Closed Caption Log, Council Work Session, 04/30/12

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discussion about that.

And give youthe perspective of where we think we are from a staff-directive standpoint.

And then go through the follow-up from the other workshops and maybe even maybe more time for today.

So, I want to work with ann on this for the detail.

But the way this is laid out, we have an issue on the left and basically the direction we understood our preliminary actions that have been discussed on the right.

So, for example, the capital project debt to equity ratio the preliminary action of 416, the debt equity ratio in calculating the revenue.

So I'll let ann talk about the next one.

>> The next one is on the reserve fund.

And the preliminary.

>> I need to stop you a second.

Because shirley I asked and someone on my staff also asked to keep track of the motions we made and so I wanted to pass that around while you were going through it so we can kind of compare it.

[09:10:01]

Go ahead.

>> Okay.

The preliminary action on the reserve fund is to increase the replenishment term from three years to five years.

And look at the rate of stabilization fund using 60 days for the calculation, rather than 90 days.

Then another one at zero eliminating the rate stabilization fund.

And then the third bullet is to calculate the repair and replacement fund at 20%.

And then at 35%.

The next issue is phasing our revenue plan, we're proposing a two phase transition with the first phase to be implemented approximately 90 days after council's action.

And then the second stage would be october the 1, 2014.

>> Hold on for a second.

Kind of compare those and see if there's any comments.

If I may, the handout we just got goes through a little more detail with our goals with the debt-to-equity ratio.

Is this is what shirley prepared?

>> Yes.

>> It notes that -- that we would take preliminary action to give change to the ratio for the rate case to 60/40 in the short term, reconsider long term going back to 50-50.

And then the summary is that the policy changes go to 60/40 in the near term with the understanding that the long-term objective is to run to 50-50.

gentry last week to prepare the list.

The blocks on the right-hand side a little larger, that was captured from the minutes and

[09:12:00]

the block and in the second column is austin energy's interpretation to us of what that motion meant.

>> So the block on the left side actually matched what you're telling us in this presentation?

>> Well, the blocks on the right are the actual worded and the blocks on the left is how we would implement the process.

>> Riley: The second column is your proposal.

The long-run objective remains to be at 50-50.

We are going to go to 50-40 in the long-term.

>> Tovo: While we're looking at block one, I see the last sentence working from the minutes detail, wording from the minutes detail includes the line.

It includes doing the calculations necessary to increase the reserves to maintain austin energy's bond rating.

You know, my -- I think the intention is that we're going to go everything we can to maintain the bond rating no matter how things shift.

That's a bit of a funny line for me on here.

What calculation -- which of the reserves -- what are the calculations that austin energy plans to do for the reserves.

Are they different from the proposal which is suggesting the increase is over.

>> When you increase the debt portion from 50 to 60, we did talk a little bit about this, it does increase your financial risk and reduces your flexibility.

So we proposed to move maybe some of the reserves in some of the scenarios to phase one in order to start capturing that.

>> Tovo: Thank you, I didn't get that understanding from that one line.

I understand, it's just the balancing of if you have more debt, you need more reserves to cover that.

Okay, thank you.

[09:14:03]

>> Morrison: I want to follow-up on that and make sure I understand.

I've seen calculations where we remove a chunk of the -- excuse me, of the revenue requirement, the calculation we're doing is to maintain the debt service coverage that actually requires that you add some funding back in.

Is that how you figure out how much to add back in to the reserves.

>> Well, no, not necessarily.

The debt service is a fallout of the revenue requirement.

So that really is not really looked at until you complete your revenue requirements.

But what we're doing is looking at the minimum requirements for the utility to ensure revenue stability and ensure the expectations of the rating agency.

So in phase one, $70 million we talked about in the increase is the minimum requirement.

So you'll see in this scenario that we're trying to maintain that level.

And the revenue requirement is that level and say you wanted $1.114 billion.

So we're trying to mntain tha level even though the revenue requirements in total may be reduced.

And I can show you some examples that later.

>> Morrison: So the way you're working, phase one, you're imposing the $71 million no matter what, no matter even fw we removed some of the revenue requirement.

>> I think that's important to understand.

Because I don't think we'll be able to ensure the revenue stability for the utility if we go much below that minimum requirement.

Because when we calculate the needs of the utility, that is based on normal weather, normal outages.

Typical expenses.

And so there's no room for anything abnormal.

So if you reduce those, then you're putting the utility at risk.

>> Morrison: So after all of this work of finding ways to reduce the revenue requirements,

[09:16:01]

you're still going to come and say, we need $71 million in phase one?

>> That's the way it appears.

>> Morrison: I wonder if there's another way to look at this.

>> Mayor Leffingwell: Let me try this way of looking at it.

>> Morrison: Okay.

>> Mayor Leffingwell: $137 million total revenue requirement.

We worked off all of the parts of that that we cannot collect at this time.

And move to a different phase.

So when we looked at the minimum revenue we need to sustain the business model without increasing revenues -- excuse me, reserves, and trying to fund those, that's where the first phase came in at is about $70 million to $80 million.

And so that was how that proposal was developed is to -- so the other pieces of that that come later, for example, parts of it are the industrial contracts.

There's a lot of different parts of it that are in there.

And it also includes the rebuilding the reserve funds.

But what we have to do in the first phase is we have to have at least enough reserve funds to approach the 60/40 piece.

We have to have that.

And we have to have a position we have enough working funds to work through normal business.

No abnormal observations for changes going forward.

>> Morrison: I would go at it a little differently.

I was looking at starting say at the 105, you know, with this -- where we were without the industrial contracts.

>> Mm-hmm.

>> Morrison: Then, from there, rather than thinking in terms of the phase -- from there, we're looking at removing some because of the debt equity, we're removing some because of the change in the way we want to do a reserve.

So we start out at a lower

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amount.

>> Correct.

>> Morrison: Then talk about phasing.

You guys are facing $71 million.

It's a different approach.

>> I understand the approach.

There's one way you could approach it.

It's philosophically talking about what parts of that total revenue requirement are those that can be shaped, moved, change the date and time.

And a number of elements are to that.

It also has to do with how our forecast goes.

>> Tovo: I just want to chime in here that I agree.

I think we're spending a lotf oh time looking at that, in my mind, the 105 number and then we're scheduled to discuss how that phases in later.

I think if we were ready to go forward with the two phases, $71 million and more later on the industrial contracts kick in, i think we could save a lot of time here that maybe we didn't --

>> we need to talk about it because we've got one trail.

I don't know if we're thinking of something else.

Start from the bottom and go up or start from the top and go down with a phase or not a phase.

We need help trying to understand if your approach is ultimately going to get at close to what we were going to get at.

Is it too early for you to know that?

>> Could I skip ahead to maybe some of the slides and you can see the whole revenue requirement in both phases.

So it may make it easier to understand.

>> You want to do that?

[09:20:02]

This slide incorporates all of the decision points into it.

They're all related to some extent.

It addresses the debt equity ratio changing from 50-50 to 60-40.

It addressed the reserve funds level in the recovery period related to that and the two phases of the transition plan.

So let me go through each row of this and try to explain it briefly.

And then we'll go to the columns and look at each scenario.

And I think that will probably help us discuss this better.

In this scenario, the revenue requirements have been restated to show reductions to the revenue requirement.

On row one, the actual reduction to the revenue requirement.

For instance, the first column is as proposed with no reduction.

Scenario a shows a $10 million reduction.

Scenario b, $21 million and so on.

The next row is your operations and maintenance fuel and other requirements.

And I just consolidated those because the criteria in the scenario doesn't affect those so they're the same in all scenarios.

The next two rows are the debt service from the capital in the current revenue and that's the same as the cash portion of the construction project.

So if you change your debt equity from 50-50 to 60-40, those two items will change.

The next three rows, then, show different ways to replenish the reserves.

And then you have a subtotal for phase one.

That's important to the utility because anything below that 114 billion would not provide the revenue stability that austin energy needs.

So then after phase one, we would continue with the fee study results.

And continue to look at the

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reserve levels and study those until phase two.

That would give us plenty of time to incorporate the results of those two studies into phase two.

So then the last line shows the total revenue requirements both phase one and phase two.

>> Riley: So back to the question, do you bill it from the bottom or the top, so the initial cost study done was to show the total revenue requirement, to fully fund all of the metrics, the financial targets.

The policies, everything, including the industrial contracts, all of that, everything in there is about $130 million, okay?

What we did is if we want to break it to phases, let's take the pieces that there's a debate, take the reserve level, other issues, industrial contracts, everything else.

Taking all of that out, getting down to just an operating fund level, in other words, business is normal, continuing to put cost containment in our -- in our plans.

That's always been there.

That's how we came up with the lower number.

The 71.

>> The 71.

>> Going forward, we would assume more work and discussion later down the road when we come to phase two about where we are and what some of the different pieces are.

That's how we approaches it.

so with the phase one, we still get a -- you're contemplating a rate increase of $22?

>> That's a different issue.

The rate charges, we have minimums in there and everything else.

We look at the total revenues.

>> Then you put back --

[09:24:00]

>> if the minimum charge went down, we would refactor the flow of the energy charges in there.

We come up with the same revenue requirement, but we move the reimbursement of that away from energy to the following charts, follow me?

So that's how we could up with that.

>> Morrison: Does your 71 take into account the shift in debt equity ratio?

>> Yes.

Would you like me to go through some of the scenarios and show me how it works?

>> I guess so.

You came up with 71 before we talked about that.

I don't know how we could still have 71 after we said look at the scenario where we shifted the debt to equity ratio?

>> For instance, look at scenario b or c.

In these, we've shifted from a -- a 50-50 to a 60-40.

So you can see that the service went up slightly and you can see that the cash portion of construction projects are capital from current revenue went down from 111 to 89.

That's the shift in the 60/40.

That decreased it by $22 million.

>> Morrison: Why didn't the 71 go down?

>> If you look below that, because our financial risk increased and the flexibility decreased.

When you combine that with the cash constraints that we have, you have to move -- you have to start replenishing your cash at some point.

So we moved in scenario b, we moved the $25 million for reserve replenishment to phase one.

In the second one, we looked at repair and replacement and started recovering that immediately.

And that's the $20 million in scenario c.

[09:26:02]

You can see if you look at phase one subtotals, they stay close to the minimum needs of the utility.

The remainder is capture in the next phase.

Overall, you're decreasing your revenue requirements substantially

>> Morrison: Okay, what about if you could run through d and e?

>> D and e are kind of unique, because those incorporated the first one eliminates the rate stabilization and reduces the repair and replacement down to 20% of depreciation expense.

And the next one reduces the rate stabilization from 90 days to 60 days and the repair and replacement is 20%.

In both of those scenarios, when we calculated the reserve requirements, there was enough cash available to meet that criteria.

That may be a little confusing.

Go to the next slide and we can come back to this and explain that.

They're showing our cash needs.

That's the cash we had in the bank.

So the bars show the cash.

The top blue line shows the maximum.

The goal line shows the minimum.

When you start calculating your reserve replenishment needs, you look at the top of the bar and see how far you are from that maximum.

Then that gap is what you divide by three years or five years.

You can see that when we recalculated this in the summer of 2011, it was prior to the outages that we had in the summer.

We've had three outages since then.

That's depleted our cash substantially.

That's what's happening among other things that's causing that

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decline.

So when we calculated that, it was a little higher than end of year 2011.

So roughly the maximum is about $350 million.

The deficit, $75 million.

So you're looking at at the time we calculated, it was closer to $275 million.

So that's what you amortized over three or five years.

You pulled that top row down by eliminating funds or reserve, it decreases that gap.

To you get to where there's no longer a deficit.

If you look further down, you can see the longer we wait, the bigger the gap is going to be.

>> Just one follow-up question.

You said you mentioned the outages that caused us to go to the grid and have to buy more expensive power.

We adjust our fuel factor to recapture that.

So why isn't that double accounting?

>> Some of it will be recaptured from the fuel but we had to spend the money up front when that happens.

That will affect our cash immediately.

We'll gradually recover some of it.

Now, the part we spend on actual repairs or capital improvements, that is not recovered in the fuel factor.

So there's a mixture in there.

So it definitely has an impact on the cash.

>> Morrison: Do we account those that are captured through the fuel as being able to go back and fill our reserves up to sort of pay back that bill?

>> Yes, it will go back to the operating fund.

The operating fund in this is the bottom dark blue piece of that.

So you can see, that's the part that's depleting.

Not the emergency and contingency reserve which are the top two until 2013 and we have to dip into some of the reserves.

>> So when we had the outages,

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we took some of that out of the operating and not the reserve.

>> That's correct.

We had it available at that time.

>> Morrison: Whatever we take out of operating we're going put back in.

>> We had the outages, this year, we take the cash, recover it.

Collect it in the fall year, pull it out of the operating cash to pay it.

The next year, after that assuming everything goes fine, our fuel would go down.

That's ultimately the repayment back to customers, the revenues, that on that third year, the cash would come back.

>> That's why the risk is increased because when the cash is down at the level it is in 2012, you run the risk for not being able to pay for any damages or outages or replacement power like we had in the past.

>> Tovo: So I'm not clear as to whether or not this chart shows the fuel recovery.

>> Yes, it does.

>> Tovo: So 2013 shows all of the fuel recovery in here?

There's still no operating cash?

>> Right.

Because we continue to have deficits.

If you remember, we had deficits for the last three out of four years.

Than will continue on until we can stabilize our revenue.

Even -- this includes the $71 million increase.

Even with that increase, it's like the fuel.

It will come in slowly over a period of time.

You're going to suffer some deficits until we stabilize the cash and the revenue.

>> One of the things that i think is maybe from mr.

Turnick's memos, if there's another outage this year, and you have a need of repairing it right away.

And there's not available cash, is that something you can't get a loan to cover?

>> No.

>> No.

>> Tovo: So that was the point of disagreement?

>> We just can't run to the bank and get a loan for something like that.

It's public finance, far more complicated than that.

[09:32:00]

We have to go in advance of knowledge to get to borrowing.

>> Tovo: Because maybe my colleagues will jump in here, i thought it was suggested that that would be something a municipal utility would have access to for a loan on that kind of repair.

>> Our debt criteria, you have to look at the type and the life of what you're purchasing.

It has to have a life of 30 years because your bond is for 30 years.

So the bondholders would not agree to us funding something that would only be consumed within a year over 30 years.

So you have to match the type and the life of the asset with the debt so that's the requirement of our debt.

They would have a line of credit, they would be able to do that.

We do not have that available to us.

>> Fundamental difference between investor owned utility and municipal owned one.

We don't get that type of credit.

>> Tovo: Even in commercial paper, some of the short terms.

