

# Austin Energy Utility Oversight Committee Meeting Transcript – 01/24/2018

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>> Pool: Good afternoon everybody who is here. We're waiting for some councilmembers to come. I think I'm going to -- a couple more come, we'll get started. We can't officially vote in the minutes or anything like that without a quorum, but we can kind of get started with the presentation. So we'll do that as soon as I get a couple, three more councilmembers so that we don't owe so that we use our time well. And I appreciate all of y'all being here today. Thanks. I'm going to sign off until we have some more folks here to start the meeting.

[1:42:25 PM]

>> Pool: So we will get started. There will be some folks not able to make it here today and I'll go through all of that, but first let me call this meeting of the Austin energy utility oversight committee to order. It is Wednesday, January 24th. And I don't know where the heck January went, but it is January 24th, in case anybody was wondering, 2018. The time is 1:42. And we are at city hall, 301 west second street. And councilmembers alter and Flannigan are with us. It's my understanding that both mayor Adler and councilmember kitchen are out of town and not here, will not be here. Mayor pro tem tovo will be here late. She is in some necessary training. And then just so y'all know, I've got to leave at about 2:30 myself, and councilmember alter has graciously agreed to take over the gavel to finish up the meeting when I leave. So -- and councilmember Houston is now here. Thank you all for being here today. We will hold on approval of minutes until we have a quorum and then we'll take that up at a time. So I'd like to move into citizens communication. And it looks like I have three people who wish to speak. So first, second and third and you can come up and grab a chair. Three minutes for everybody. Paul Robbins is first. Stewart Hirsch will be second and Barbara slay. Did I say your name properly, Barbara? >> Sally. >> Pool: All right. And Stewart, there you are. Great. Mr. Robbins, thanks for being

here today. You have three minutes. >> >> You're good. >> You're going to start the clock now? At 8:00 A.M. On January 17th, the electric reliability council of Texas

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hit an all-time high for winter peak demand of 66,000 megawatts. Renewable energy at that time was scarcely available. Wind power contributed less than eight percent of this record peak and only operated at about 25 percent of its rated capacity. Solar was scarcely working at that time. If it was working at all. There was a huge temporary price spike of about \$2.22 per kilowatt hour and I have heard in some regions the spike was as high as five dollars per kilowatt hour. With several coal plants in Texas closing, the situation has become even more problematic. A new natural gas plant for Austin begins to make more economic sense. Many people in Austin, including members of this council, do not want to see a gas alternative because of garden emissions, but few people will invest the time to investigate dispatchable renewable energy and how to make it more cost effective. I believe that if Austin does not take the initiative we will end up in a predicament which will be the worst of both worlds. Austin may not buy a new gas plant throwing itself at the mercy of a merciless, predatory market for dispatchable generation. The irony will be that the majority of this purchase procedure will be generated by fossil fuel. We will in effect be paying a premium to have clean hands while having carbon on our hands. I'm asking council to make the issue of dispatchable, renewable generation a priority and hold a work session on this in the near future to devise policies

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that might make it cost effective. Let me ask of the councilmembers here, is there anyone on this council who is against dispatchable, renewable electricity? Is there anyone against placing this on a future agenda. >> Pool: Let me remind you this is not a back and forth. You are just talking to us. So we are taking your questions as a rhetorical at this point. >> You wouldn't be the only ones. Thank you. Nothing else to add to this. I hope you will take my advice and place this on a future agenda for study. >> Pool: Thank you so much. Mr. Hirsch, you have three minutes. >> Madam chair, members of the council -- thank you, chair and members of the council. My name is Stewart Harry Hirsch. I'd like to say that my name is stu and I live in district 2. I suspect that all of us have different context for evaluating energy conservation improvements for owner occupied and rental property where low income individuals and families live. My first job at the city of Austin was on a weatherization team at building inspection in 1977, and we were paid 350 an hour or \$7,200 a year. That meant those of us who improved homes were earning about the same as many of the families we served. Lowering electric and natural gas heating bills was key to housing affordability and the same is true today. The attachments I've provided with my testimony today remind you of the

