about the rate stabilization reserve and options, and if there was some kind of unplanned event -- and i believe it was our conversation where you discussed it might be possible to get a short-term loan of some sort to cover that gap.

Would you speak to that, please?

>> Yes.

The normal practice in that sort of situation would be for the utility to spend the money it needed for power supply and to basically borrow the funds, which would then be paid back as the cost were recovered to the fuel adjustment charge.

In the case of austin energy, that could be in the next calendar year or could start sooner in a really severe situation.

That would be, in part, a policy decision, but those sorts of working capital funds that are tied to a specific flow-through can be very low, low-risk, low-cost, and it means that the costs are charged when they occur and they -- depending on the timing, they may actually customers a signal that this is an expensive time, that we've lost the base load plant for an extended period and rates are going up and it would be a good time to speed up your conservation investments.

Or that fuel costs have risen.

Now, unfortunately, if you have a spike by the time you get the rate increase into place, you're no longer giving a useful signal.

But it's also not particularly useful to charge people now to build up a fund to cover that spike in the future.

You know, the stabilization funds work well where you have a two-sided fluctuation, as in the case of water.

And you put the excess into the stabilization fund, and then you have a couple of dry years and you draw down that fund, and it's like a rechargeable battery.

And the problem with this rate stabilization, in this case, pre-funding against future costs.

And the question is do you want customers paying now or do you want them paying when the costs occur.

And there are tradeoffs in terms its nice to have flexibility to avoid a rate increase or to mitigate a very large rate increase, but we're in a situation where there's a pretty large rate increase on the table, so maybe we want to mitigate that by pushing back.

And if there were a long period of stable costs, then you might want to build up a fund against the next time that there was an increase.

But pre-paying for fuel costs is -- while it's not unprecedented, is unusual.

>> Cole: Council member morrison?

>> Morrison: If you could stay there because I also wanted to talk about the repair and replacement fund which is always a problem in my eye because, in the chart that you gave us, when we're looking at the test year revenue requirement for that initial recommendation that you had, the total revenue requirement for on the reserves of 30 million and 20 million of that is from the repair and replacement, so that's why it caught my eye.

And I just wanted to have a discussion about what that is, how we set that, what we use it for and just to make sure we can understand that and see if we have any wiggle room on that.

And I think paul miff comments on it, also.

>> I want to clarify one thing.

We're a publicly-owned utility, issued municipal debt, and we're not a private utility.

I know you know that, but we cannot, like, borrow for a power supply.

So if we have a 50 million-dollar bill, we cannot borrow for that.

We cannot issue that kind of debt or have that capability.

>> Morrison: So that's referring to the rate stabilization?

>> That's correct.

>> Morrison: I want to separate that from repair and replacement.

>> So repair and replacement with the current rate proposal, as you know, there is no funding for rate stabilization in the current proposal that we have.

We look at building that later.

What we anticipate is we have a project in the holly power plant which we are commissioning, and from that standpoint, the history of that is we would like to rebuild the reserve fund up because we have the decker plant, at some point in time, if we were going to anticipate that would be another decommissioning cost.

>> Morrison: Can I just jump in?

>> Pardon me?

>> Morrison: How is that different from the non-nuclear decommissioning reserve fund?

>> That is non-nuclear.

>> Morrison: I want to focus on the different one called the repair and replacement.

>> The repair and replacement is a little different from the others because, if you remember back to the cash portion of construction, that is prepared in the revenue requirements as average cost of just minimally maintaining our plant and that's when we use a three-year average to do that.

There are always things that come up that are upgrades or new technology like automated meters.

That would be not be included in that typical number.

So the repair and replacement provides a means of funding those type of things.

And they come up all the time.

So any of our capital expenditures that are non-typical can come from some of -- some of the funding can come from the repair and replacement.

In the past, we've use it did for things like the automated meters.

We did pull out some for the holly decommissioning, to begin with.

So it's things that are above and beyond the average construction costs that we have in the revenue requirements.

>> Morrison: So one of the other examples you gave here is it was used to fund additional generation peaking capacity at sand hill.

Why would that have fallen into a reserve fund as opposed to looking at regular capital investments?

>> Because we don't build peaking units on the average.

That's an unusual item.

So that would not be included in your cash portion of construction in your revenue requirements.

So you need some additional -- unless you debt funded 100%, you wouldn't have any other means to fund the cash portion.