>> It can be used but only for long-term capital investments like anne just described.

So if you have a purchase of power, for example, in other words you've got an outage and you need to borrow money for the outage, we couldn't do that.

We would have to at least to my knowledge we would have to have counter parties, a supply arrangement, something like that, possibly you could do it that way.

Okay, thanks.

>> Let's get back to five and six and look at the last two columns for scenario d and e?

Scenario d involves 20% repair and replacement.

But I don't see a number for that.

>> The 21st would be -- 50% is

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$61 million.

20% Would be about 24 million.

>> Riley: Is that built into the first number, the increase to the revenue requirement in the first slide?

Is that where it's turning up?

>> Yeah, the reduction is included in there.

It reduces the overall revenue requirement.

>> How does that compare with line item c?

The repair and replacement for three years?

>> Scenario c leaves it repair and replacement fund at 50% of the depreciation expense.

It doesn't have that reduction down to the 20% of depreciation expense.

Scenario e?

Where's that?

>> That one reduces the rate stabilization from 90 days, the calculation from 90 days of power supply costs down to 60 days of power supply costs.

Then it also has the 20% of repair and replacement.

So remember our deficit is $75 million.

Amore titzed over five years, this must have reduced the deficit down to where there was only $5 million deficit.

It's divided by five, it's $1 million.

Other than that, they're basically the same.

Questions?

>> Riley: Laura?

>> Morrison: There's one thing I'm trying to capture.

If we're saying that no matter what we have to do 71 in phase one, by your calculations, the other way I look at it is if you look at the total revenue requirement bottom line, the revenue requirement is 1146.

If you look at scenario b, it's

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1106.

So it's 40 below.

It seems to me that if we start add 105 and subtract 40.

We're at 65.

So if we go for 71 in the first phase, we've already overshot it.

>> And I guess what we're saying because it doesn't meet the 1.114, it's inadequate.

It wouldn't be a viable solution for the utility.

>> Another thing it's not taking into account, remember that the real revenue requirement is $126 million additional.

We've been saying it's 100, 101 because we're taking some of that off for the industrial customer contracts.

There's a question of how much we should subtract under different scenarios.

The revenue requirement in total is smaller than the offset of the industrial customer contracts, it's no longer $25 million.

It's a smaller number.

That could be that adjustment as well.

If the revenue requirement adjustment is smaller, the share of that allocated to the industrial contract customers is also smaller.

So if the revenue requirement is not $125 million, then the contract customer allocation is no longer $25 million.

It's somewhat less than that.

So that adjustment could be going on as well.

>> I'm confused.

We're looking at changing the revenue requirement based on policy changes but I hear you guys say we can't change the revenue requirement?

>> I think they do.

If you look at scenario e, that's where you start.

You say you get down to 100.

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You take the scenario of top $45 million off, that's the point, you get down to $55 million total revenue.

And in our first proposal, what we're trying to do is we're trying to not ignore that 60-day policy, not make that 60-day yet.

We didn't presume that -- if that decision is in front of that, does that lower the revenue requirement?

Yes, it does.

But it impacts the metrics that we have like the cash that we need to have on some others.

So it's really all-encompassing, the policy.

>> Another way to look ate is when you look at the minimum needs of the utility, then what we're proposing is an additional $25 million a year to cover the nontypical things.

So that's the part that you look at for reasonableness.

And we won't recover that or replenish all of the funds.

That gives you time to look at the maximum.

But the critical piece is can the utility survive and for how long on the minimum needs?

Just a matter of time before something unusual will happen.

So the replenishment of $25 million is what we're talking about.

If that's not reasonable, then what amount would be reasonable?

You can adjust it within the maximums of the funds later on.

But it's how much on an annual basis do you need to cover nontypical items.

That's kind of another way to look at it.

I guess I have a couple of questions because i understand the confusion.

Let's start with the big picture.

I don't know if we have made the decision for the fatzed approach.

And I know you guys have on the

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table a phased approach.

But I think it would help to know what we need do without a phased approach?

And second to that is when we're making policy changes, we're assuming that it's going to have an impact on not only the revenue requirement, but weave its way through the whole system and impact what we do with rates.

That's a lot of moving parts, but that's the perspective that we're coming from.

Trialing to maintain a healthy utility and at the same time make policy changes so we don't put such a big hurt on our consumers.

So when we decided to go from 60 to 40, I think it was very clear that there was -- we wanted that to happen, the impact of the revenue requirementings.

And it sounds like y'all went and said, it will have an impact on the revenue requirements.

So when you do that, you have to be more careful in other issues like our cash reserves.

So let's put that in there.

So we would, I think, like to have known that before we made the change and considered that impact or now just explain to us more about why you have to add that.

And I think you added the $25 million in scenario b.

Is that right?

>> Yes.

Why is that $25 million there and not in the subsequent scenario?

>> We just ran various scenarios to show our minimum requirements 114 billion in different ways to achieve that.

And then also incorporate total

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overall requirement reductions as we were directed to do.

So we're looking at the revenue stability of the utility as well as mitigating the overall impact to the customers in the long run.

so if we move from a 60 to 40 debt equity ratio, what is your recommendation about what else we need to do for that to be not a financial risk for the utility.

>> Well -- I really can't speak for all of austin energy, but just looking ate in my opinion, scenario b and c would be acceptable to the utility.

D and e would not, because we could not provide the revenue stability that the utility needs between now and october 1 of 2014.

>> B and c?

>> Yes, a, b, and c would be good solutions.

Cole: thank you, mayor.

>> Mayor Leffingwell: Kathy?

>> Tovo: I need more time with the chart.

It's not all clear to me where things are coming out.

As I understand the difference between b and c and d and e, d and e show some of what we discussed.

A 20% repair and replacement fund and we wanted to see a 60-day weight stabilization fund versus no stabilization fund.

If I understand the bigger

[09:44:00]

issue, you're saying you basically don't agree with reducing the repair and replacement fund to 20%.

And having no rate stabilization fund?

>> When you combine them, it doesn't provide enough revenue to keep the utilities stable.

Now, you could start replenishing some of those reserves.

And when you start building up some of your cash, then you could look at some of the balances or maximums and start reducing them at that point.

But to reduce them down to where you're not replenishing any of your reserves in this rate case, it would just not work for the utility.

We have cash constraints as it is now.

We have to start replenishing that cash.

We've had deficits between $60 million and $80 million every year for the last three years, that $71 million will maybe cure that.

But our cash now is below the minimum requirement.

To you have to start replenishing that cash fairly quickly

>> Tovo: So, but in d and e, we're not replenishing, we're not talking about replenishing the contingency and the emergency.

I certainly agree we need to keep those fully funded and that's the financial policy as it is.

But the difference between d and e is not that we're using those, it's that we're not replenishing the rate stabilization reserve and the repair and replacement as suggested by austin energy.

On e is the example you.

Have to run them out in more detail.

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You're trying to drop the currently 90-day rate stabilization fund and it drops us to 60.

So that's a big policy shift.

It's just way to get to a lower number.

There's fallout from doing that.

That's what we're trying to do --

>> Tovo: I guess I better need to understand the fallout.

We talked about the rates and some reserve in detail and the purpose is to protect against the need for future rate increases.

And there were a lot of questions about whether to stabilize rate increases for customers.

There's been a lot of discussion among not just the folks we're hearing from, but also the consumer advocate.

We've had a healthy discussion about that too that is minimizing the need for -- we were collecting fees now from our current customers to ward against future fee increases down the road.

So I'm really struggling with the rate stabilization reserve and why if we don't fund that at the level you suggested, that creates not enough cash for you to meet your requirements?

>> If you look at this slide here, you can see the repair and replacement and the rate stabilization have zero throughout this whole period.

There's zero amounts in those funds.

What you have to do is the operating fund, the dark blue one on the bottom, the bottom of each bar, your operating fund has to reach a level to where if you have some excess.

Then the excess will be moved to the repair and replacement and the rate stabilization.

Even with the $71 million in this slide, we're still borrowing or taking from the contingency reserve.

In 2013.

So, if you reduce the $71 million in phase one, you're going to be in a critical state

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as far as your cash flow goes.

Now, remember, all of this is normalized too.

So if you have an unusual event and you're in this situation that we are in now or even worse in 2013, your risk increases greatly.

That's why we feel like the $71 million in phase one cannot be reduced any further than that.

You can see how far we are from the minimum much less the maximum requirement.

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>> Just a matter of point, i don't know if it makes a difference.

The stabilization fee is not revenue, it's rates.

I think the word stablized rates is used.

Is that correct?

>> That's correct.

>> Mayor Leffingwell: Mayor pro tem?

we made a motion on 4/17 to eliminate the rate stabilization reserve.

You will see that on the sheet passed around that shirley had.

We said we were going to eliminate that and we're doing that in conjunction with the debt equity exchange from 60 to 40.

Now that I look at the chart, i think that needs more discussion.

I voted to eliminate that.

Now I'm getting concerned about that vote.

So I want to make a motion to reconsider that vote and continue with that discussion.

>> Mayor Leffingwell: Okay.

Mayor pro tem makes a motion to reconsider the motion to remove the rate stabilization reserve consideration.

Is that correct?

Is there a second for that?

We'll second it for purposes of discussion.

[09:50:04]

Councilmember morrison.

>> Morrison: I believe the motion was to consider it and look at scenarios and so I think we should -- so I won't support this motion because it's important we look at the scenarios and understand it one way or the other and in the end we're going to make a decision as to whether or not to do that.

I would like to consider the consideration and obviously we've not made a final decision on that.

I made that motion simply because -- we don't have to do it on the spot.

We can wait until the end.

I was concerned about many of the things that you were saying equiring the impact of eliminating the rate stabilization fund.

So the question I want to ask is what will it do to the revenue requirement -- I know there's a stabilization fund, but it still seems to concern you greatly.

Can you explain your concern again?

The rate stabilization by eliminating it?

>> Let me address it from a higher level on that.

>> Mayor Leffingwell: The motion does not -- the original motion did not eliminate the rate stabilization fund.

Cole: yes, it did, didn't it?

>> Mayor Leffingwell: Consider alternatives.

Cole: consider alternatives?

>> Riley: Went from 90 to 60 days, right?

That was the motion.

It was not to eliminate it.

I just saw the description.

>> Mayor Leffingwell: With that information, you want to withdraw your motion?

Cole: yes.

>> Tovo: We asked them to look at alternatives, lowering it to 60 and eliminating it.

I completely agree with councilmember morrison.

I think we need to continue considering alternatives and

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really take some time to look at this chart.

>> Mayor Leffingwell: I agree.

Councilmember spelman.

>> Spelman: Apologies to you all.

I wouldn't ordinarily ask this but it will only take a minute.

I'm looking at the test here of 2009.

I want to get anchored here.

How much of an increase in revenue over current revenues is represented by the december 19 cost of service study.

Is that $71 million or is that $100 million?

>> Phase one, $71 million.

Phase two, $127 million, 126 point something.

>> Spelman: Scenario a reduces that from 71 to 61.

And scenarios b and c would reduce it to 50.

Scenarios d and e reduces it further.

Is that what I hear?

>> That's right, unless you move the reserve from phase one to keep it to a level that would not keep the revenue stable for the utility.

>> That's the focus of the discussion we're having, if you get to 71, you're going to reduce some of the other ones, why not recues it off of the 71 and go down.

And it puts us in a very unstable position.

>> Spelman: I understand.

I'm trying to get anchored here.

I didn't know if we were starting at 71 or another number.

Based here on the tests of '09, it would be acceptable for your viewpoint to reduce the requirements from $71 million more to $51 million more as long as we put additional money to these cash funds for repair and replacement or reserve/recover.

>> If we could reduce the reserves immediately, we might could exist until phase two.

If not, you're not giving us enough revenue to follow our

[09:54:02]

costs.

>> Spelman: Maybe I'm skipping ahead, are we at the 2011 numbers yet?

>> We can skip to that.

That's slide number eight.

Might be more confusing.

>> Spelman: Less confusing for me.

It might be a more basis position.

We've had revenue slipping in the last few years.

>> In scenario d and e, you appear to have enough cash available to fund to that level.

But if you look at this slide, with the current cash we have, we're not able to -- we ran the same scenario except for the reserve replenishment.

Now the reserve replenishment is much higher than it was using the 2009 test year numbers.

>> Spelman: Because you need to because the reserves dropped it so far?

>> That's correct.

>> Spelman: Your point, based on '09, but '11 is your test year, then if b and c are acceptable, we need $71 to $76, is that accurate?

>> That's right.

>> Spelman: From your point of view from 71 to 76, you need more money than we thought we did in september to keep things floating.

>> That's correct.

>>.

>> Spelman: And reserve funding is not that much cut that year.

>> That's a phased in.

We start collecting it on the same basis that we've done in the past.

>> Spelman: Phase one, reserve and recovery, you need the cash.

Which box it goes into is relatively less important than you need the cash.

That's the point I wanted to make earlier is if you -- we said it many times, we can call it rate stabilization fund, this fund, that fund or this fund or that fund, it's all cash.

[09:56:01]

It's how much cash we need to have and what's the purpose of it as far as designed by your policy.

That's why we would have those funds.

The rate stabilization funds, the only reason it's a good tool is because we could put money there and use it to stabilize rates.

That's the purpose of it.

>> Spelman: The first one we'll dip into in order to --

>> right.

It doesn't have to be fully funded all the time.

It's a longer-term policy.

In other words, a longer term policy is going to be if they're going to use a rate stabilization fund in the next ten years, we want to do this and use that as a way not to have rate increases when we have up and down in the market and other issues.

That's what it's typically used for.

>> Spelman: Can I refer to that as the prevent mark dreyfuss from pulling his hair out fund?

>> Right.

Right.

>> Spelman: That would work.

Okay.

>> Mayor Leffingwell: I want to bring up one other thing that we discussed previously and not recommending it, of course.

But like to see how it works.

I understand that the utilities instead of going to the reserves for the unforeseen events, let's call them, instead of doing that, they maintain their reserves and take away from the transfer.

So I don't know if that's been considered or not.

If that's a wide spread practice or if we should even be talking about that part of it.

Instead of maintaining the transfer as your constant policy, and letting the reserves vary to hold the rep serves vary for -- for reserves for certain things.

If necessary, reduce the transfer.

>> I'm positive there are municipally owned utilities in the cities that have that kind of environment.

Because it occurs to me the reading that I've done, all city and city-owned utiies in this

[09:58:01]

relationship have something different than we do.

But the current policy is the only one we have evaluated.

The one that we --

>> Mayor Leffingwell: At some point, I think it would be worthwhile to have that discussion with the impacts of changing that policy would be.