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council's adopted housing affordability and preservation goals which can be partially achieved through weatherization investment. I would like to discuss these with you at some future point if you have the time. Our context in district 2 is different than other parts of the city. Our median family income is \$48,407 a year while the city as a whole is \$77,800 a year, a nearly 30,000-dollar difference. Our average monthly rent, however, in district 2 is \$1,085 while the citywide average rent is \$1,197, only 1,000-dollar difference. Investment in weatherization for low income homeowners and renters is critical if we are to achieve city council approved goals for housing affordability in a want incorporates utility costs relating to heating and cooling. Please do not forget the poorest among us and recommend investment that truly treats low income renters and owners as our brothers and sisters. And on behalf of the Mary Lee foundation where I work as a pro Bono consultant since I retired from the city in 2008, I can tell you that your recent investment in the over 100 apartments over there, many of the people there on social security or social security disability whose annual income is less than \$10,000, your investment to make the duct work better and weatherized is well appreciate and we're already starting to see lower utility bills which makes it more possible for us to serve the poorest among us. So thank you for your good work in the past. Hope it will continue in the future. And you'll recognize the linkage between what you're doing as the oversight committee and the goals you're trying to achieve on housing affordability. Thank you very much. >> Pool: Thank you,

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Mr. Hirsch. Ms. Sally, you have three minutes. >> Thank you. Aimed here to talk about the ongoing water crisis that we have again, water bills crisis similar to what happened in 2015, with some differences. We've been attending electric utility commission meetings since we no longer have the council public utility committee, that we've moved our focus to the commissions. And the electric utility commission is doing a very good job of asking the difficult questions that need to be answered. I would appreciate -- I especially appreciate commissioner Jim Boyle appointed by you, I believe, councilmember pool, and I really appreciate his work on this. We've been bringing our bills in. We've been showing that there is a pattern emerging, of very low bills in August, similar to winter bills, followed by extremely high bills in September, that cannot be explained by weather patterns or anything else. Austin water, Austin energy have said straight up that they can't explain it. Residents in San Antonio had a similar situation when they realized they could not solve a mystery, where there were unexplained usage spikes, San Antonio said we're going to issue a credit, instead of the combative posture taken by Austin water and Austin energy. I look forward to hearing Jackie sergeant's report on Austin energy today. I want to say I like Jackie Sargent very much. I met her last night. She exhibits caring toward consumers. She doesn't evade us. If you had more people like in in Austin water and Austin energy leadership you would be well served because

[1:52:30 PM]

some, I won't name names, are escape artists who wear their disdain for talking to consumers on their sleeve. And that is unacceptable. I'm asking you today, councilmembers, the handful that are here, to tell your constituents to come to the electric utility commission, think their bills. I'm sure you have some at this time who are still unhappy from last summer. Even if they've already paid their bills, it's still appropriate for them to come and speak and tell their stories. We need changes at Austin energy. I don't have time to go into the things I went into the other night, but we have them -- we have an erosion of trust. We have them blaming things on council. Anything that goes wrong, oh, that's council who did that. They isolate consumers. They wear us down. The nomenclature, dishonesty, the lack of respect, disparagement, the bad history becomes our only history. The con deception and repeat activeness of asking us if we have a pool. So lack of preparation, although they did a little bit better last night. So I'm asking you to keep aware of this ongoing situation and do your best to get some more consumers to come out and tell their stories. Thank you. >> Pool: Thank you, Ms. Sally. And the general manager will be coming up to make her report and when you do, may I ask you to respond and kind of give a summary of the presentation that you gave last night to explain the work, the diligence being put toward this issue? I want to acknowledge the community's concern, but I also want to say that there hasn't been a response back from staff has thrown a miss apprehension in the community that Austin energy is not doing anything or is Austin water. So I want you to dispel that and talk about the diligent work that the staff has been

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taking October, November, December to address these concerns and to find the patterns in the data that show where the problems are. So when you -- I know it's not on the agenda, but council advises that you can ask you that question and then you can respond. >> We don't even get them. Thank you, councilmember Flannigan. >> I wanted to thank you about taking the time to come down and talk about this issue. We've spoke about this before. My staff is continuing to work on this issue. We have not given up on it. We have many reports from district 6 and I know they come from every district in the city. It's not an isolated incident. It's not necessarily an easy problem to fix, butt problem is going to get fixed. You have my commitment on that. >> Pool: All right. Let's see. One, two, three, four five. We're still missing one for quorum. >> Alter: I wanted to add that we've also been hearing a lot about these spikes and been working with our commissioner to move that process along and we met with Austin energy on another issue, and we understand that we will be getting some additional information at council about how they're addressing the issue as well. >> Pool: All right. General manager Sargent, we have item 3, the general manager's report. If you want to address the talk of interest of the water spiking first, please. >> Council, may I address that question since it's not on the agenda, but it's brought forward? >> Yes, it's all right, since it's not on the agenda, it's okay for council to either make a statement of existing policy or ask a question so they can elicit factual information, but I want to caution everybody that it's not on the agenda for discussion. >> So at this point what I would like is to invite you to provide an update similar to the update that you