>> Morrison: And why are peaking units treated in that way?

>> Well, because we don't build them that often.

We built some peaking units in 2001, and then again in 2008.

So it's not an annual thing.

It's an unusual investment when we add new generation.

>> Morrison: I guess I'm a little confused because i thought we had sort of a capital program for the coming many years, and I would think that -- I guess my expectation would have been that we would put those sort of plans -- those things in our future plans.

>> They're in our future plans, but we don't -- the revenue requirements are based on historical averages, and you try to make your test year typical.

So anything that you don't do every single year is not included in your revenue requirements.

So things like generation plants are not included in there, unless you have one that's -- maybe you could plan in future rate case force one that would be used and useful at that particular time, but it would be an unusual item and probably be a separate line item if you tried to fund it in your revenue requirements.

In this one, it's just the typical upgrades and capitalized maintenance on our distribution and generation facilities.

>> Morrison: Are turnik, can you give us your perspective on the repair and replacement?

>> I'm really baffled by that explanation, because I see a capital spending plan.

I see a cash for capital item of $11 million, which is a little more -- $111 million, which is a little more than 50% than what is projected for 2012 and considerably more than 50% for the following three fiscal years.

little said doesn't jibe at all with how the budget's been presented.

There is specific costs in that capital plan for the next major power plant for sand hill, 200 megawatts at sand hill coming in somewhere in 2015 through '17.

So I don't really know why you wouldn't have your expected investments -- not based on history, but based on what you're expecting.

You'v expectations.

They're different numbers every year.

They're not simple averages.

That's how you fund your routine and expected replacements and expansions.

And if you see a large amount of expansion coming along, then you may have to raise rates to have more equity put into it.

In the short term, if you find that you need to move up a peaking unit or two a year or so, then you can borrow in the short term and increase your rates to bring your capital structure back into line.

I'm not really sure what the purpose is of breaking out this particular item as opposed to a rate stabilization for, obviously, something could go wrong, a boiler could blow up or a hurricane can move through or tornadoes, or whatever, and there may be a lot of money that you need to spend in the short term to fix things.

So I understand having reserves.

But repair is o&m.

Replacement is capital.

Those are in the budget, and if the budget is being based on some kind of best case with absolutely nothing going wrong, then maybe there is -- the budgeting process should be adjusted a little bit.

>> Morrison: I guess one piece we didn't talk about -- i appreciate that.

To me, this sounds like this could be thought of as sort of a risk reducer, and the question is how much do we need to reduce the risk, and the target amount is said to be the maximum of 50% of previous years' electric utilities depreciation expense.

Can you tell us, are we set at the maximum with the amount that you have targeted?

Or where are we with regard to that?

>> We have $64,000 in this fund.

>> Morrison: Is the target set at maximum?

Because the target is 61.

>> Morrison: So we get it at the target that's maximum.

Would you disagree with this?

>> We've had this discussion internally and having the stabilization fund is another way to manage risk.

>> Morrison: This is repair and replacement, not stabilization.

>> Yes, it's another tool to manager -- manage risk, so it's another stabilization fund that's used to manage our fleet, frankly.

And if we get, by some decision you tell us to -- or we have to, for some reason, do something significant with a power plant, then we have a specific fund that's ear marked to do that.

But I don't disagree that we could plan for it and say we're going to need to borrow to do that or do other things.

So it has been and -- it has been part of austin energy's strategy, it's been discussed that the council before, so, like a lot of things, we're doing this based on past practice and what was performed here, and if that renewal and replacement fund is not anything that we want to have by policy anymore, then I think policymakers could make that change.

But from my point of view, it's a good risk management tool, but, again, it's another reserve, and it's another policy and you just have to give us some guidance on that.

>> Morrison: Right, and i think we do want to stay on the side of conservative.

I'm wondering if we might look at some options of, perhaps, maintaining a repair and replacement fund but setting the target below the maximum that's allowed, and I wonder if we might be able to get some options laid out by you all to say, you know, set it, instead of at the maximum -- which is the 50% -- at 20% or 35%, sort of a couple of scenarios there.

One question you might be able to help me understand a little bit more, it's tied to the depreciation expense.

Can you explain the rationale for that?

The previous year's depreciation expense.

>> Well, the depreciation is a way of amortizing the usefulness of an as set over a period of time -- an asset over a period of time.