Number 16 or something like that.

>> I'll sit down with the city manager.

>> Mayor Leffingwell: Councilmember morrison?

>> Morrison: Speaking of that policy, we should have everything on the table.

But one of the things we're trying to do is remove the volatility of the transfer by picking up the fuel so we're not getting big upswings and so it seems like if we were going to start philosophically, it seems like if we were going to start allowing the downswings to be absorbed by the transfer, the other side of that is allowing the upswings to be absorbed by the transfer too.

>> Mayor Leffingwell: I understand that.

I understand the current policy proposal for transfers on the table protects against downswings.

But at some point, I would just like to have a discussion on what the potential impacts of that would be.

And how we could mitigate the loss to the reserves perhaps.

I would like to have that discussion at some point.

>> I'll sit down with the city manager and kick some ideas around.

>> Mayor Leffingwell: What was that?

>> I'll sit down with the city manager and kick around some ideas.

>> Mayor Leffingwell: You could partially stabilize the transfer.

Doesn't have to be all or nothing in other words, it could be something in between.

>> Would you like to go back to the decision point list?

Or do you want to discuss this more?

>> Mayor Leffingwell: Anymore discussion on this?

All right, I guess we'll press on.

>> We were -- if we go back to the agenda, we were on the decision points.

And there was a -- we discussed the debt-equity ratio.

And I think we had our understanding.

But the rate stabilization term --

>> we covered or had some discussion on the next three.

But it's the next slide that we would move to.

I think we have a preliminary decision on the general fund transfer.

The next item would be the production demand allocation methods.

We have various methods that i could show you on that.

Mayor?

>> Tovo: You had several issues coming up with regard to the fund transfer we might discuss with the council and those include, you know, we've heard interest at least from the community in stopping the transfer to -- from austin energy to support economic revenue development services.

Frankly that's not a position I'm going to support.

But we should at least discuss it at the council or come to it as an agreement on what's going to happen going forward.

Also we might just look at the other support that austin energy provides and again come to affirm that we're comfortable with the existing policy or that it needs adjustment.

But settle the issue.

>> I think my recollection, the discussion was that economic development and other departments are funded entirely now by austin energy that would be reallocated to be funded from other sources as well.

Is that not correct?

In other words part of the funding would be the electric utility, part from the water and part from the general fund.

>> The discussion I had with the city manager is we're going take a look at the egrso.

I don't know if that's the decision as to what exactly to do.

But looking at the allocation type method and the share versus the austin energy.

But its's under discussion.

>> Under discussion, yes, sir.

>> Mayor Leffingwell: Not only egrso but sustainability?

>> Yes, I think all of those issues we're addressing.

We'll address that to the budget process.

>> Mayor Leffingwell: The allocation differ from the departments that benefit from those two departments and maybe others, I don't know, would proportionately contribute to operating those department s?

>> That's part of the analysis that will be done to take a look at that.

>> Tovo: Mayor?

>> Mayor Leffingwell: Councilwoman tovo.

>> Tovo: My point is as we're working through this issues, it would be an appropriate place to have this discussion unless my colleagues feel differently.

It's a policy level decision how economic growth and redevelopment services is funded and since it's tied right now to austin energy and austin energy presented us with alternatives they thought of and perhaps there are others out there.

But it's certainly on for discussion.

>> Mayor Leffingwell: Go ahead and discuss -- I think -- if you're finished.

Mayor pro tem.

I support the suggestions made.

I remember I was one of the original councilmembers to discuss this that the economic growth department actually be allocated among the enterprise funds.

And most of the debate was which enterprise funds and which really benefitted from economic growth.

But I think it's important that we do that and we get some allocation methods discussed so it can be part of this decision.

It will be important to some of our out of state rate payers.

So we can say it's ultimately a part of the budget process but we allocate an allocation methodology among the enterprise funds that the mayor had suggested and maybe some others.

>> Mayor Leffingwell: Obviously has to be a good rationale just for the allocation methods.

And it has to be -- that's got to be part of the discussion.

In the next budget process, no later than --

>> I agree.

It pertains to the rates and the costs but we'll be discussing it as part of our recommendation within the budget.

And I know I could say -- have the liberty to say I have discussions with the egrso as well making sure we address the entire service area, not just the city of austin, as long as we're funding the economic development and growth to the austin energy service area is the best interest to everyone, not just inshied the city.

From that perspective, egrso i want to emphasize has a lot of value.

And it's difficult in large public systems if not owned by a city to have their own economic development organization and in fact the american public power association and others have meetings in conferences with individuals that work for utilities developing these types of services.

So, we'll figure out what the right relationship is for the departments and I think that's the emphasis of the city manager.

>> Mayor Leffingwell: No disagreement, at least on my part that the idea that egrso does bring a benefit to austin energy.

But we need to look at other benefits for other departments.

>> I agree.

it primarily benefits --

>> Tovo: Mayor?

>> Mayor Leffingwell: Councilmember tovo?

>> Tovo: Just to be clear, we need to schedule time in the work session.

My recommendation is schedule some time in this work session series to discuss this issue and come to some agreement on it.

I hear austin energy talking about settlement in the budget process.

What do we want to do and when?

>> Mayor Leffingwell: I agree with that.

It's appropriate at a time when we have numbers, data on the table.

We don't have that at this point, I assume?

>> No, sir.

>> Tovo: I just want to make sure we come to an agreement on whether we're trying to settle some of the issues in the austin energy work session series.

And if so, that we let staff know that for economic growth and development and whatever that we want to have that discussion.

>> Mayor Leffingwell: We have consensus on that.

You can consider that direction.

>> Morrison: I'm confused.

What's the direction?

>> Mayor Leffingwell: We're going to have this discussion when the data is available and a work session to determine what the proper allocation of funding for the department such as egrso and sustainability would be.

>> Morrison: As part of this series?

>> Mayor Leffingwell: As this series is what we said?

>> We'll start working on it.

>> Mayor Leffingwell: Okay.

>> That would be another decision point added to this list then?

>> Tovo: I believe it's on our list of work sessions somewhere.

We attempted to go ahead and complete the list of decision points knowing that we couldn't get to them today, but to help in planning future work sessions.

So that's why you see some of these things on this list.

>> Mayor Leffingwell: There's always the ability to modify future content of work sessions.

>> The next one is important.

I think you heard all of the various arguments about the ways of doing it.

It's the production -- the demand allocation methods that we would use.

And our recommendation was one that kept everyone in bounds, if you remember right, plus or minus 5% if you will.

I know you heard from others on different methods and so that's an important decision.

>> We do have some comparisons for you if you'd like to move to that slide.

That's slide number nine.

I think the thing to remember here is we're allocating production demand.

We're not allocating energy, remember, we talked about production being 70% of our revenue requirements, half of it was energy and half of it was demand related.

So that's generating fixed costs, fixed costs of generation.

Any time you talk about demands, you're talking about peak.

What we're trying to do with this allocation is allocate a portion of the peak to each class, because it costs more to serve peak than it does off peak.

>> Spelman: So on the customer class, withe have this triggered off of the december 11 rates proposal.

They average the monthly bill and not the february one for the 70 minutes.

But the relationship is still the same between numbers.

So our different customer classes are in the first column on that rate.

4tp, that's the difference those methods.

The $103, the maximum difference is $6.

>> Spelman: So the issue is how do you define demand?

12 Or another number.

>> And also the split between energy and excess demand.

>> Spelman: That's the --

>> that's the 50-50 or the 57/43.

>> Spelman: If you could, the 50/50 is a reasonable place to cut it.

I think that's the discussion i made the other day.

50/50 Is reasonable.

If we want to get nerdy and want to mess with it and verify for ourselves, it doesn't matter.

Small differences, 50/50 won't adjust much in the allocations.

What's the energy number, what are the various demand numbers?

Let us play with it a little bit and verify that 50/50 is as good as any number that we're going to come up with.

Is your point of view 50/50 split?

>> Mayor Leffingwell: Personally, I believe it is.

Do you have a comment on it?

He doesn't have a comment on it.

So he must agree with me.

I guess he must.

The reason that, for example, 4cp is -- was embedded in our proposals is because hcp is a better estimate of demand.

>> That's the standard.

>> Spelman: Okay, so for all of the numbers, the one that best fits the direction is that third column, 50% energy, 50% demand 4cp.

That's the default option.

We can fiddle with it.

It's an option you cannot argue against.

That 's the problem with this.

It's that the subtle differences in philosophy between all of the different ones.

There enlies the argument.

And I believe that again our proposal has a way of dampening b the effect between, if you will, between these methods or others.

But that was the only question.

If you could get us the 100% 4cp so we can fiddle with it a little bit and prove to ourselves it doesn't matter much, we'd appreciate the opportunities.

>> Yes, do you want 100% of the demand allocated on 4cp, 1 ncp, 12 cp and so forth.

>> Spelman: And the energy it charges, 100% energy, what would that look like?

The weighted average of 100% energy and 100% demand.

>> So you want to see 100% energy and 100% demand on all of them.

>> Mayor Leffingwell: It would be useful to show what the differences are.

The differences on these charts are a little dramatic.

If we had that kind of analysis, it would show how it differently affects.

>> Spelman: We could do this chart and the net chart.

It shows a initial cost between each one.

>> Doesn't look like it's a wide cost shift at all for the most part.

>> One thing to note is it's best for residential and small businesses not necessarily the best for commercial and residential but the best for small businesses.

>> Spelman: Yeah.

>> Mayor Leffingwell: So we'll come back on that one then.

>> Spelman: Just another point I wanted to make going back to this -- this discussion we had.

>> Mayor Leffingwell: How about we figure the allocation of the different city departments, the funding for it, it doesn't necessarily -- we don't need to restrict ourselves just to the gsro and water utility.

For example, the sustainability department which is another section that needs to be annualized derives a benefit from solid waste.

So they don't necessarily have to be the same departments contributing to this organization, they can be different.

The analysis should include the cost benefit analysis on that.

I keep calling it solid waste because nobody outside of this room understands what I mean when I say austin recovery.

Understood.

>> Okay.

Comes to another one of our topics here, fixed charges.

>> Spelman: So in our residential proposal, a $12 customer charge, a $10 electric delivery charge, $22 a month.

That is in our proposal.

Again, any number different from that, what we would do is we take that revenue we don't recover there and we would shift that into the energy focusing on our residential rates.

>> Mayor Leffingwell: Councilmember tovo.

>> Tovo: Can you remind us if we have any calculations for what that energy charge would look like if say we went from a $6 fixed fee to something much smaller, $8.

>> Mayor Leffingwell: It's easy for us to do that.

But I don't think we dealt a table to that that does what we're talking about.

>> Tovo: That might be interesting to see.

I know that several of us, maybe all of us at one point or another had expressed strong concerns about that from a $6 to a $22 fixed fee.

So I would like to see calculations with a much smaller fixed fee increase.

>> Of all of these issues, it's one of the easier ones to calculate.

We have about 365,000 residential customers and it generates that much revenue.

We put that back.

From our standpoint, it's easy for us to calculate that.

We have to come back to another meeting or get an in between.

>> Tovo: I guess part of that is the revenue requirement issue.

I mean, if we -- it's a chicken and egg issue, I think.

You could calculate it based on the revenue requirement that you're talking about, we talked about other options for lowering that.

>> Mayor Leffingwell: Obviously, and I support this -- support looking at the fixed charges.

It's like pushing on a balloon, it will come out somewhere else.

It will come out elsewhere in the rate structure if you're going to produce the same amount of revenue.

Councilmember -- mayor pro tem was next.

do you know what the impact would be on waving the fixed charges for our snap customers?

Is that included in here?

>> Spelman: In our cap proposal, the fixed charges do go away for anybody on the program.

not saying the customer assistance program, I'm saying if we included the program that's a much larger population.

>> Spelman: It is.

The program going forward, it's the customer that qualifies for us.

While it might be a larger group of individuals who qualify, it's the austin energy customer in this case that's a qualifier.

So in all of our work on our programs going forward, we know that we're going to be bigger and better.

We really don't know exactly what the total penetration is going to be.

That's -- that's -- we just don't know.

And that's a real -- that's a real difficult one to get a handle on.

I know that it's been talked about that actually the food stamps population is much easier to design because there's already a card and there's not this verification process for eligibility for customer assistance.

But I understand it's a larger population than austin.

You're trying to say in the whole population doesn't necessarily come in for assistance.

Is that correct?

>> Right now our program has a limited budget.

So, yes, there are potential customers beyond what we currently budget for.

so that's the number I'm saying we need to consider because the current fixed charges only include the cap program?

>> The current fixed charges would apply to all of the customers but they would make way for the cap program.

Cole: it's budgeted for them.

But we're contemplating a larger population.

So just like the mayor said, the balloons with will have to come out.

>> Keep in mind, withe get the dollar per month revenue from every customer to pay for that as well.

Remember that component.

So when we get -- let's say we get to the place where we got everything decided and the cap program isn't big enough or everything else.

You have the dollar sitting 50 or whichever way you want to go it.

That's what balances that program out.

Not necessarily the revenue issue for minimum charges and stuff.

I want to point out that remember, now, in the fixed 10, $22 a month, we have 200 kilowatt hours of energy that's free this that.

Not free, but included in that fee.

The $22 includes -- so it's 10.05 cents a kilowatt hour.

And it's no fixed charge.

You want to look at it that way, however you want to look at it.

we have a way to adjust for that.

>> And so in our minds when we do the different scenarios, i guess at some point in time, we would say there wouldn't be any energy and the fixed charge is really low.

Like today, it's $6, there's no energy.

That's, I guess -- it's hard for us to know what to do unless we have a little bit of direction.

But we'll throw out some scenarios I guess is what you're asking us to do.

>> Mayor Leffingwell: If I can frame the question a little bit, I think what the mayor pro tem was driving at is if you use the snap as criteria for customer assistance program, what would that number be?

And then what would that -- what would that fee that you used to pay for it, the $1 or whatever, what would that have to be if you used a snap population?

I know I've heard numbers running around out there, some people who think they know that that would be about $500,000 if you use the snap criteria.

I don't know what your current plan is.

But -- and I don't know if that number is accurate.

I know people are using that number.

>> I think that's the problem.

We don't know what that number would be until we roll out a program and we actually see which one of our customers qualifies so --

>> Mayor Leffingwell: Well, again, I think what mayor pro tem is saying, if the use of qualification criteria, the snap eligibility, that is -- you can know pretty easy what that number of people is.

And then you can figure out what the cost of that would be.

I think that's what we want.

Just kind of the information we like to have.

Then once you know the costs, how much would the fixed fee, the chart for everybody else, how much would that have to be?