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provided to the euc and then we will of course be having this as an agenda item in the future. But I think things were still being -- information was still being accumulated. That's why it was not on this agenda. So Ms. Sargent? >> Thank you. Yes, we did address the electric utility commission on Monday evening and we provided them with a status update of the work that's been done. I want to go back to the October time frame, september-october, when we were first seeing escalations northwards to this. One of the first things we did was reach out to the water department and see if there were any anomalies that were occurring within their system. So they look at their pumping report. We look at the consumption. We look at the difference, they plot that. And there was nothing that they could see at that high level. So the approach was then to take these individual cases as they were coming forward and try to work with the individual customers to find out what was going on in their specific circumstance. As this has evolved we've been working diligently in trying to uncover any information that we can. Some of the issues have been resolved. There were things that were identified that were causing increased usage and that sort of thing. Win thing that was done was that meter readings were verified for the last meter read that occurred during that period, and they were validated. What's uncertain is the previous read, so that's what we've been digging into now. You can imagine the amount of data that gets accumulated. We have 1,080 routes of meter reading that's done. So through that process we have been looking now starting out with a bottom-up type approach moving toward a top-down approach and trying to narrow down and put into patterns for this data. There are some patterns that are starting to emerge.

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We are working diligently with the water department. In the December time frame they augmented the staff that they had assisting us and brought on some folks that were more analytical in nature and they've been able to help us in identifying some patterns that I have seen. Our goal was to be able to identify what the actual problem was, but we may not be able to do that, but what we can do is look at what are the patterns and what are the things that we can do to make customers whole. And so we will be working through that process, we will be bringing information back and as soon as we had enough information to bring it forward and provide it to mayor and council we will do so. >> And the important thing -- another important thing about the work that you're doing is if you are able to identify the anomalies that have caused these spiking water bills then we should be able to fix them. >> That's correct. There are a number of things that are being put in place today to make sure that we don't end up in this situation in the future. And starting next week all meter readings for the water meters will actually have a photo taken. So the meter readers and our contractor has agreed to do that. So they'll be taking and entering the meter reads, but at the same time taking a picture of the meter so that we can verify with a time stamp of when that was done and the location, and have validation for the meter reads. >> Pool: Okay. Well, we will look forward to additional information at the February meeting. And thank you for that. And everybody understands we are not able to actually engage this piece much further because it isn't on the agenda, but thank you. And I want to acknowledge that we do now have a quorum. Councilmember Renteria has arrived and so has councilmember troxclair. I just want to take a

quick minute to see if I can get a motion to approve the minutes. Councilmember Flannigan moves, councilmember Houston seconds. Any discussion on this? All those in favor?

[2:00:37 PM]

That is unanimous, A.M. Alter, Renteria, pool, Houston and flan. >> Good afternoon, chair and committee members. In addition to my report today you are going to receive our first quarter financial report for 2018. We're also going to have an update with our strategic planning efforts and what we've been doing there, and we're going to provide an overview for you of upcoming transmission and substation projects. As always if there's additional information that you would like on any of this subject matter or there are additional topics that you would like to see on the agenda, please let the chair or me know and we will work to get those on the agenda for you. So today my report will include a status update of our residential solar incentives. I'll provide you with some information with some -- with regard to some regulatory updates. I'm going to talk about items that are going to be coming forward for your approval at future council meetings. I want to take some time and recognize some of our employees and of course I'll be happy to address any questions that you may have. So to lead off with I want to give council a head's up on the current status of a residential capacity-based solar incentive program for our residential customers. And a plan to transition that to a more equitably based incentive. Since the 2014 Austin energy residential incentive program has spurred the development of 30 megawatts of solar installations at over 6300 homes in our communities. In 2014 Austin energy implemented a capacity-based ramp down, gradually phasing out commercial and residential incentives as called for in the 2014 resource plan and supported by decreases in solar costs. The residential program is in its final phase now and it's at 40 cents per watt