It's typical for a lot of type of reserves like this to look at your depreciation, because that kind of shows how your assets are being depleted.

So it's a good way of measuring those.

50% Shows that it's not covering 100% of the capitalized -- or the re and replacement can also with used for o&m, so it can be used for repair and replacement, so that's why we thought 50% was a good target.

>> Cole: Council member spelman.

>> Spelman: If we're in a steady state, not growing, don't have to produce electricity, have the same amount of customers, seems to me our capital improvement plan ought to have 100% of the depreciation expense in coming years.

Stuff comes out, comes in, we're replacing the capital plan we've already got.

Is that about right?

>> Well, it's close.

Depreciation is slightly higher than the $111 million, which is the cash portion of the cip.

So if that's what you're comparing it to.

>> Spelman: I'm not talking about cash portion, debt portion.

I'm just saying if we have a billion dollars worth of capital out there and our depreciation schedule is 30 years, there's a 30-year lifetime associated with that capital, then, on average, every year, about 1/30 of it will need repair and replacement.

>> That's it.

>> If we're not getting bigger or smaller, we'll have to replace 1/30 of it every year, so the 100% of depreciation expense on average ought to be how much we're spending on the total cip.

>> That's the concept.

>> Spelman: It's only conceptual.

We're getting bigger and the cip will have to be bigger to replace what we've already got.

Things are coming in lumps, not steadily offline, and so on.

But, conceptually, that kind of number fits with depreciation in that kind of way.

It seems to me that a simpler way of handling all of this is to forecast what our needs are going to be for capital improvements for, over, say, a 5-year period.

This is saying here's what we're going to need for this year and after that, and since we're setting rates for a period of time, not just next year, say we divide a 5-year program by five and based on a typical year based on the capital needs in the next five years is such and such.

Now, no year is going to require $2 million, but we'll need a billion dollars over five years and our requirements over the foreseeable future will be $200 million, so that's the number we plug in for capital requirements both debt and equity for purposes of the total rate setting.

That kind of makes sense, doesn't it?

>> You co set a policy on that concept.

I've seen that done.

>> Spelman: What we've dean here is taken a year fairly arbitrary and said this is our typical year.

And in our typical year, 2009, appropriately jimmied around, our typical needs were such and such.

We have to assume all our years going forward are just like this particular year.

We know that's not true.

>> But that's what's required in rate-making.

So you have to have a test year.

So that concept -- that's why the reserves are important because you have to mix those concepts.

>> Spelman: Okay.

>> But you could set policies for replenishing reserves based on the first concept, but the rate-making would be based on the typical year.

>> Spelman: So we couldn't play that game with puc, saying we need a billion dollars over the next five years and so therefore we need 200 million per year?

>> No.

>> Spelman: We couldn't say it was typical so we need 180- even though we know we need more than that?

>> The assets in the revenue requirements have to be in service.

>> Spelman: So, in a sense, what this line here is doing is making up for the frailts of the rate-setting process.

We know we're going to need 200 million.

We can't get 200 million through the rate-setting protocol provided to us by the puc, so one way of getting the other $20 million we need is to say, there is 180-, let's put the other 20- in this reserve fund and we'll be able to cover what is a typical year over the next five years?

>> That's true in a round-about way.

The way it's looked at in rate-making is you're allowed a reasonable return and the only discret piece of our return is this replenishment of reserve.

But all of that comes into play to develop the amount of the reserve that you need to replenish.

>> Spelman: I want to recognize that the round-aboutness is not me, it's this ridiculous producer provided to us by the puc, where we can't say here's how much money we need and we're going to put into it our rates, it's here's how much money we'll need in a mythical year and we'll find a way to make up the difference between what you will let us have and what we really need.

>> That's probably true.

>> Spelman: Okay.

But would it be safe to say that part of the genesis of that -- was it $20 million we're talking about for this year -- is the difference between what it is we can justify to the puc in our usual method and what it is that we're realistically going to need for the foreseeable future on an annual basis for cip, with the assumption some of it will be cash and some debt, as usual?

>> I think that's correct.

>> Spelman: Okay.

Is there an assumption we're making here about how much of that additional -- okay.

The residential rate advisor is giving me really funny looks.

What am I missing here?

I'm sorry.

>> (Inaudible).

The equity portion of -- expected for 2011-2012, which is -- has higher investment requirements than the following few years, so I don't think you have that problem, the problem that you laid out.