Would it have to be $1, $2, something in between?

That simple calculation because even if you did qualify for customer assistance under snap and you had the fee waved, you would have to pay something for the first 200 kilowatt hours of electricity that you use.

>> Mayor, we did analysis of the numbers of customers who might qualify for the customer assistance program and developed some estimates, cost estimates for that and provided you some memos in that.

We don't know exactly how many customers in our territory would qualify for a cap program if the cap program were based on the snap program.

What we do know is in the competitive territories of the state, the customer assistance program is based on the house holder whose name is on the account for electric service, if that account is also served by snap or any medicaid program, and in talking with the staff and public utility commission, they tell us most of the territories in the state, a little bit more than 10% of the house holds qualify for the state system benefit fund discount.

So we looseliest mated about 45,000 house holds in our service territory.

We developed some numbers around that.

And, again, it depends on the revenue requirement at.

How we would design the program.

What the fixed fee charges would be.

But based on the $22 fixed fee that we proposed, $126, $127 million revenue requirement increase.

And the 10% additional discount for each of those customers, we estimated the program cost to be about $13 million.

We can it rate that a number of different ways based on how many customers and what the rates look like.

>> Mayor Leffingwell: That cost would be picked up with the fixed fee that's charged to all customers.

>> And we have proposed there be a customer assistance program charge essentially delineated on the bill.

And in order to fund that $13 million, the charge would be 50 a month perez den shl customer plus 65 cents a megawatt hour per commercial and industrial customers, I believe, is how we estimated the costs.

mayor, I have a follow-up question.

I believe you said invest with no usage cost?

>> The inside the $22 is 200 kilowatt hours of energy that's included in that.

And so if a person had that charge waived, they would be getting the the 200 kilowatt hours as well.

>> Mayor Leffingwell: You couldn't do that, could you?

You can't give away free electricity.

It would have to be backed out, wouldn't it?

Cole: I would think so.

>> No, I don't think so.

It's a part of the fixed charge.

And if the program design is waiving the fixed charge, then it's very commonly done.

I don't know about the legality.

>> Mayor Leffingwell: Okay, that's something we have to look at.

And you can call it instead of a fixed charge, you can call it a minimum charge, similar to what the water utility has.

>> Right, right.

I -- I can tell you that as you get to these programs, and you get into the design and the rates and how you recover it, i think that one recommendation that we have that I personally believe really worked well is how we get it paid for.

I think the single charge per month, the dollar is proposed or whatever that number ends up being is a good way.

The other way to do it is because rates change over time and things happen is to do a general percent discount over the top of the bill is easier.

Because then we get to specific pieces of it.

It makes something that's already complex more complex.

>> Mayor Leffingwell: Come back with something simple.

Cole: exactly.

>> Okay.

I think also is the legality at risk, it runs counter to our energy conservation goals.

>> It does, but let me remind you, 200 kilowatt hours per month is a low amount of energy.

A refrigerator uses 150 and so if nobody's home and no refrigerator and nobody ever uses the building, then -- then that's ultimate energy efficiency, I guess.

Because it's off.

But if you're in a space, i don't care if it's an apartment or anything.

That's why the 200 kilowatt hours is important.

I want to say this, people have said, it doesn't give me any room to conserve.

If you conserve beyond that, my question is why are you using electricity at all?

I'm thinking of the flip side of it.

This is a community that would fully support very low income users to be waived a fixed charge.

But would still want to promote conservation and be charged for usage.

And so we'll have the more difficult explanation to make for waiving any usage charges.

>> Mm-hmm, mm-hmm.

I understand.

>> Riley: Mayor pro tem.

Another issue we discussed in a prior work session is that if your ultimate decision is to adjust the size of the fixed charge down from $22, then it would be likely that we would talk about backing out the $200.

>> Right.

>> Include in the fixed charge out of the fixed charge and put it back in the energy charge.

>> Mayor Leffingwell: And backing off the $22 is also going to reduce the cost.

>> Yes, sir.

>> Mayor Leffingwell: I guess i would say there's a difference between saying unoccupied dwelling and you have your refrigerator running and something is completely shut down.

I mean, if there's some use of electricity, maybe -- maybe it's appropriate to find some way to offer that.

>> The cost of reading one more meter which is far less than proposed by the utility.

As we -- I think -- I think there is significant interest among the council members oncoming down on those fixed costs, but as we go about that, can you suggest any guiding principles that might land us somewhere it in between what the utility has la lazar has suggested?

Is it completely arbitrary or some other guiding principles that other utilities use that lead them towards some lower number?

>> The answer, unfortunately, is no, that it is really a philosophical question, and of course, remember where we started from.

You all know this.

We started from the standpoint of a generation plan with a very ambitious climate protection plan, energy goals, et cetera, and about four years ago now, during the generation plan discussion, then general manager roger duncan did talk built fact that we need to -- did talk about the fact that we need to decouple.

That's the premise we came at you with this proposal, at $32 a month that included the wires and the customer service.

That's for all the stuff we put out there, the meter package, all of the infrastructure, everything else and that service by wire.

Now, that's a philosophical starting point, and then as you work away from that, you work back towards what i would call the standard in the industry, which is a very low fixed charge, and everything is in energy.

And there isn't anything wrong with either one.

One is just far more innovative than the other, and I will say that the reason electric co-ops have higher fixed charges is because their boards approved them.

They didn't go through some of the arguments that you get into in a more urban area, and I think the other thing that comes into play is different fixed charges for different sizes of customers.

We currently do that for -- we do that for commercial and large service.

That has been done, and i think that I've read some lazar provided about that that you could have an apartment rate, for example, that has a lower fixed charge.

It's easier for us to administer things -- all accounts the same in residential, but there's certainly so many different ways to do it.

If we move back towards where we are today, is at $6, I think that's a reasonable amount.

You know, moving that up to whatever number makes you feel comfortable philosophically with the issue, I think that we're -- we're ready to work with it.

I think the most important part, though, is that we build all of this rate, is this is a really important decision, because once we know this, then we can run the energy charges and then we know how everything falls out.

So it's a really critical decision, this charge, and it isn't easy for you, i know, because it's really -- it's not a number out of the air, but it's certainly between the -- between the starting place where we have the generation plant energy efficiency and where it is palatable to all customers, there is a big gap in there, and I recognize that.

>> Spelman: mayor?

council member spelman.

there are a couple other -- part of this is a philosophical issue, what we've been referring to as the business model issue, but we also have a couple other issues, one of them probably far downstream, that is, what happens when a substantial portion of our customers get distributed generation capacity, and we'll have to bill them for some relatively high proportion of the wires charges just to get -- recover those fixed costs, because they will not be pulling off the grid nearly as much as they currently are.

That's a long ways downstream, but at some point we'll have to come to grips with that.

But the other issue which I'm more concerned with in the short run is the volatility issue, the difference between a high fixed charge and a low fixed charge means more or less in a high fixed charge world with relatively low rates that you'r weatherproof than in the current situation, and if we were to ask you to reduce that fixed charge from $22 down to somewhere in the neighborhood of where we are right now, you're more sue acceptable -- susceptible to swings in the weather, my guess is you'd need more in reserves to cover yourself in bad weather.

Alternatively we'd have to do a rate case every year which I don't think anybody wants.

I wonder if there's a way you could quantify that trade-off and need for reserve funds against different levels of fixed charges.

>> Okay.

even qualitatively, if you give me a sense for how much increase in reserves will be necessary in order to cover you in the event of bad weather if the fixed charges were not 22 but somewhere in the neighborhood of 6 or 10.

>> Well, you're right, and that up and down you're talking about in terms of sales, up and down, that can be handled by rate stabilization fund that we just got talking about, because there's a variety of different ways to do that.

So -- to bring that down.

In the investor utility world, going to the puc or your utility transportation commission or whatever it is in every state that you have, that's where this decoupling comes from, because doing a rate case every year as a private utility doesn't make any sense, so you need some kind of mechanism to do that.

Ours would be a rate stabilization funds.

It works the same way.

>> Spelman: sure.

>> So you could.

So you could drop your charge, your minimum charge down.

You could have the right reserves.

>> Spelman: right.

>> So that if it's meant to stabilize, you can handle the stabilizing component of that, and that's the trade-off.

I guess what I'm getting at is the trade-off seems to me -- there's another issue, which is we have a tough spot because we haven't got around to it, but a $22 fixed fee will be hitting low-volume users a lot more than --

>> right.

-- our current distion.

>> Except for the 200-kilowatt hours, you have to remember.

even with the 200-kilowatt hours, with the last proposal I saw, for people who use 400-kilowatt hours per month, for example, which is about as low as you can get and still occupy your apartment, you're still talking about something like a 20 or 25% increase in monthly payments.

>> Right.

Well, th unfortunate the way the math works when you have a low amount of usage the percentage number will be higher.

right, and the fixed charge is very large at the -- low at the low end of the scale.

If we're concerned about people at the low end, reducing that to a fixed number would make a lot of sense, even if some will be held harmless because they're in the cap program, there are a whole lot who have modest means but don't get food stamps and we might be jittery concerned about the -- legitimately concerned about the cost they'll have to be bearing but that will require, all else qam, that you'd have a greater -- equal, you'd have a greater reserve funds to cover it, and we might need to take more in from everyone in the system in order to make sure the reserves are the amount they need to be in order to avoid having a rate case every year, and I wonder if you had a sense or you could easily develop a sense for how much, if any, those reserves need to be raised from the numbers we're talk about here, and maybe we're talking about a long run problem, not a short run.

In the short run it doesn't matter very much, we could jimmy the fixed fees, so long as we collect the amount we need to clghts we're okay, but it seems to me in the long run we probably need the rates generally to go up a little bit if we had a low fixed fee because we might end up with two or three years in a row of bad weather, or good weather, depending on your point of you.

>> I think really you have to look at this as the long-term.

This is a long-term issue, just like rebuilding a rate stabilization fund, it would be a long -- perhaps even in the viewpoint of ten years, five years, so you just -- you would start.

So of all of these paths we're looking at and decisions we're looking at, none of them change things fast.

They're all steps slowly, and I think that any -- any of these, and the rationale we go through for setting any of them, we could look at them later down the road and say, you know, maybe that one needs to be revisited.

I don't think anything is final like that.

>> Spelman: okay.

So because -- the world of your financing, not unlike the city council, is mooching at a glacial -- moving at a glacial pace -- then we can -- that was intended to be a joke.

Nobody laughed.

I thought it was hysterical.

I chuckled, just not on the mic.

I appreciate that.

We have the freedom to move that fixed charge down to a much lower number if we wanted to and therefore the kilowatt hour charges would have to go up to compensate, so long as we hit our mark of 71, 76, some increase in revenue, so long as we hit that mark, that we would not not need to change that mark to adjust -- we would not need to adjust that because of the change in the fixed fee, at least not in the short run.

>> That's right.

>> Spelman: okay.

That's good to know.

council member morrison.

>> Morrison: thank you.

Larry, so you mentioned, and I think this is something that we all have to grapple with, that moving from $6 to to 10 or 22 or 35, which is one of the calculations that you have.

>> That was cost of service.

yes -- is a philosophical, somewhat, out of the air, to some degree, calculation, and I'm wondering if you've been able to develop any tools that can -- that you've a you've looked at or that we could look at that would help us get a grip on different scenarios in terms of setting the -- we've got a lot of variables here, right?

We've got the -- we've got the fixed charge, the two fixed charges, we've got the different tiers, and where we set the different -- the different blocks that really affect volatility, potentially, affordability, potentially conservation, and the reason I bring this up is because it's akin to the challenge that the water utility has and they have -- the joint sub committee that's work on on that with staff, staff did put together a tool, I don't know how simple it is, but i think just sort of some calculations behind a spreadsheet, that basically looks at different scenarios of fixed fees and where you would set the different blocks.

They're also looking at tiered fixed fees, which we asked them to look at so that the fixed fee that you're charged depends on how much energy you use.

To come up with an affordability rating, a volatility rating and a conservation rating, so that instead of just having to get a sense of where we want to be, they were actually able to compare different scenarios to provide some guidance to make a recommendation.

>> Well, I know we've had this discussion before about the difference between water and electricity and that our power supply not supplying the power saves us a lot of money and that's the fundamental difference between water and electricity is that you get into water saving mode and cutting back and your revenue evaporates.

So you'd like to have a larger minimum charge to help with that because you're primarily debt service conched in a water utility.

In ours -- covered in a water utility.

In ours, the electric, we have so much power supply cost, it's a huge budget.

5 million, it could easily about 600 million with really high power prices.

So the philosophical difference of separating our sales from our fixed revenue is not -- it's one that would be nice to have, it's one that's more idealistic and I think it really looks at the future and that's kind of where we started in the innovation spirit that austin energy has always had.

But leaving the fixed charge at $6 doesn't change anything about our policies or direction that we're going to take.

It just puts our revenue in more volatility, and as council member spelman talked about, with respect to distributed generation and electric cars and all the other things that we have, I suppose that when we have a flood of those, we're probably going to have to really visit this.

But -- and that's what i talked about over time.

So I know it's a hard decision.

I know you probably want me just to tell you what the right number is but --

>> morrison: no, I don't.

I want to be able to evaluate different --

>> numbers.

-- numbers, and just saying, well, gee, 22 seems too much, maybe 13 would be better, there's no foundation for that, and so to be able to actually compare different scenarios based on different goals that we're trying to reach would be helpful.

>> Let's put a matrix together.

We can put a matrix together and show you the revenue impacts of different ones, and and again, there's a parting point for us, but I i want to emphasize there is no absolutely perfect answer.

right, and with the water utility there is no perfect answer, it's just to have a rational foundation on which to make a decision would be helpful.

>> Right.

And I will say that one that you see and maybe others did look at, like -- sort of like water you do and you do -- what's typically done in water, see different stages of not having water, so you have different stages of higher flat charges.

Doing that in electricity is a customer service nightmare because one month they have one charge, the next month they have a different charge, and depending how much they use.

Because that's what we were asked to look at.

In other words, if you use 2,000-kilowatt hours you have a different charge than if you use 1,000-kilowatt hours.

And we have such a difficult time explaining our bills to customers as we do now.

That's where we got into a problem of looking at that particular idea.

well, our customers that use our water are going to be looking at a tiered fixed charge so our billing system will be able to handle that and our customers will get that, with regard to water.

So I don't know why it's not something we could look at with -- because it's significant when it comes to conservation and reaching our conservation goals.

So -- you know the work that I'm talking about and there could be some translation, because they did measure volatility and affordability and what it does to conservation goals and i think those are really important things we're grappling with here and I'm sure it doesn't translate exactly but the concepts are the same.