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and has approximately one megawatt of capacity remaining. And you can actually go online and track how much solar capacity is available at [www.austinenergy.com/go/currentsolar](http://www.austinenergy.com/go/currentsolar). We anticipate that this remaining capacity will be done in the April time frame and will proceed to another program that we've been discussing with solar installers, developers and stakeholders since November. Upon closing the casey-based incentive, Austin energy is planning to open a residential solar education program with more equitable incentives available. Customers will take an online or in-person class to learn about solar, solar design basics, incentives, options, how to compare bids and how to select a contractor. The incentive associated with this program will be a flat amount so regardless of the size of your home or your roof, and the flat incentive amount addresses concerns with regards to low income customers that have received smaller rebates in the past, they'll now be eligible for the same amount. So it doesn't matter what size your home is. We are currently reviewing the results of this solar trade case to level an import tax on solar panels and the impact it will have on solar prices. This will help to inform us as we set the appropriate level for this flat incentive. Additional information regarding this program as well as all of the programs that are administered by our customer energy solutions group is

scheduled to be on the agenda for next month and Debbie Kimberly will be here to present that information. I simply wanted today to give you a head's up to make you aware of this change. Austin energy has been instrumental in helping to create a very robust solar developer community here in Austin and we don't want to lose ground. We don't want to go backwards.

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So implementing a more equitable incentive we think is much more Progressive and is really in line with our overall goals. Next I want to touch on several regulatory affair items. First, there were a couple of rates that were approved by city council in the budget process and they became effective on January 1st of this year. One of them is the commercial value of solar. This rate functions similar to the residential value of solar, which has been in place for many years. Each month the customer will receive a credit equal to the metered output of the customer's solar system and multiplied by the current value of solar rate. Credits are then applied to the customer's monthly bill for electric service. Also similar to the residential value of solar, this rate will be reassessed and updated when we do our cost of service studies and our rate adjustments. Another rate that went into effect at the beginning of the month was one for a commercial time of use pilot. This is designed to provide customer incentives to use energy off of our system peak. Providing cost savings to customers at the same time helping us to better manage our costs and reduce our overall cost to serve customers. The last rate I want to highlight is the community solar rate for participants of the community solar assistance program and that's scheduled to become effective next month in February. Council approved this tariff at their December meeting, and Austin energy began taking applications for the program allowing low income customers to purchase locally produced solar at a discounted rate. About 200 cap participants will be able to subscribe to 100% solar energy at a rate slightly below their current power supply rate. The power will come from Austin energy's newest community solar site, the Loma community solar

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project, which is located northeast of Springdale road and airport boulevard. Next I would like to highlight a few upcoming items for council approval. On February 15th we are bringing forward a five-year one-million-dollar contract with resource action programs to develop school-based, energy conservation program and efficiency kits for local schools throughout Austin energy's service territory. So not just in Austin ISD, but across our service territory. The program aims to raise awareness of energy efficiency, introduce students, parents and school staff to Austin energy's energy efficiency programs. And stimulate interest in environmentally oriented subjects and renewable energy and also to spur interest in our industry. Over the last year Austin energy ran a pilot program at seven schools throughout the service territory and this pilot reached over 1100 students. And then also by extension, their it family members because the information was shared. The contract amount is based on the cost to develop and implement the program and it will reach approximately 4500 sixth grade students per year. The item that we had mentioned in the agenda regarding regulatory consultant services has been

delayed and we'll bring that forward at a later time. An item that will be coming before you on February 15th is a four-million-dollar contract with Cobb, Finley and associates for staff augmentation services and this is for electric utility design work. This contract will help us to keep up with requested customer connections and new development in Austin and providing more support staff for design. Austin energy design staff receives anywhere from 50 to 100 requests per month for electric service changes, and this workload has created demand for new and

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upgraded electrical services is currently beyond the capacity of our staff. The contract will be utilized only as needed and up to the volume of the customer request as well as to meet the target cycle times that we have to turn those requests around. Another item that will be coming forward on the 15th is for electronic subscriptions, professional dues and memberships in the amount of 652,000. This item covers memberships for some of the most beneficial organizations in the electric utility industry, including things like the American public power association, large public power council, Texas public power association, and the clean energy group. In the addition to the exchange of ideas that take place, we get to hear about best practices. These organizations provide a valuable resource for us and public power issues come before state or federal legislators. I also want to briefly mention an eminent domain item that will be coming forward in the next few weeks in order for us to construct a new substation in the southeast area of our service territory. The property is located in the extended territorial jurisdiction or etj in between council districts 2 and 5 and is known as the finger tract. We strive at all times to work in collaboration are your customers and this is especially true when it comes to working with landowners in relation to any of our infrastructure projects. Dan Smith today will be providing more information regarding this project, but I wanted to mention this because I believe this is the first time that one of these types of requests for eminent domain has come forward to city council for approval since I've become general manager. I would like to wrap up this section by providing an update and a response of an item from council approved last October related to utility deposits. Staff has been reviewing our utility regulations and