>> Spelman: Okay.

>> If you were coming off a period of low investments and the puc would not let you include your current budget for a budget that was thrice reflective of what you're expecting in the next few years, then you would have to come in again when your budget requirements went up, and that might be the case for 2015, when the austin energy is projecting higher requirements and there may be some other policies that are worked out over the next couple of years, and we may want to have another rate proceeding then to true some other things up.

But it's not a situation you're in this year.

It's a situation that you could be in if the puc were holding you to an unusually low cash investment.

>> Spelman: Let me ask a different question, then.

We have -- we are allowed by puc policy to include in our requirements a certain amount of cash, a certain amount of debt based on the behavior of the test year.

Somehow updated to the current year.

>> Yes, it's a historical year updated to a more or less current test year.

>> Spelman: Okay, so we've got a current test year here.

And embedded in that test year assumption is a certain amount of money we'll be spending on capital improvements.

How does that test year assumption for capital improvements compare to our capital improvement program assumptions for this year and the next four years after that?

Is it more or is it smaller or is it exactly the same or what?

>> It's higher in the rates than it is in the budget over the following three years.

>> Well, he's looking at last year's forecast.

We haven't published this current year's forecast.

Because of cash constraints, we've deferred probably hundreds of millions of dollars of project over the last few years.

We've had deficits running between $60 million and $80 million over the last four years each year.

So, again, it's supposed to reflect a typical year, not a year where you're constraining yourself, and we can no longer continue to defer those.

So that's not a usual --

>> Spelman: We have a cip, though.

That's presumably what we're expected to spend and the cip was developed with the expectation we'll get a rate increase to spend what we need to spend.

Am I right?

>> We've normalized it based on a trend, so year to year that cnges.

I'll let ann talk about that more.

>> Last year, we did not include the rate increase in the forecast because it was so uncertain.

In the forecast that is coming up, I think, next week, then we will include phase 1 and phase 2 of the rates.

>> Spelman: Okay.

So we're going to get an adjustment to the cip that is on the books, and we've got it all in our offices and you have been talking about it, will be adjusted to reflect increased -- presumed increases in rates from the rates that the puc is going to let us charge and, therefore, it's ratch it up.

Then our cip is going to be consistent with the test year consumptions or a little bit higher?

>> In the forecast, as well as i remember, it's about $200 million every year, which is consistent with revenue requirements.

>> Spelman: Okay.

>> About 200-.

>> Spelman: So the value of this $20 million or so in repair and replacement is, if in any given year it turns out we need a little bit more, we need a little bit more cash in order to spend on a

power plant or transmission or something like that, we have $20 million available to us to be able to fund the cash portion of that unexpected overage.

Okay.

So the question still is how much volatility do we expect in the cip requirements from year to year?

And you're suggesting it's about 10%.

Is that about right?

>> Well, and remember the repair and replacement is not just for cip.

It would recover -- we could use it for storm damage, which happens periodically in this area.

It could be used for capital improvements.

It could be used for any types of repairs and replacements.

A lot of times, technology prefdz us things that we would like to -- provides us things that we would like to put across the system, and, so, you'd go to the re and replacement to maybe enhance your system assets with that and that would not be in your normal.

>> Spelman: I understand, but this would be unexpected stuff.

We're doing repair and replacement of capital and noncapital goods.

This is only stuff which we don't ants fate on an annual basis we're going to need.

Okay.

So what would be a reasonable basis, then, for -- maybe i shouldn't be tying it with the cip, maybe it should be another baseline, but I already know the numbers since you have been giving it to us.

Why is 10% over and above our cip expectations on an annual basis, why is that about the right number?

Why shouldn't it be 5 or 50?

What's the source of the volatility here that would help me understand why $20 million is about how much money we need in this fund?

I'm sorry.

60 Is the total amount you're looking for in the long run, and 20 is what this year's at.

>> Again, it's based on the maximums in the financial policy.

Everything that we have prepared in the revenue requirement is based on the maximums in the financial policy, and those maximums were set in order to protect the customer, so, at the time, those were reasonable maximums.

>> Spelman: But it's based -- my apologies this has gone on so long, but I'm a little thick today.

Help me with this.

If our repair and replacement reserve is based on our depreciation expenses, and half of the depression expenses annually, that's where the 60 million comes from, but the real reason we need a repair and replacement reserve is in any given year we'll have need for repaper and replacement, sometimes capital, sometimes non-capital, above what we've budgeted for, seems to me the real basis would be how often does it happen we have storm dam that we have to replace things we didn't expect.