>> Yeah, and on the waterside, they're putting together alternatives for you to consider.

We haven't gotten to that point yet [inaudible] fixed rate.

we explicitly asked them to -- as a council when we kicked off the subcommittee.

yeah, and let me just say, I can it's a really gross oversimplification to tie conservation to energy use.

It depends on what you're tryin provide the energy for, and there might be a direct contradiction between income level and energy use in some cases.

I think that's true to an extent with water but much less so with energy.

So we're going to get in that discussion, I guess, later, when we talk about the tiered rate structure, but I think that's something that has to be dealt with very carefully because that can have a lot of unintended consequences on customers that we're in other areas trying to protect.

mayor, the work -- council member morrison.

-- that's been going on specifically with regard to water has specifically identified that, you know, it's not a very high percentage of low income people that are low water users.

So that's why it's so important to be keeping an eye on all of those things as once.

well, I think I said not so much with water, some, but not so much, but I think to a much greater degree, my guess is there will be a much -- there would be a much greater variance to what electricity is used.

>> So if I understand -- to oversimplify it, if you've got the money to invest in all kinds of energy-saving appliances and reinstall windows in your house and reinstall more and better insulation, if you've got the cap ability to provide that up front, then you're going to be able to

have a lot better living conditions than someone who is not able to do that, and they're going to use more energy to have the same living conditions.

I think we're agreeing.

>> Mayor leffingwell: yeah.

it's just that -- and we need to understand all of that because --

>> mayor leffingwell: right.

the conservation drive also is an impact.

>> That's why it makes all the rate making so difficult.

It's difficult.

Not everything fits every customer.

So as I understand it on fixed charges we'll prepare a matrix and we'll come back -- we'll deliver that and it will have a variety of charges, the revenue impacts and we'll move that direction.

Is there anything else on that?

i think that's the direction, yes.

Yes.

>> Tovo: mayor?

council member tovo?

before we go to -- I hate to take us back to an earlier issue except that we were scheduled to take some preliminary action on it somewhere around april 9.

And so since the subject came up again today about the customer assistance program, I think we've talked several times about the customer assistance program and talked about the interest that I know some of us have in expanding the eligibility for that program and I wondered if we might be ready to take some preliminary action on that, knowing that, you know, we can certainly reconsider it.

i thought we did -- I don't believe we have -- -- give direction.

We'll go ahead and -- yeah, I don't know that we ever have taken a formal direction on this, but I would like to move that we expand the eligibility for that program to include customers eligible for the supplemental nutrition program, telephone lifeline service and chip.

And that's what we've been talking about.

I think that results in about a pool of -- well, there's some discussion about that.

I think austin energy has estimated that's about 50,000 people the auditor returned -- excuse me, 50,000 households.

The auditor gave us some numbers that were similar but what we don't know is the extent of overlap.

so do you want to -- I think the number -- do you want to make a motion to consider -- ask for additional data and consider that as a proposal or are you just -- is your motion just to do it?

yeah, I'd like to just do it.

I think we've gotten the data.

It's somewhere between 40 and 50 -- council member spelman, I know you have a proposal on your web site that talks about 40,000, and I think that's the school.

So I'll make that motion -- I'll second for purposes of discussion.

>> Mayor leffingwell: okay.

Motion with a second for purposes of discussion, and you're on.

the proposal I've got is based on what i think is prevailing practice in the utility world, which is to base membership in some sort of a customer assistance program on snap or medicaid eligibility, and I'm intreegd by the why -- treegd intrigued by the idea of phone line or chip instead of medicaid.

I wonder why it makes more sense to use that?

I believe our current program does some form of medicaid, so I was not replacing it, I was expanding it.

So I would suggest adding telephone lifeline, and I'm not sure what the overlap is between telephone -- I think none of us may know what the overlap is between telephone lifeline and the existing medicaid program, but I'll have to ask austin energy to tell us what is currently -- we do currently some medicaid programs are eligible for the customer assistance program and some aren't; is that right?

>> That's correct.

Some -- there's a long list of different medicaid components, and we have a set of those that are currently eligible, and i believe the reason that we have that set is because of our access to data from the county and the state as to who's involved in those programs has been more accessible.

>> Mayor, can I be sure i understand the motion?

Because I think on this item you're only posted for preliminary direction to the city manager.

Council member tovo, was that your direction for the staff to come back with a final proposal on that item?

I'm not sure what the difference is between any of our other previous preliminary actions.

I think we had talked about it as preliminary actions.

Are we posted for preliminary action?

>> Yes, we are.

4 is to discuss the items that you have discussed at prior work sessions, and so that particular item related to the design and planning of low income electric customers is included in that item.

So it's included in possible action, give preliminary direction regarding the prior topic.

that would be my preliminary direction and then the staff can come back and let us know what those -- what the revenue impact would be, and then i think we need to have another discussion about whether that should be in a fixed charge as austin energy has suggested or whether it is a appropriate to think too about putting that as volumetric charge given -- that's kind of what I was suggesting when I questioned what your motion really was.

It's really -- really direction to come back with a full analysis and find out, for one thing, if we're talking about if the snap inclusion includes other things or if it merely -- if other things would add to the snap.

I think it would be fairly easy to say what the snap population would be, but i don't know if there's -- if this is complete overlap or if there would be additional customers covered beyond snap.

And I think that's the analysis that we have to have.

>> Tovo: mayor, if I may?

I'm sorry.

You.

>> Spelman: you go first.

we've circled around the policy question for a while so I would suggest that we take, you know, a pretty decisive preliminary action on expanding the eligibility pool and then the second part, which is the direction, would be, you know, come back with information about that, but we have -- it seems to me we've asked the question a few times about the overlap and it sounds like it may just be difficult to account for that overlap until the program is in place, but i don't know that for sure.

>> Yeah, not only would it be difficult to account for it, but again, designing a program like this is -- we really won't know how many total numbers we have until we have them, right?

I mean, we set eligibility criteria up and then customers have to apply for it and we go down that road.

So -- but mark -- we have a russ estimate of what we think it would be.

and I guess -- you know, I just want to be clear.

Right now -- right now we have eligibility requirements but austin energy's budget for that can only fund 38%, maybe even less.

What I'm saying is let's come up -- let's come up with a proposal that funds 100%, that we know 100% won't -- won't necessarily enroll, but let's come up with a proposal that really has the capacity of funding and supporting all of those who are eligible, that's number one, and number two, let's expand that eligibility to include those on supplemental nutritional system program and telephone lifeline.

I've got two threshold concerns.

One of them is that snap and medicaid are already on the list of things for us to talk about.

Adding chip and phone lifeline seems perfectly reasonable.

We could include tanif, probably a couple other dozen other things, ffi.

And it seems to me every time we add another program there are probably going to be a few more people added, and if these are people who are very much in need, and that's probably a good thing, but if we're also talking about dipping further and further into the pool of people who would otherwise be paying for customer assistance program for everybody else, then that means that the few people left will have to pay more and more in order to front costs for a larger and larger pool, and it seems to me the right way for us to break it is to figure out the right way to determine what the eligibility requirements ought to be should be based to some extent on the extent of the need of people who would be brought into the program if we added, for example, phone lifeline, if we added chip, if we added tanif and so on.

And I just don't know enough about how poor different folks are in different programs to be able to make an intelligent decision on that without further information but I don't want to put you guys in a position of having to look for it.

>> My judgment would be that we won't know all the answers to what we're seeking until we start a new program and that we're going to have to evaluate and change that program, maybe to accomplish some of the items you just talked about so all the work we've done to date is to address the eligibility, the maximum amount we can, the eligibility is based on you being a customer as well, so that's a dynamic that has to be factored in.

And that we'll started out the program on the presumption of all the knowledge that we have and with your -- with your approval, and as time goes by and we find that the program needs to address more or it needs to be -- we have a funding issue or anything like that, that we will come back and visit that, and that's -- that's how we're looking at all of these issues.

I'm actually fairly comfortable with that, but council member tovo is less so.

So we ought to think about that as whether we want to sort of grow our way into this program, ongoing greg guernsey from 38% to 100% 6 of some number will be a very big change thref itself.

If we're going to 38% to -- as you're suggesting we might work our way into it over the course of a couple years rather than doing it all at once.

This gets to my second concern which is that some of these numbers will be -- some of these names and households will be easier to find than others, and that particularly if we're dealing with just the snap database it will be relatively simple to figure out who is in it, who is out.

If we put in snap plus medicaid it's going to be a little harder because we have to cross-walk two databases against each other, which may not speak to each other well.

Every time we add another database or another eligibility requirement we're adding to the practical difficulty and we're increasing the likelihood that somebody who really would be eligible drops off because we can't find them or verify that they should be in.

So I'm not sure how -- what direction to give you other than to ask you whoever is -- would actually be in charge of monitoring that operation, deciding who's in and who's out, if they could give us a sense for whether my concern is real or whether I'm just making it up, and how serious is it.

let me try to see if we can come to some kind of consensus here.

I want to come at it from a different direction, because I'm concerned about the administrative cost of actually figuring out this.

And so I'm thinking that if we have a program that is pretty much self-proving, if you come in with a snap card, if you come in with a medicaid card, then you would be covered.

Now, the difficulty with that, from council member spelman's perspective, is we don't know how many people are going to come in, and from your perspective, you have the same concern.

But if we -- if we're not doing any searching to come up with numbers for us and we just make one determination, a snap card -- and I also think -- answer me this -- isn't there some duplication, like if you have medicaid, you have a snap card.

>> Right.

Right.

>> Cole: and what else?

>> I'm not an expert in it.

Mark?

>> Mayor pro tem, what we've done in the past is we have a list of, you know, a dozen different programs that members of our community who are in need are able to access, including the programs we've discussed today.

We basically know how many house -- we know what the kind of poverty-related criteria are for qualifying for each program.

We know how many households in the county qualify for those programs.

What we don't know is how many households in austin energy territory qualify and we don't know the overlap, but we know there is a lot of overlap between some of these programs.

So we've used estimates of what -- of what happens across the state to get an assessment of how many households we think in our service territory would qualify.

That's where this 40,000 to 50,000 number has come out, which we believe is the approximate number of customers in our territory who are served by snap and medicaid.

what I've heard from most social service agencies, and I believe the customer involvement committee that actually worked on this, and also austin interfaith, that the snap program is actually the most all-encompassing, and the one that we didn't use, and there was a decision to be made whether they were going to go wide with a lot of people or were they going to go deep to cover more with a few people.

And I think the decision was made that they were going to go deep, and that's kind of one decision tree that we can make.

But I think as a preliminary matter, that we could charge staff with assuming that we're going to cover people in the snap program, which automatically includes lots of other programs, and whether federal government does the work of qualification.

We're not putting that burden on our staff.

And then if we see after that that there is a significant population in need, then we can deal with that at that time.

if you want to amend the motion and that way that would be fine.

Mayor, can I also ask, i know we have carol wajitski here who has done a lot of work and served on that commission, so with your permission I would ask her to address some of the questions that have been raised.

it's okay with me.

if she's willing to.

I think I got the nod she was willing to.

I think it's right there.

carol, keep in mind we only have another hour and a h here.

so you've heard the discussion and I know your organization, along with others, have proposed widening, broadening the eligibility criteria to include the three groups i mentioned.

Can you tell me -- I know we all acknowledged there is some overlap.

It's a little hard to know what that overlap is, but what would be -- do you see a significant difference if we limit it to just to supplemental nutritious programs for recipient.

>> I think our recommendation to include telephone lifeline is because that would make it equivalent to the eligibility criteria for the statewide program in the deregulated service areas, and there's already a system set up to do automatic enrollment using those criteria, and that is the other part of our recommendation, is that austin energy would just do its best to use that system in order to identify qualifying customers.

Now, from what I understand from my discussions with some of the peo at the puc, they get a 19% match rate on total records that come into the system every month, so there is a lot of overlap.

If they take the total number of records that hhsc sends them every month and look at the total number of matches that occur, they have 19%.

So I think that when you apply that number to some of the totals that we have here, we get -- I think I've done some calculations -- i get between 20 and 25,000 people that I think would be enrolled in that program if you used automatic enrollment, which gets you the largest -- you know, it's the largest success rate.

And I've looked at it from another aspect too, total households.

It looks like to me that the light-up texas program is reaching about 40% of all the, like, households that are living at the poverty level, and I did a similar calculation using numbers for austin energy and numbers of customers and, you know, it was about 2, 24,000.

So -- 23, 24,000.

So that's where I think we are actually headed more so in terms of the total population rather than 40,000.

And, in fact, we have plans to meet with austin energy about this but somebody else is in charge of setting up the meeting and when it will be.

does that mean 40 -- 40% of the people living in poverty ti are accessing those programs?

>> Some of the overlap -- my understanding, there's a lot of overlap in the numbers.

Some programs count number of people in the family and list every name.

Some of them only have, like, a head of household.

So besides the fact that they can be signed up for more than one program, the counts are done differently for different programs.

>> Yeah, it's not quite as simple as it would appear to be.

>> And some people live --

>> I know the snap criteria is based on one method as a family of four, what the income is.

That might be only one customer too, so it could be one customer or four.

-- One person or four persons.

>> And some people, like, live in combined households, they're not the head of the household.

There's many, many opportunities for overlap.

I thought of looking at what the actual results are for the matching process as it goes on now, so it's a little more realistic number, at least to start out with, because if I were going to make a recommendation, initially i would include the cost of the program in the will what the hour rate, but then i would also have a provision where the program would be looked at annually, and if there was an insufficient amount of revenue in rates during a particular year, then we would add, like, a surcharge on until the next rate review where we could roll them back into -- i think that would be the -- in my opinion, that would be the best method to use to go about financing it, because you don't want to be collecting more money than what the program actually needs.

yeah, that's true, but at the same time you got to make sure that you have enough, and i guess the question is going to be, do we automatically serve these people or is there what we currently have, a cap on the number of the amount of money that you can spend and therefore the number of people that can -- I think it really has to be the latter -- the former that we have to determine what the need is and then base what we put into the program on what the number of people being assisted it.

>> Spelman: mayor?

council member spelman.

carol, you've worked with these databases a lot, it sounds like.

Is my concern founded, that if you wanted to do automatic enrollment and you wanted to consider eligibility on a bunch of different criteria, that this would be difficult administratively or is that not so hard to do?

>> Well, it's not so hard to do because the way the automatic enrollment system is set up now, there are people who apply for the program benefit outside of, you know, the automatic process.

Is that what you're -- well --

>> asks me?

envisioning the following, and maybe my imagination is leading me astray here.

I'm imagining that there is somebody sitting in front of the computer terminal and downloads a database from a state agency, which has got all the snap customers on it.