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we'll be bringing forward some proposed changes, including the types of credit security that will be accepted to waive deposits. Earlier this week we presented information on this in our currents to the electric utilities commission. And next month we'll be presenting to the euc with the number of proposed changes for these policies. And after receiving their feedback we'll come back to this committee to share information with you prior to bringing that forward for council approval. And we expect that to be in the March time frame. Finally, I want to recognize some of our outstanding employees. In December Austin energy deployed three team members to Puerto Rico to support incident management on the island and to help the utility in Puerto Rico restore power. Our team members included director of smart grid operations, Danny ee. Public information specialist senior Lewis

Rivas and distribution electrician supervisor Paul Vasquez. I am particularly appreciative of this first wave of employees that went. They were gone over the holidays. They were on the island supporting those efforts and away from their family and they did that voluntarily. Our team along with the salt river project, are supporting efforts in the Carolina region of Puerto Rico. We expect that we're going to be sending multiple waves of employees to represent reenergize this region. And the second wave of employees is already there. They went on January fourth. They include two of our distribution electrician supervisors, Shane cooper and David telto, and a systems supervision manager Victor car. We also had staff who traveled to Puerto Rico within the past week in order to set up processes to help gather information, document and then to provide reporting to FEMA for reimbursements. They include our business process specialists, Katherine Ross Lowe. Our utility financial analyst senior MARIA bell

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Williams and our utility financial planning share reason shoqui. I applaud these employees. They're willingness to go travel a great distance, be away from their families to help restore electricity in Puerto Rico. They represent the best in what it means to be a public power utility. And with that I'm happy to answer any questions you may have. >> Pool: All right. Who has some questions. Councilmember Houston? >> Houston: I don't have any questions, but I would like for us to applaud them as well because I think that's extraordinary. [Applause]. >> Pool: And I'm hoping, Ms. Sargent, will you make the staff available to us when they all come back to maybe tell some stories about their time there? >> We invited several of them today and they said we would like to be able to come back when the whole team is back together, and then they'll come forward. >> I think that would be great. Councilmember Renteria. >> Renteria: Yes, Jackie, can you -- this Loma project, the solar community -- my understanding is it's so popular that it already has a waiting list. Is that correct? >> I don't have that, but I would have to defer to Danielle? >> [Inaudible]. >> On the market rate base that is true, but not on the low income. There's still room for low income customers to participate in that project. >> Renteria: Great. Thank you for that information. >> Pool: Who else has a question? Yes, mayor pro tem. >> Tovo: I just wanted to thank you in advance for the changes to the deposit. I look forward to reviewing those. >> Yes. We're excited about that too. All right. If there's no other questions for me, I would like to welcome mark Dombroski to come up and give you our first quarter 2018 financial report. >> Pool: That's great. And that would be item number 4. Good afternoon,

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Mr. Dombroski. Did you have a good holiday? >> I did. Everyone have a good new year here? >> Pool: And before you get started, I wanted to ask is this a report that you also briefed the electric utility commission on? On a financial report? >> We did not. We finished these numbers late in the day yesterday to give this to them in February. >> Pool: Very good. Thank you. Good. >> Good afternoon. My name is mark Dombroski, I am the chief financial risk officer for Austin energy and we're pleased to present our quarterly report for the first quarter of 2018 which covers a period of October through

December of 2017. We're going to start presenting to you at the end of each quarter for the preceding quarter. I'd like to note that this report contains financial information that has not been audited and is subject to change and adjustment in the future. I have listed the website where we at the city published our comprehensive annual financial reports each year and you can go to that website and get all the financial information that's available. We structured this quarterly financial report using a format similar to what a board of directors would receive. Where possible we've used dashboard typography and charts to chart results. We'll show where energy is complying with the policies and expectations you placed on us through ordinances, resolutions and in the adopted budget. In addition we'll cover financial performance measures from the perspective of a credit rating agency. We'll also include a short update on marketing information that impact Austin energy. We're presenting the latest date available on how Austin energy's rates and bills compare to other Texas utilities. This analysis is part of our affordability goal and represents performance