We have expectation force storm damage all the time and expectation force things going out all the time.

How much volatility over and above our expectations has there been historically?

Do we know that?

>> I don't know.

I would have to look at the history and see if we could pull out some of those unusual items.

>> Spelman: Do you understand what I'm getting at, though?

>> Yeah, we do.

I think that ann explained this correctly is that everything we did based on the revenue requirement in the year is all based on current policy, and our best-known practices and the history.

And what you're asking for is how have we used that fund in the past, what if we used it for, and we can provide that information, but I do know we used it for the holly decommissioning last.

Is that correct, ann?

I think we used it in that.

So that's part of the anticipated use.

But, again, it's not an idea that we bring forward as based on past practice.

It's based on the policies that we have.

>> Spelman: My biggest concern is we have a lot of reserve funds set up at least for very specific purposes, but the time between the amount of money or at least the maximum amount of money and that fund and the reason for that fund seems to me to be very loose, and I think it's a reasonable question for somebody to say, why do you need $60 million in the repair and replacement fund just because it's half of the depreciation expenses, because that's not what causes you to need it.

It's a loose tie as to why we need it.

A closer tie is what did we actually use it for on an annual basis and what are the kinds of things we have become accustomed to using the reserve fund for.

>> I can answer it this way, and I hope staff doesn't look at me the wrong way with this, but the public systems that I've run before I came here, we did have a fund like this.

We actually took it from -- it's all cash.

>> Spelman: It's all cash.

>> It's all cash.

Just depends on do you want to take your cash and label all the pieces and put restrictions on use and all of that, so it's really a matter of policy.

For example, you could say i want the rate stabilization fund to be there and I want it bigger and maybe we can get reserve of -- get rid of another reserve fund and not use it.

That's possible.

Again, we're doing this on the practices that have been put in place.

>> Spelman: And the political problem, to be perfectly blunt, is a lot of people look at all these funds as separate piggy banks and think, wait a minute, do we really need to have an emergency and a contingency and a rate and repair and replacement, and why do we need all these for separate purposes.

It's all cash anyway.

Let's just figure out how much cash we need and stop.

>> And large industrial customers have come in and said you don't need any reserves, just borrow it if you get in trouble.

But that's a quick fix to reduce rates short-term, big long-term problems and other problems it's not practical .

>> Spelman: I agree.

>> But the argument always is, within public powers, cep the reserves really low so that I as a customer am not funding it.

The other misconception among a lot of customers is we fund those reserves every year.

That's not the case.

When the bank account is full, we don't use them, they stay there, they don't have to be refunded.

>> Spelman: Unfortunately, we're in a position where they have to be refunded.

>> We've spent them.

That's how we survived over the last ten years is by not raising rates and by spending down the reserve funds, the cash.

>> Spelman: Okay.

>> The cash, we can touch.

>> Spelman: And I guess the question, what we have been engaged in here, is to try to get a handle on how much cash do we actually need.

>> Mm-hmm.

And I can tell you from austin energy's perspective, we'll operate under the policies you set and we're looking forward to getting them.

>> Spelman: So are we.

>> Cole: Mayor pro tem, pro tem council council please continue, council member.

>> Cole: I'd like to, in the interest of being able to capture some of this informative discussion, I want to make a motion that, just specifically, that, in the interest of looking to mitigate the rate increase and minimizing laying future costs on current customers and within the flexibility of our current policies that we would like to look at the possibilities, and I want to be very light with that language, since there are only four of us here, of the following.

The impact -- and you've given us good numbers here -- the impact to the revenue requirement if we increase the replenishment term to five years, if we modify the target for the rate stabilization to be 60 days wrath than 90 days -- rather than 90 days of the -- whatever that was -- and to consider a target for the repair and replacement of 20% and alternatively 35% of depreciation expenses as opposed to 50%.

So that if you could -- that's a lot of combinations there.

But I think it will be helpful to look at something along those lines.

So that's my motion that we just consider those possibilities.

>> Cole: Motion by council member morrison.

Is there a second, council member spelman.

>> Spelman: Second.

>> Cole: Open for discussion, council member riley.

>> Riley: To the extent that there are some risks implications associated with these reserves, do you see any issue in terms of threat to the bond rating with all the different measurers just outlined?