And there's another database someplace which has got all the phone lifeline customers and another database that has all the chip customers.

And that person is trying to identify -- match all those databases against our austin energy residential customers and determine whether there is somebody in that household who fits one of these criteria.

>> That's correct.

and seems to me that if you're dealing with one database it's a pain of the neck but it's one pain in the neck and it's probably not going to move around very much.

If you've got three or four different databases, then there's a lot more room for mistakes and we're more likely to make mistakes, both including people who shouldn't be and excluding people that ought to be included.

>> Well, my understanding of the way the matching process works, like at the state level, is that all of the records come from the health & human services commission.

>> Spelman: right.

>> And when this started in 2000 -- when we started to talk about it, everybody got together and they agreed upon -- oh, I'm not a good computer person, but everybody's addresses had to be done in the same format and the same protocol, so there were certain rules that everybody decided that they would follow, like at that point in time to minimize the difficulty of manipulating the databases, and even at that time hhsc was building a new database, a new system, you know, for -- statewide, and so they also followed the same protocols and the same rules.

And I think that austin energy probably follows those because I believe those were the same standards that are used at ercot.

And at the time that, you know, ercot took over, then all of the -- you know, all of the data that went to ercot had to be in this particular format.

So there is a standard out there to simplify it.

>> Council member?

>> Spelman: go ahead.

>> If I could just make a comment on that process, because we've spoken quite a bit to the staff, the public utility commission, to try and understand how this occurs at the state level and compare that to how we do it, and I think majitsky is correct that as far as the state program goes, there's standardized databases for medicaid and for snap, and those are run against the list of customer accounts, and a key point is that eligibility is only if the account holder for the electric account matches.

Our program today is a little broader, that any member in the household's participation in one of those programs can qualify them for the program.

But I am a little confused on one point, and that is in our discussion with the public utility commission staff, the criteria for qualifying for the state program is medicaid and snap, and I'm unclear about the telephone lifeline and the chip, because I believe we've asked that question specifically to the public utility commission staff, because this has come up before and we've been confused by it, and the response we've gotten back is it's medicaid and snap and it's not the other programs, and it may well be that there is sufficient overlap that all of those eligible customers are drawn in.

you've already -- what you're getting at, then, is you've already got a database.

Somebody has already cross-walked snap and medicaid against one another and against your customers and you get a list of your customers that are householder, account holders who qualify for medicaid or snap, you get that now.

>> And that's what happens under the light-up texas program in competitive territories.

There's a third-party provider who is hired by the public utility commission to do that.

We could either bring in a third-party provider ours do that or do that in house.

I think we have the same capability to do that analysis that the third-party provider does.

But my confusion is over the telephone lifeline and the chip components as opposed to medicaid and snap.

hang on a second, carol.

I can imagine the following: That we automatically enroll medicaid and snap, using that -- the third-party provider, doing it ourselves, whatever this is a known technology, we know where the databases come from, how to cross-walk them and so on, but we might conceivably say, and if you've also got phone lifeline, chip, something else, come bring it into our customer service center and we'll add you to the program.

>> Of course.

>> But we won't automatically enroll you for those programs because we're going to make too many mistakes if we try.

We're going to keep with what we know how to do.

>> Of course.

And there's also a component of the light-up texas program that customers who are eligible, who don't come up in the automatic match have a customer call center that they can call into and establish their eligibility, much as we do.

In fact, many of our customers who qualify for our cap program come in through one of our partner agencies, meals on wheels, caritas, a local religious institution and through that institution they're brought into our program.

>> Spelman: sure.

Okay.

I'm sorry, I interrupted you.

>> I was just going to say, my understanding is that telephone lifeline has a slightly different eligibility criteria than the -- the electric discount program.

So what they do at the low income discount administrator is they do two separate runs.

It's not all one run.

They'll qualify people for telephone lifeline, and what we said, if they qualify for telephone lifeline and they are an electric customer, then they should able be signed up for the light-up texas program.

So there are two separate programs and I believe that they run two separate matching processes for those two programs.

And I do know from the information that I was given, 86% of the people who are enrolled in telephone lifeline and in light-up texas were enrolled automatically, and 14% have been signed up through the alternative process, and i do know that social service agencies do participate in that process and, you know, they'll get the information together and they just send it to the low-income discount administrator and they process it.

I'm not sure i followed the alternative process.

That's someone who was not automatically enrolled but volunteered, no, you missed us, you need to enroll us too.

>> Right.

And perhaps somebody would be at the local community action agency and apply for billing assistance, and they were not signed up on the program, then the caseworker would probably, like, fill out the form for the state -- for the discount program and send it to the low-income discount administrator and they would accept that and process it.

our best guess should be if we count the number of people we would automatically enroll and then add another 7 or so to account for volunteers.

>> I'm going to think about that one.

Yeah, there probably should be an allowance in there for people who are -- maybe i got -- I caught that, though, whenever I did my comparison with total households, because that would have included both.

That would have been the match plus the people, like who were enrolled.

But I'll think about that and I'll get back to you . >> spelman: thank you.

council member riley?

carol, I want to make sure I understood one thing you said.

You were suggesting that we could have fairly broad parameters for determining eligibility, see how that goes in the first year and then make an adjustment before the next rate case, and I want to make sure I've heard that right and understand what the mechanism would be for making an adjustment.

Are you suggesting that we can make adjustments to eligibility rules in connection with the budget process or what method did you have in mind?

>> Well, I'm not exactly sure of how it would occur, but conceptually we would put an allowance in the rates now for the cap program based on some estimate that was made.

If this amount of money was not sufficient, then after, like, six months, we could do it initially after six months, look at the revenues that are coming in and what the participation rate is in the program.

If there is not enough money there to -- or going forward -- if it looks like the program will run short of money, then austin energy would come to you and adjust the rate by either, like, adding, like, an additional fee on the bill or, you know, adding a charge someplace.

That's my recommendation, is that we plan for how much it's going to cost, and if that's not enough, then we would allow an additional charge to be made until we had time to review the rates again and put it back into the rate base.

larry, can you help us understand what sort of mechanism --

>> well, carol's approach is actually the right one.

I think that what we do is we presume -- we have so many customers, okay?

So I think -- I think we could spend a lot of time talking about all the eligibility, but the best thing to do to determine -- to get our rates approved and get this thing going is to figure out, okay, let's base it on 30,000 customers or whatever it is, so let's say 30.

If the number is 30, I'm not saying that it is, then what we need to do is figure out, well, then, what is the discount?

And then when you figure -- you figure out what that is.

And then we'll know how much money that is and then we can figure out what the impact is.

But until we get those pieces all put together we won't know.

And then I agree with carol that if we find out that -- like we do today, we only have nine -- what's our budget today?

9 Million?

1 Million is in our budget today.

That's how we run the program.

If -- an easy way to do this would be to say, okay, we got the program discounts on all the things we do and we're going to budget it for x many thousand, and that's what's in our rates, and if we have too many, then we come back to you and say, you know, we've got 10,000 customers that were not -- going to apply the discount to you can do one of two things.

Redesign the whole program or put more money in to make sure everybody qualifies.

And I think that's the easiest way to approach it.

>> And council member, as you will recall from our recommendation, we have recommended a $1 charge for the customer assistance program that would be on the bill.

One option that you have is reconsidering in the budget process annually what is the size of that charge and adjusting that charge to the capacity of the program.

>> That's actually what we've talked about before, is we -- those charges in the bottom are all going to change depending on whether it's a state regulation or anything, and built into the rate approval ordinance could be that we put that amount in our budget every year.

So in other words, this year based on last year, we have this many people eligible for the program, and that that charge needs to be 35 per customer, for example.

That would be a really easy way to facilitate this, and the direction to us right now sort of like start with a number of x thousand, and then we can build that into everything, and that's kind of what we've been doing.

so that sort of adjustment would not trigger a rate case?

>> No, it's strictly a fee that we collect in our bills from customers, and that's the concept for it.

That's the idea of it.

>> Riley: okay.

And then one other thing that you mentioned was there's some flexibility in terms of the amount of discount.

This is not simply a flicking the switch to determine whether somebody is eligible or not.

There is also variability with respect to the amount of discount provided to participants in the cap program.

>> Right.

Right.

and so that is -- if we set a fixed amount, then -- of the discount -- well, if we set the number of -- we don't know the total number of customers who are participating -- who would participate, and we would have some maneuverability in terms of the amount of the discount.

Is that right?

>> Well, I think keeping it simple, yes, I think that would be the way to do it, is that we would come back in the budget process and say, you know, that we did not recover enough revenues through the residential bill customer charge and through the energy charge to larger customers, and -- but we didn't turn anybody away.

That's the key, is we're not turning anybody away, we're just saying that, well, next year -- and then by some unfortunate circumstance our customers went to 100,000, then we would probably have to come back with a whole different set of questions, of, boy, this has been quite a burden and that means that, well, maybe we need to change the criteria by what -- or the discounts that you get as a part of the program.

So those -- those are the variables that I think that are changeable.

>> Riley: okay, thanks.

so the bottom line is you better -- number one, you better have a pretty good number going in.

>> Right.

number two, because the reason for that is because if you don't have enough money you're going to have to dip into your reserves to cover it.

>> Yes, sir.

and i don't think that's going to be that huge of a challenge to get pretty much in the ballpark and maybe err on the high side.

>> I think we already are and the next decision point on this list is do we include 200-kilowatt hours in there.

It's built in there.

The actual rate, the discount we provide, is a discussion we need to have as well.

>> Mayor leffingwell: right.

>> I think we can come up -- we can work around a number of 30,000 eligibility right now, build that in -- and if that's a comfortable number for you, build that into our proposal and then we'll figure out what that does to it.

well, we probably need a little more input to verify that 30,000 number, but I think that's the right approach.

But there are a lot of variables, as has been pointed out.

It's a multi-variable equation, so to speak.

Council member morrison.

with regard to the motion on the table, I'm not sure exactly where we are with t but one of the things that -- we hadn't voted on it yet.

I know, but I'm not sure what it says yet.

But one of things I think we're all assuming here and I just want to make very explicit, and that is that there will be an auto-enrollment mechanism in some shape or form, whether it's one that's already developed or one that we develop in-house, because that's critical to being able to serve.

So I wanted to maybe add that as an element of the motion, whatever the motion is, that we assume that there is auto-enrollment and we'll have to have marry discussion about what is the -- to have more discussion about what is the best way to do that.

council member tovo, do you want to redefine your motion so everyone knows what we're talking about?

>> Tovo: sure.

Yeah, I have a question for carol.

So if we -- you know, it sounds like there maybe is still some -- well, so the motion on the floor is that we expand the eligibility requirements to include customers who participate in three additional programs and that is the supplemental nutritional -- it would be direction to expand, direction to -- thank you for the wordsmithing, important wordsmithing.

Telephone lifeline and chip.

And if we need to say -- I'm sorry.

>> Spelman: that'sious two.

Is there a third?

>> Supplemental and telephone lifeline.

>> Work spending too.

>> Yes, work spending and i weis to help me remember what are the current programs, if we need to recap those, I'll need some help doing that.

>> I'm not sure I have the full list with me but there are some components of medicare, medicaid, I'm sorry, the county, community, energy assistance program, the county map program, and I apologize that I've forgotten what the acronym means, and then i believe some -- medical assistance program.

>> The county medical assistance program.

Thank you.

And then I believe some ssi medicare components, but we provided that list and I can pull it out and provide it to you again.

so I think the important piece here today is we're not supplementing this criteria for the existing, which is -- we're just expanding it to include.

>> Right.

if I might add -- council member spelman?

if we were to do automatic enrollment, the simplest way to do that based on our current procedures is to use the blood of texas program as a starting point for automatic enroll him.

Is that accurate?

Mark, I'm looking at you.

>> Automatic enrollment?

We looked at using a service and we looked at doing it ourselves.

And there isn't a concludes business case of which is best but we'll be analyzing that.

>> But there is a contractor who works for the state of texas.

>> Spelman: right.

>> Who does that for competitive territories, based on participation in medicaid and snap.

>> Spelman: okay.

>> I believe there are ways we could work with that consultant or we could develop that capability in-house or have an rfp to identify that that's a responsive consultant.

that's not someplace you've landed yet.

There are a bunch of ways we could handle that.

>> That's correct.

have you landed as to whether it makes sense to automatically enroll some programs and allow for voluntary -- voluntary enrollment in other -- using other eligibility requirements or should we try to automatically enroll everybody in all the eligibility requirements --

>> you mean voluntarily they come forward and do it?

Oh, I think we have to allow for that too.

of course we do, but does it make more sense for us to automatically enroll everybody in snap and then if you've got ssi, medicaid, county map and so on, come by and tell us or does it make sense to cross-walk all the databases and do it all at once?

>> I think to the extent that the data is available from either the county or the state in a format that we can work with, it makes sense to take everybody together, but that will be a -- an issue of what those databases all look like.

that was the practical concern I had, is are the databases in such shape that we could cross-walk them reasonably well?

Carol, you really need to get in on this.

What is it?

>> Well, the requirement for the statewide program is anybody who gets medical assistance or has an income at or below 125% of the federal poverty guidelines.

So actually the database does include the medical assistance programs and the -- and the snap recipients, but it also includes all the people who receive benefits under programs that are less than 125% of the federal poft poverty guidelines.

So ssi is in there and i believe all of the programs that are currently -- the programs that currently establish eligibility, i would guess, I believe that those programs, the recipients are all already in that database.

so if you're in one, you're automatically going to be eligible for a lot of others?

>> Yes.

it's probably not going to be a big issue, we could pick one of them and we'll probably get everybody?

>> Right.

okay, that helps.

>> It's very clear that snap is the broadest program so by having snapple jbility you're going to -- snap he snap eligibility ool capture the most -- you'll capture the largest customers.

Medicaid is the second largest program so you've probably covered most of the population with those two programs.

Other eligible customers based on the poverty guidelines who are not enrolled in those programs i believe get enrolled through direct contact with the providers call center.

I just want to be sure you have the flexibility to do this in a practical way.

We need to cover everybody who fits a certain class and if it turns out that adding phone lifeline, chip and map is a way of flushing out that group we have that's great, but I also don't want to put so many requirements on your staff that we end up making mistakes which were avoidable.

i think what we have is a motion to provide direction to include a proposal to expand the customer assistance program, to include snap and other criteria as outlined here this morning and include that in a budget proposal in the final rate case.

I think that's -- morse most with a plan for automatic enrollment -- includ includ ing the plan for automatic enrollment.

Anything else we need to add to that direction?

All right.

All in favor say aye.

>> Aye.

>> Mayor leffingwell: aye.