I guess not per se, just what I've just heard, I don't feel like that is a deterrent to ratings, as long as it's within the whole business perspective of the other reserves we have and that.

So, again, it's really a measure of cash.

Cash is king, in the banking side of the business.

So it's the cash we have that backs up our operation, despite what you call it.

So I think changing some of the targets of rate stabilization and renewal and repair and replacement, as long as we have the other reserves and have a healthy portfolio of cash, i think it's okay.

>> Riley: The context is we're working under difficult conditions and the policies we make now are not necessarily the policies we stick over a long period.

If there were a rate case three to five years down the road, we might well go back to the previous targets.

So my hope would be that rating agencies will understand that the actions we're talking about now are really a matter of dealing with the particular challenges we're facing at this moment.

>> I think that's fair to say.

Again, that's how we view the whole business.

So we're talking about pieces of it and it comes into play, you know, with the rates we're increasing, our spending plans, a lot of things.

But with respect to reserves, as long as we are within a total of respectability within our peer group, I think that we're fine.

In other words, it's really, again, a total measure of cash reserves that we have.

The 138 million reserve, the strategic reserves there, i wouldn't recommend touching that at all.

That's one policy that's very good that needs to be there.

The most important reserve fund we have outside of the repair and replacement and what we talked about the rate stabilization would be nice is our operating fund is really the critical one, and that operating fund is -- that's the one that's going to be watched the closest is to make sure that we get that operating fund back up to where we were in 2007, 2006, 2005 levels so that we can operate effectively.

>> Riley: Did the current motion address the operating fund?

>> No, it did not explicitly.

>> Riley: Okay.

>> Well, any revenue comes in through the operating fund and then is transferred to the other reserves based on our policies.

So, right now, the working capital fund, the minimum is 45 days, which we do not have currently.

So that is important to get that above that 45 days, but then the rating agencies, as larry said, would expect it to be much higher than that because that is your available cash on hand.

>> Morrison: The motion I made I only intended to talk about the reserve requirements which i didn't take to mean these other.

>> That's really the way the revenue requirements look at it.

They look at all the cash together.

That's why, as you run it through, they don't really care what you call the fund.

They're just looking at making sure you have enough cash available to operate and manage the risk.

>> That's right.

If you look at our -- I'm presuming, right, because it's been a little over two years ago I looked at the operating statement of austin energy, haven't looked at it since then, but if you look at that and the way we're rated by the underwriters, it will just show cash.

It won't label all our reserve funds.

It will just talk about our cash position.

>> Cole: There is a motion on the table and a second.

And a discussion, council member tovo?

>> Tovo: This is a work session, so I assume we can address questions to others, but I -- I just like doing that.

I guess I'm still struggling with the rate stabilization reserve and whether this is the right time to build up that fund.

You know, I know we'll make some decisions later about phasing and some of the options austin energy has brought forward in terms of doing it in two phases, but I guess, you know, now, we're looking at replenishing it over five years rather than three, which is certainly a change I support, but I guess I'm still questioning whether or not it is redundant with some of the other methods we have at our disposal over covering funds in circumstances where it's unexpected, where there are unexpected expenses.

I don't know if any of my colleagues would like to jump in and offer a good rationale for replenishing it.

>> No, I don't really want to be in a position of defending that.

I think that, for me, there is a lot of belt and suspenders that we have here.

We have our planning for capital, we have various different reserves, and it's going to come down to the comfort level that we have in the totality and even depreciation is looking forward to the fact that you're going to be needing to replace your assets.

So, you know, one possibility for us to -- and small change is easier than large change.

And, so, I think, looking at things like decreasing the size or target size of it is one way to help us get along in this rate case, and then, you know, i think there is going to be a lot of evaluation of policies from an even bigger perspective in the coming years, so it's sort of a pragmatic approach to things.

>> Tovo: Okay.

Well, I guess I would just ask that we continue to hold that one in mind.

I mean, this is a preliminary decision today and I think i certainly support the other items on there.

But I could ask that we continue to think about that one and whether we need it, one, and, two, whether there are other options we want to see from staff in terms of some other alternatives for that rate stabilization fund.

>> If I could suggest, what we need to do would be to add to the motion, even though I lost my second.

I don't know how that works.

But to add to my motion that we also look at the scenario where there is no rate stabilization fund.

So essentially look at zero for that.

>> Tovo: I guess we could vote on this and I'll make it as separate motion so we don't throw chaos into it.

>> Morrison: Okay.

To be clear, this is not making a decision on the options.

It's just clearly getting these potential pathways that I think seem to have some reasonableness to consider on the table.

>> Cole: We're trying to not have meeting after meeting and not make clear decisions because a lot of what we're asking of you is a tremendous amount of work.

So we have a motion on the table and a second.

All those in favor say aye.

The motion passes unanimously with council member martinez, mayor leffingwell and council member spelman.

Council member tovo.

>> Tovo: I'd like to interest alternatives for removing the rate stablelation reserve from consideration at this time so we can see that option along with the others you will do for replenishing over five years cole cole council member tovo made a motion, seconded by council member morrison.

Any further discussion?

All those in favor say aye.

The motion passed unanimously with crmtion martinez, mayor leffingwell and council members spelman off the die.

We have about 10 more minutes.

Let's go ahead and continue and see how far we get.

>> Morrison: Mayor pro tem.

>> Cole: Council member morrison.

>> Morrison: We have on the agenda to talk about the schedule, and I just want to make sure that -- I just wanted to clarify, our next session on april -- is today april 17?

Our next s APRIL 19th, AND DO WE WANT TO Change -- it's too late to change the agenda.

Or did we already shift the agenda?

>> Cole: We shifted the agenda.

What's posted today and what we have been discussing is what was posted for last week.

On thursday what you will be discussing is what was originally on your schedule to be discussed today.

So that's a standing item to make decisions on how you want to reshift or reallocate those items on the previously-approved agenda.

>> Morrison: Have we posted THE AGENDA FOR THE 19th?

>> Cole: Yes,.

>> Morrison: Does it have session 6, cost of service, originally scheduled for today?

Today?

>> Yes.

>> Cole:LY NOT BE HERE ON THE 19Th and neither will mayor leffingwell.

So we want to make sure we have a quorum.

I believe we will.

But I wanted to let you know that.

>> Thursday's agenda does not have an action item on it, i want to correct that.

If you look at your original schedule, as you will see, you were talking action or direction.

You were given every third or fourth session.

So what you could discuss in the third item on today's agenda is whether or not you want to place an action item on other sessions going forward or reorganize when you want to maybe give direction or take action.

So that's something I think you could discuss in that item about relooking at the schedule.

>> Cole: Council member morrison?

No further dougs?

>> Tovo: I have distugs.

>> Cole: Council member tovo.

>> Tovo: I want to say it's great we took preliminary actions today.

We're making progress.

I think it's clear we're off schedule in a variety of areas.

You know, we have not just the topics from last week but we have the preliminary actions from the session before that, and I do think we need to reshuffle things a bit.

I've also heard concerns from a few of our colleagues about the scheduling for next week.

So I wonder if we have a means of communicating that perhaps to our city legal so that, on thursday, we can relook at the schedule together collectively and two of our members will be gone but maybe we can create a path forward in the next weeks that will catch up.

We have accounted for both of the extra sessions at the end, so we'll with need to just regroup a little bit.

>> -- Thursday, so you could talk about the schedule then, too and can continue this discussion.

>> Tovo: So maybe we can each look at our calendars and think about adding a couple of days.

Unfortunately, I think we'll have to add a few days at the end.

>> I'll add to that, council member tovo, I know, tomorrow, we are starting our council budget work sessions, and i think those sessions on top of ae sessions on top of work sessions on top of council meetings are going to be very difficult for all our schedules.

So I guess we probably feed to prepare for tomorrow to think about whether -- how much into the budget work session process we want to get.

I don't know to what extent we're posted to discuss that tomorrow, but we're posted to discuss scheduling.

>> Tovo: On thursday, the next ae session?

>> Cole: No, actually, tomorrow, we have a budget work session.

So that's the first of our budget work sessions.

So we're going to have, going forward, we're behind on our ae schedules, we're still going to have to have council work sessions and meetings, and now we're starting our budget work session, and I think that's going to be a real challenge to all that done or start that process.

So I'm hoping perhaps -- well, let me ask legal -- when we're posted tomorrow for the budget work session, can we discuss scheduling?

Okay.

Well, we'll deal with that tomorrow.

I think this is a good place to adjourn, if there is no further discussion.

So this meeting of the austin city council for the ae work session, without objection, is adjourned.