Opposed say no.

Passes on a vote of 6-0.

Council member martinez absent.

>> Could I ask a question?

>> It's too late.

[Laughter] go ahead.

>> So that is -- is there any guidance you want to give us on the planning, how many thousands of customers and any program design, or do you want us to come back with you on that?

i think the direction has been, what I've heard, is to be very inclusive in determining the number of customers that might be eligible, and that would be used to -- to form your budget, your -- your actual cost estimate and how much the customer assistance would be based on that.

Is that fair enough?

All right.

>> Spelman: mayor?

Carol, you mentioned 23 or 20 to 25 somewhere along the line.

What was that number actually corresponding to?

>> That number corresponded to the percent of total matches that the puc gets every month.

>> Oh, percentage.

>> Whenever they run matching process.

>> Spelman: okay, I'm sorry.

>> And the higher number was looking at, just a rough estimate of the percent of the population that is being reached through the state process in regard -- as compared to the total eligible population, which is about 40%.

They're reaching about 40% of eligible households.

>> Right.

>> And the higher number represents that.

>> Spelman: got it.

Okay, I was thinking -- i thought you were talking about a number of thousands of people who would be somehow eligible for this program.

>> Yeah, my calculations were somewhere between 20 and 23,000, maybe 24,000.

okay, 20 to 24,000, numbers like that.

That would be the number we would get off an automatic enrollment figure.

>> Right.

and we'd probably have to add something like 15% of that to account for people who were eligible but we just didn't catch through our computer program.

>> I think that's a little high.

I wouldn't add that many but -- okay, that was based on the 86/14 you were talking about.

>> A little adjustment wouldn't hurt, so 25,000 i think would be a reasonable place to start.

I think that's high, my personal opinion is I think that's high for a starting point because the first year is always slow.

For the first year I'd probably use 15,000.

But 25 is -- you know, if you want to look for something that will work for a couple of years, that to me seems to be a reasonable number to use, especially since it can be adjusted later if it's too low.

>> My thought on that is we could base it on whatever number sounds the best to use, and then we could always adjust that, and that's -- that's the idea, is that we would come back and have it written in such a way to come back to the budget process and say, carol was wrong, we've actually got 28,000 in the third year and we need to -- we need to -- we need to wrestle with this somehow.

>> Spelman: there you go.

>> So we're flexible.

so you're going to develop a good conservative number and then come back and that can be adjusted over time --

>> well, we could use 25,000 right now and base it on that, if that's sounds like a reasonable number, that's what we'll do.

>> Spelman: okay.

i didn't want to nail you down that much, but go ahead.

>> Tovo: okay.

You know, the highest number we've got is the one from the auditor and that was something like 50,080 customers registered in snap.

So, you know, I think 25, 30 is about the right place to start because I'd hate for you to have a system where we know we can't fund --

>> that 50,000 number, if i remember right, carol, help me out, but that was really based on population, not necessarily customers.

>> Right.

>> That's the difference that you come to, is some -- there's population and then there's ae customers.

the audit report I'm reading says 60,854 customers registered in snap.

So I know on -- anyway, i don't want to get too far down that rabbit hole but i think 25 or 30, I feel much more comfortable with that than I do 15 but again, we don't want to be in a situation where we know the budget constraints limit us to funding, to supporting only 38% of those who are eligible.

>> Well, we will have a substantially better or more thorough pam than we do today, and the program we have today is one of the best in the state.

So we're going to have a very goo program.

let me ask you this, though.

If we -- if the charge is not a fixed charge but is a volumetric one, we wouldn't have the ability to adjust it as need be.

That would trigger a rate case?

>> Yeah, and that's -- that's exactly why we've put it in there the way that we did, so that you would have a separate source of funding and it wouldn't be -- you wouldn't have to go and touch the electric rates per se.

You would just -- that's not an entirely new idea.

That's done in the state of california, for example, as a way to do that.

Regulators wanted a separate funding mechanism for that, and part of that came from originally utilities had an elective.

A customer could click a box that would say I want so much money to go to these programs and that's the way it was done.

Anyway, that's sort of a long history on that.

>> Council member?

>> Yes.

>> I think this issue of what is an appealable action by the council is kind of a tricky issue and might be something that you would want to follow up with council on to get a complete picture of that issue.

I guess I was really -- and thank you for that aspect.

I mean, that angle is another one that I actually wasn't thinking about at the moment but I was just trying to think about the cost of recovery on an annual basis and whether we could affect that if it's a volumetric charge rather than a surcharge, and sounds like if it's a volumetric we can't adjust that up and down but if it's fixed we would have that ability --

>> it makes the program far more manageable.

The other thing that makes the program more manageable in my opinion from practical experience with it is making it a percent discount rather than specific items because then you get into changing those items and you're forever changing a program whereas if you get into a percent, which ultimately in the end it kind of affects anyway.

The only down side of that is you may have a very, very small user that doesn't get the as generous an impact as some of the large users so there becomes then the idea of maybe 2% and a fixed charge kind of discount so that you get small users and large users equitably.

yeah, the current -- and this is unfortunately not a discussion we're going to be able to have today, probably, but how the -- whether the existing program is kind of what we want to stick to, which is waiving the fixed fees plus a lower kilowatt charge.

>> We'll take a shot at it.

We'll take a shot at giving you -- based on everything that we've heard today, we'll take a shot at giving you something to work on.

I think it would be -- I would be interested in at least talking through whether part of that could be in a -- in a surcharge and part could be in a volumetric, but maybe we can talk about that off-line.

>> I see, in terms of funding?

>> Tovo: yeah.

>> Yeah, that's a good way to look at it.

We'll run the numbers based on the dollars and look at the eligibility and we'll come back with some options.

>> Tovo: thank you.

we also have to keep in mind we have to wait to see what the rate design is before we know what will be the appropriate way to give a discount.

>> Cole: okay.

Do you want to go to the next decision point?

>> Well, the next decision point was the bundle plan for low-use residential customers and putting the energy in there or not, and I guess that really is -- that's really connected to the fixed charge, right?

So I don't know if you want to go into that discussion now.

I think really what we're doing, as I understand it, is we're going to be bringing you back some different fixed charge recommendations and what we'll do is we'll move the energy out of that at some point or maybe throw in some other ideas.

I agree with moving past that because -- all together.

Do you think we can talk through the five-tier residential rate?

mayor pro tem, I'm sorry but --

>> cole: go ahead.

if I could just say one more thing about whatever this plan is called.

Can you remind me of the language, the 200-kilowatt --

>> including energy --

>> tovo: the bundled plan.

I have heard the same thing that mayor pro tem cole raised, is it a disincentive to conservation and would the right split.

For me I wonder whether the right split would be at 150-kilowatt hours and if we could keep that in mind and look at those numbers.

I think you've presented us with those numbers.

If you could just remind us where those are so we could see what the split of customers looks like at 150 versus 200.

>> Oh, yeah.

Well, we have that data, but keep in mind something, that part of this is statistics, so if you have -- if you look at customers that have been at austin energy's system for a year, you get a different number than looking at customers as a whole, because we have customers that are cutting in and cutting out of accounts.

And what happens when you have so many customers cutting in and cutting out of accounts, it excuse the statistics to show you that you have a whole bunch of customers that don't use very much energy, but the reality of it is it's because so many people are moving in and out that we have partial months of data.

So it's very difficult to get.

Am I making sense to you?

So we need to look -- I guess, but -- yeah, I'm just trying to --

>> when you look at a large group of residential customers in a utility -- when you look at a large group and you look at that smaller group, you got to remember that the cut-ins and cut-outs of the customer base excuse the statistic as to how much people use.

It becomes very difficult, especially a system of this size.

Then we can stretch that out to people have only a year's consumption and there are a variety of other ways to do it.

I think council member tovo is asking, rather than a proposed including of 200-kilowatt hours in this customer charge, what if we included 150 so that we were actually --

>> right.

-- taking care of less, especially people that are receiving customer assistance.

And are you saying that's too difficult to determine?

>> No, what I'm -- then that led to another question about how many customers did we have that used a small amount of energy, and I said that you have to be careful analyzing those customers, small amount of energy, because they're not real.

Their partial month use and they're partial -- I was trying to qualify that.

But yeah, we can run any number that we wanted to.

I mean, our idea around the 200-kilowatt hours for $22 is because of the tremendous push-back on the $22.

So that meant -- it's really a revenue stabilizing.

We could run the number at 50.

We could run it at zero, we could run it at a hundred.

I will tell you that it is almost to the point at some point, it's not really arbitrary but it's just sort of a philosophical decision about you put a hundred in there, you put 50 in or you don't have any in there.

And the $6 proposal, low proposal like we have today, I wouldn't suggest putting any energy as a part of your fixed charge in there because the fixed charge is so low.

And -- so you -- so I'll just -- again, if we could continue to think about where that's split.

If we move forward with a bundled plan, whether that spli 150 or 200 and we can look at the numbers, with your caveat in mind.

>> Yeah, I guess what's hard, I know, for you is there really isn't a perfect answer and there isn't -- but we're perfect, you know that.

[Laughter]

>> of course I do.

But it's really about coming up with something as a practical approach, simple, has some common sense to it and makes it work and you feel comfortable with it.

council member morrison?

I wanted to remind all of us that one of our esteemed dec commissioners raised the issue that setting it at 200 was helpful in terms of having the -- you know, apartments that are empty actually contributing to the revenue in a nontrivial way.

>> Right.

You remember when we started all of this, there was a charge that showed how far out a cost of service fall using customers service are and it's nobody's fault other than 18 years ago it was probably a lot closer.

Today it's way out, and that -- all of these have been our attempt to try to get that back there, and that -- putting that energy in there does address what commissioner phaff I think suggested, who has been studying these numbers longer than any of us, and so that was a way to address that.

council member riley?

getting back to your first point about the data, we -- are you saying that we don't have the ability to weed out the partial-month customers?

>> Yes, we do.

Yes, we do, but even -- and -- and we can do that, we have a lot of data that we can supply and probably have.

My only point was that you have to be real careful in looking at total full-month, you know, customers.

it would be interesting to look at that data looking just at the full you-month customers to see, for instance, how many customers are at or below 200 kilowatts or is there some threshold -- if what we're aiming for is just somebody who only keeps their refrigerator running or just the basics without making any discretionary decisions, that could be 200-kilowatt hours, it could be something a little more, a little less, and it seems like the data might help shed light on that.

>> Yeah, we've got a large distribution of that and a lot of data.

Some of it is not 2011 but that's not really relevant.

I mean, really, it's the characteristic of the residential customer base in austin center service area is unique, and has some unique circumstances to it, and according to -- again, to some of the senior commissioners at the uc involved, it has to do with a large number of apartments that we have here, a very large number of apartments, small dwellings.

>> Cole: okay.

Do you want to try to get through worship rates?

Do you think you can do that in 15 minutes?

>> No.

>> No on worship rates?

no on wor rates.

>> Well, let's talk about tier rates for a second.

>> Tier rates, I'm sorry.

>> Yeah.

Let me go back a little bit on this and say, too, i think, again, with the strategic objectives of austin energy, our energy efficiency goals and everything, that's the whole purpose of these rates, that this type of rate structure is being applied across the country, and all utilities and energy markets where energy efficiency has been deemed a high priority by the utilities to achieve, the -- we did have a two-tier rate design.

That's what austin energy has today, and the first 500 is at one price and after that it's another price.

We looked at the public involvement committee.

We looked at designing this around a three-tier rate and we looked at designing around a five.

The public involvement committee, and after we went through all of the work that we did and the electric utility commission, ended up adopting a five.

What -- what's nice about this rate design is that it prevents us from having to really give price signals demand to customers, and it also let's us price signal so that we encourage customers to invest in energy efficiency to move themselves down to that next tier.

So when you look at the -- I'm going to get confused if you look at that graph while I'm talking.

But it -- it is a -- it's a philosophy.

It's new in texas, and i think for the first time, I'm sure, in fact, I know, that there are many people who watch utilities in texas when they saw this residential rate design come out, they were scratching their heads.

But this has been mandated by several state commissions.

It's been -- in those states their investment in energy efficiency by customers has to start with price signaling.

What this design does, though, is it allows flexibility.

We're going to have a rather -- if we could put up the residential tier rate design.

Do we have that slide?

22?

There we go.

So -- and there are existing rates, the first column, the cost of service, and then we had the proposed phase 1 in the far right.

So in our tier structure, the first 200-kilowatt hours is zero cost because it's included in the customer bill above, and then it goes 3 and 9.2, if I got that right.

I can't see it.

So the idea of the tiers is that if you're above 2500-kilowatt hours and you're going to put a new air conditioner in, your cost avoidance on the energy that you're going to save is 2 cents a kilowatt hour, so that makes your investment in that new air conditioner a lot more cost-effective to the customer than doing it at a flat rate.

So that's the whole idea.

Now, I will say that this is very flat tier structure.

We did not want to come out of the gate with a tier structure that is steep.

A tear structure that's too steep is too punitive to customer until they figure out how to work with this, and I can tell you that some states, I think we heard somebody actually testify before you, the rate adviser somewhere I read where one utility actually had to get rid of their fifth tier because it was so expensive.

And that's true, that there have been some utilities that came out of the gate with a rate design like this and they were so steep that they had to turn those back.

Our idea is to present this to in in a faw very over time and if we want to adjust these tiers celd come back -- we would come back and say we want to make them steeper, between the first and second tiers.

The idea behind the five tiers is there isn't a big price jump between the tiers, it's fairly smooth, so somebody wouldn't go over their amount and be charged an exorbitant amount.

So that's really the idea around it.

The other thing that's important in this tier design is that -- at least with the proposal we have up there, is that's almost all energy and capacity that's being placed in there.

And council member spelman's discussion before, we looked at cost allocations, 50/50 made sense.

When you apply demand charge and energy charge to residential customers, that's where these tiers come in because the customer that has three air conditioners and a swimming pool on their home will use more energy per month, right?

Will also put a bigger demand on the system at 4:00.

So that's the idea, because we do not want to put demand meters in residential homes.

It's very confusing.

We would have a lot more calls and telephone.

And so that's the idea of it.

And then we also break out the charges at the bottom that you've seen before.

If anything is going to make this challenging is that we're the only utility in texas that has this rate design for residential, but not nationally.

This is all across the country, and I've discussed the purposes and what we're -- and we've -- we've discussed this through in our public involvement committee, staff and all the different venues, pretty substantially.

So with that I'll just open it up to questions.

council member tovo, did you have a question?

no, I just wanted to let you know that we do have an item on here that the city manager has asked for our action on, on our agenda.

So -- it's no. 5.

is it related to the tier rate?

it isn't, it's different, discussion relating to the consumer advocate.

Sorry to take us off truck but we're scheduled to end at noon, I think.

larry, let's pause this stub.

are we scheduled to go till noon or 12:30?

>> I believe the agenda says 12:00.

that's what i thought.

>> This item asks us to discuss participation by the independent consumer advocate and also allow the city manager to negotiate and execute an agreement with resource insight to provide participation through the end of the city council review process in an amount not to exceed $70,000.

he wants more money.

it's so difficult to understand, council member spelman.

[Laughter]

>> let me see if I can give you some background.

>> Cole: yes, go ahead.

>> Andy purny with the city water department.

Chernick has a contract with our outside contract, not directly, and his crlt is $52,000.

We found out he's currently at $67,000 in billable expenses and we've also gotten information from him regarding budget for the remainder of the rate process, and this is assuming going all the way through june 7.

If you -- if you do telephone only it's $17,000 additional.

If you want inperson it's essentially another 13,000.

So basically if you do the in-person would be $30,000 total to get us through the rest of the rate session, and if you add the 24,000, the overage that we've already got you're essentially looking at an additional $54,000.

What we've done here is -- since it's currently being paid out of the outside counsel contract, this is a bit -- a bit larger of an expenditure than we planned for and we'd rather not decrease increase our outside counsel funding much more than the $52,000.

So what we're proposing to do is -- did you say you would rather not decrease your outside counsel?

>> Correct.

What we're proposing to do is close out the $52,000 existing contract and then basically set up a new contract to be funded separately to cover the $54,000 and then we'd just essentially rounded it up to around 70 as a contingency.

Part of this posting is the first part is basically to discuss participation and what that is is to get some sense from the council as to whether they're looking for additional in-person appearances or whether they would prefer telephone appearances.

So we need guidance from the council as far as what they're looking for for additional participation, and then the amount of additional funding is certainly at your discretion.

What we're really looking for is guidance from you all as to what you're looking for.

we'll try to give you that guidance right now.

Of course we're in the middle of a rate case and all of our spending in connection with this is very much up to scrutiny.

I have not talked to chernick separately or visited with him in my office.

The only participation that I've had from him has actually been at our work session and then at -- well, I think there was a briefing that he was here.

Is that right?

I only remember one in-person visit from him, and I'm perfectly willing to say that I would not be requesting any in-person visits from him during the remainder of the rate case.

But I would like more feedback because I just haven't used him in any particular aspect.

well, I guess I'd like to say that I think that I have had the opportunity to have some conversations with him, which would be helpful in preparation for work sessions.

Maybe what we need to do is just set an expectation of what limits there might be on that in addition to his support during the work sessions.

what do you mean by support during work sessions?

well, I guess we need to decide if as a body of -- whether it's worth an additional $13,000 to have him actually with us during the work sessions as opposed to -- or some of the work seeings, not necessarily all, as opposed to just here on the phone.

I have found it to be very helpful for him to be able to speak collectively as part of the organization.

I'd be interested in knowing how is it that the total amount expended has gone so far over the expectation.

Who set the expectation?

>> The budget was originally chernick's submittal as to what he estimated it would be.

I'll just state right off the bat, we haven't seen an invoice yet.

It's only been three weeks, so we're still within the 30-day invoice period.

So we haven't gotten out and had a chance to really go through it, but it's our understanding from chernick that for one, he's incurred a bit more travel expenses than he planned, but I think essentially a lot of it is just some more time than he had expected meeting with outside activists and concerned citizens and council members, and I guess that's -- this is austin, and I guess that's -- he wouldn't be the first person that's maybe underestimated the amount of time that might be involved in a process like this.

So that's our understanding, but we haven't had a chance, and of course we will, but right now we're sort of taking his verbal statements as to where he's at as the basis for the request, and just basically with the time frame involved we had to have this posted by friday morning.

how long has he been billing us?

When did he start?

[One moment, please, for]

>> [inaudible - no mic]

>> Cole: Until now, until april 30th?

>> The original expectation was that you all would be -- the original expectation was that you all would complete the work sessions by I think april the 30th, today?

And that was the time period contemplated (indiscernible).

>> Cole: I wondered if the 52,000 was for two months or one?

>> It was for one month.

March 29th until april the 30th.

>> Cole: Councilmember spelman, I'm sorry.

>> Spelman: It seems to me that the job ought to have been bid on the basis of the work done, not on the basis of the number of days between when it started and when it would finish.

>> I agree and that's how it was done.

I was just responding to the mayor pro tem's question about the time period contemplated.

But what we did was when you all adopted the resolution instructing the city manager to have a scope, we provided chernek and when he several phone conversations with them, including an interview with him in which we talked about scope and what was expected.

>> Spelman: And based on that scope, with the understanding that he was probably going to subcontract some stuff out epron, to this economist or whatever the efficiency guy was, he bid $52,000.

>> That's right.

That did include an expected trip to austin as well.

>> Spelman: Right.

One expected trip, not more.

>> That's right.

The extended trip that he was here a week and a half or so ago.

>> Spelman: Okay.

And now he's asking for 26 -- he's already billing for 24,000 more than he originally bid the job for.

And asking for another 54,000 -- $50,000 or so.

>> Well, he provided us with a supplemental budget last boerne discussed.

And then the posting today has included some additional dollars, I think 16,000 as a contingency.

>> Spelman: Has the scope of work increased?

>> It has to this extent.

As I mentioned originally it was expected that the work sessions were going to be finalized as of today.

Now of course there's a couple of additional ones, may 16th, may 17th and final one.

So what we've asked is to provide a supplemental budget that goes through june 7th and factoring in these additional work sessions.

>> Spelman: Okay.

So basically by the work session is what he's thinking of rather than by the case, by the work needed to get us through the end of the rate case.

>> Right.

I should add that when we did the original engagement agreement we did expect 11 work sessions [inaudible].

I did indicate to him that you all had indicated that you all might add an additional [inaudible - no mic] for discussion, decision making and whatnot that should be included in his supplemental budget.

>> Cole: Does he bill by the hour?

>> He does.

>> Cole: Do you know that hourly rate?

>> I do, but I don't have it off the top of my -- I don't remember off the top of my head.

Do you know?

>> Cole: Do you have a range?

>> It's in the 225 to 250 per hour range.

>> Cole: Councilmember morrison.

>> Morrison: If he could give a more delineated allocation of the time that are given to different tasks [inaudible - no mic] I think that that's where maybe we got out of whack.

And we can't -- obviously we can't have us be unlimited.

>> Cole: I was thinking that we don't have another -- well, when is our next -- when is our next work session?

The 16th?

I was thinking that we should pay his bill up until now, that he has billed us for, and that we should move to an hourly rate, and that that hourly rate could only be used by council and upper management as needed.

So that might sound unlimited, but it needed to also -- we could cap that.

But unlimited seems unreasonable to me and i don't get a bill for how much we are actually using him or upper management is using him.

And so without that it's very difficult to just approve funds in these circumstances.

And also we know when we call him or he comes to our office, we're picking up a bill.

And I think that's better than we have that problem with professional staff in general, we just kind of forget about it.

So we're doing all that right now in open discussion and I think that's a good thing.

Does the city manager want direction today?

>> Yes, mayor pro tem.

Based on where we're at now and after he's already exceeded his budget, we feel we need council approval to move forward, but we really need (indiscernible).

>> Cole: Councilmember morrison?

>> Morrison: If I could reply to your thought.

I would like to -- I'm fine with something like that, but I would also like us to contemplate including some limited budget for interacting with the community because I think in terms of understanding the consumer issues --

>> Cole: And I agree with that.

I agree with that.

>> Morrison: Some limit, some well-defined number of hours.

>> Cole: My suggestion would be that he could have as much contact with consumers and activists as he wants, but a councilmember needs to be present that's racking up that bill.

Or give an approval for it or something.

I mean, we can't do that.

>> Morrison: I wonder if we might --

>> Cole: We can make a motion to do that, but individually we have to take responsibility for that is all I'm trying to make some accountability for doing that.

>> Morrison: But I guess as an alternative, I would like to suggest that we actually allocate and budget 10 hours or something or working directly with the community without any councilmember involvement because I think that might get a little bit somber some.

>> Cole: What about having a councilmember, just like we do -- we do this with the chambers.

A councilmember doesn't have to be present, but a councilmember needs to approve it.

Is that acceptable?

>> Morrison: I'm not that comfortable with that because I'd like for some of it to happen without the burden of making it happen, some limited amount.

>> Cole: The only reason I'm bringing this up is except out of fairness.

I'm sure that we often have people -- I'll have the city attorney speak to this, who want us to hire legal services or issues that are very important to this community, and we simply are not able to do that.

I'll let legal counsel speak to that.

I know that you --

>> councilmember, the only thing I would ask is that whatever you do today that you give us an amount.

I heard you say an hourly rate from a budget perspective.

>> Cole: It will be.

>> So something certain that would give the manager direction as to how much chernek could expend.

As far as hiring attorneys, we do that, you know, on a somewhat regular basis and sometimes we bring it to council.

>> Cole: Is the issue between hiring attorneys for the city as an entity versus hiring attorneys for different individuals, outside activists.

>> Well, we are somewhat limit understand the expenditure of public funds.

In this particular instance, however, this particular expenditure serves a public purpose because it's related to the rate case.

I mean, as far as the city's ability to just engage in an attorney for a private citizen --

>> Cole: I guess I'm trying to ask if the service areas outside the city wanted for us to hire an attorney or wants us to engage with this attorney.

>> What would be so eegtory do it?

And that's what I'm bringing up here.

I don't think that we just ordinarily engage in hiring people unless it is actually a city entity.

>> Well, that's correct.

It has to be the city and it has to have some public purpose that we are engaged in.

And I think this is a public purpose that we're engaged in, but as a general rule the city would have some restrictions on its abilities to just hire an attorney or anybody else just to represent the general city interests.

So we need to make sure that the public purpose on this clearly fits within that.

>> Cole: I'll go ahead and entertain a motion that chernek bill by his normal hourly rate, which we're assuming to be somewhere between 200 and $225,000 -- oh, 200 and $225 per hour, thank you, councilmember morrison.

Up to a total of 20,000, and that would include his use by councilmember's, upper management and community activists.

But I need somebody else to make that motion.

I'll entertain that motion or a modification of it.

I'll entertain a motion.

Councilmember morrison.

>> Morrison: I will make that motion with the amendment that up to 10 hours can be used with his judgment interacting with involved community members.

>> Cole: Great.

>> Tovo: Would you mind restating the motion?

I didn't catch the amount.

>> Cole: I said that i would entertain a motion chernek for his fees that he has incurred to date, and that we also retain him on an hourly basis for $200 to $225 an hour, which is what we understand to be his base rate, up to an amount of $20,000 for use by management, city council and consumer activists.

And also a limitation that consumer activists would be limited to 10 hours.

>> Mayor pro tem?

Can I ask for two points of clarification on that?

One, his rate may be more closer to 250.

I'm not sure if it's 225.

So we'd like to just give whatever is his current (indiscernible).

And the other thing is that the $20,000 at the time would also -- I'm assuming would include possible telephone participation at the work sessions as well as consultations with councilmembers.

>> Cole: As requested, yes.

>> Spelman: So that would put the number here from 70 down to 44,000.

>> Cole: I believe so.

>> Spelman: Okay.

>> Cole: And councilmember riley?

>> Riley: For further clarification, as i understand the motion, we are authorizing staff to pay his bills based upon their review and approval of the invoices that he submits.

We're not bypassing that and suggesting that he be paid automatically.

We're authorizing staff to go through the usual process of taking the invoices and paying them as appropriate based on review of the invoices.

>> We would apply our general standards.

>> Riley: Thanks.

>> Tovo: And to further clarify and thank you for adding that, because I am surprised by that figure and a little staggered by it.

So I think that it's very good to have that and also just to make sure that there's some provision in the next authorization that the amount not be exceeded without prior notification and an opportunity to vote on that so that we don't get in a position of having a contract that's far -- that has been far exceeded.

>> And just to clarify, the existing contract, it provided for a notification McU.N. AND THAT DID NOT Occur, -- notification, and that did not occur.

>> [Inaudible - no mic].

First.

>> We will be very clear this time around.

We expect that to be the limits and we can keep council updated as we -- if we get near to that number.

>> Tovo: Good.

chernek, I want to add that I think he's been very valuable to the process.

I'm glad that he's involved and will be able to be.

It sounds like if we're authorizing an additional 20,000, that really we're looking at telephone involvement for those work sessions, and I think that could be very valuable.

There's very little time outside of that.

So the telephone session accounts for about 17,000, as I recall, based upon his estimation.

>> According to what he submitted, yes.

>> Tovo: So we might think about how to judiciously use that.

There might be a part of the meeting where we want to be involved rather than the whole meeting itself because it doesn't allow -- the budget will not allow much time for outside consultation.

>> Cole: But I do intend in that motion for councilmembers to be able to call him just individually if needed, not necessarily a work session.

>> [Inaudible - no mic].

>> Tovo: The estimate i had was 17,000 was the cost of him participating by telephone in our remaining work sessions.

>> Morrison: That doesn't mean just sitting during those three hours or eight hours or whatever it is.

There's much more time in those to do with his hourly rate.

>> Cole: Dividing it out.

>> Morrison: There's preparation and all that.

>> Cole: So we're getting more time.

We're measuring.

>> Tovo: I don't want to keep us here much longer, so I'll let it go.

If he's given us the figure of 17,000 to participate in the work session, then we're saying we want to do that in addition,.

>> We can get clarification, but I think he's saying at his current level of preparation and outside meeting time in addition to the three meetings, he thinks it would total 17.

I think that's where he got that.

>> Tovo: Okay.

>> Cole: Is there any other questions, discussions?

>> [Inaudible - no mic].

>> Cole: That was a motion that I made, and did I have a second?

>> Morrison: Actually, i made it.

>> Cole: Laura made it.

Councilmember spelman seconds.

All in favor say aye?

That motion passes on a vote of five, with councilmember tovo, riley, cole, spelman and morrison voting yes.

And councilmember martinez and leffingwell off the dais.

>> Morrison: Our agenda number 4, you know, one of the things that we had in our work session plan was to take preliminary action, and today I noticed that the language under number four says discussion and possible action to give preliminary direction to the city manager, and I just wanted to be clear that that's a little different than what we actually had in our plan.

And I think we stumbled a little bit today because it was posted like this.

So if we could get back to the broader take preliminary action, which might well be to give direction to the city manager, it could also be just to have consensus on a policy decision.

>> Cole: Without objection, this meeting of the austin city council work session regarding austin