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during the calendar year 2016. Austin energy developed the strategic plan in 2016 with six strategic goals. Our vice-president of strategy, technology and markets is going to report to you today on that strategic plan, but I wanted to point out that financial health is one of those goals. We believe that maintaining financial stability and high bond ratings creates value for our customers in the Austin community. This report is designed to convey the progress we're making towards that goal of financial health. Overrule Austin energy is making significant progress in achieving financial health. We are in substantial compliance with all of our policies, with the exception of the current balances in power supplies and capital reserves. However when paired with our risk management practices, we have adequate cash available in working capital and reserves to meet our overall requirements and protect the utility from most extraordinary events. Our key performance indicator for financial health is the S and P credit rating and which we received our double a in November of 2016. For the first quarter of 2018, our operating revenues and expenses are within two percent of budget. And our balance sheet is healthy with growing assets and equity. As I mentioned, Austin energy's affordability goal contains the competitiveness metric which seeks to measure how they compare with other Texas utilities and our goal to be in the lower 50 percentile. For calendar year 2016, the latest data available, we are slightly over that average and I'll break that down for you a little bit later. So Austin energy we have 22 adopted financial policies. These can be grouped into three categories. Those that pertain to debt management, those that relate to reserve levels in use, and finally those that dictate specific operating requirements. Those policies are memorialized and adopted by ordinance each year during

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the budgeting process. Austin energy is in full compliance from both the debt policy as well as the operating policies. And we're in partial compliance with our reserve policies. We consider it partial because while we have not transferred the cash to power supply and financial reserves we have the

cash to meet the requirements and working capital. I'm going to provide you with some greater detail on our cash a little later including the commitments we have against that cash and how Austin energy generates cash. As I mentioned earlier, our key performance indicator for financial health is the S and P credit rating. We achieved our aa rating in 2016 when we were preparing to go to the bond market. Credit rating agencies take a thorough and holistic approach to evaluating the creditworthiness of a utility, but there are some key performance measures that carry a lot of weight in their evaluation. This panel includes measures that report four critical components of creditworthiness. Day's cash on hand measures liquidity or how much cash can we generate quickly to pay immediate obligations. The debt service coverage ratio measures conch of our ability to meet financial obligations. The operating margins show out recovering our valley costs and producing revenue to produce our fixed costs. And finally the debt to capitallation measures leverage or how reliant we are on borrowing to pay for our capital assets which is the hours in paying our debt. In all measures Austin energy is achieving adequate results. During the 2011 rate review, city council established an affordability goal for Austin energy that has two metrics. The first metric measures affordability. Compliance requires Austin energy to maintain system average rates at or below two percent average compound growth rate that began in

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October of 2012. Each year during the budget process we present you the results towards achieving this metric. Since 2013 Austin energy has reduced base rates by 6.7% or 42 million a year. And we've been able to pass through rate cruxes and a power supply of more than 100 million per year since 2015. We are in compliance with that metric. The second metric is competitiveness in the Texas market and our objective it it is to maintain an average system rate in the lower 50% of all Texas utilities serving residential, commercial customers as measured by the data from the administration. For 2016 we are not in compliance with our goal. Our average system rate was about 1.7 above that Texas average. I'll present that to you a little bit later. This bar chart represents our various revenue streams and how they compare to our forecast or our budget. Our largest revenue stream is base rates followed by the power supply adjustment. These two revenues along with regulatory and community benefit are received from our retail electric customers. The transmission revenue is received from other utilities that use our transmission system to access power supplies. And finally the majority of the revenue that miscellaneous category, is from our on-site energy resource or our chillers. Overall we're within 1.5% of our forecasted amount from the first quarter. While our revenues came in about 1.5 below budget, our expenses ran about 1.9 above budget. Power supply is our largest expense and came in at 1.9 million over budget. Power production, which is the operations side of our generation business, came in at 3.3 million over budget caused by some unscheduled maintenance. And customer care is at 4.1 million over budget due to a contract being executed earlier than anticipated. While customer energy

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solutions had a similar issue with their weatherization contract being encumbered. Since most of these coverages are with timing of activities, the overage of the first quarter should not be a concern. This is our fund summary for the first quarter of 2018 and it shows the actual results with the budget and the variances to both budget as well as last year's results for comparison. I've highlighted in red circle the operating expenses had which I mentioned are 1.9 above budget. We achieved an operating income of 51.6 million against the forecast of 60-point 18 and that 9.2 difference can be attributed to both lower revenues and higher expenses. Our total debt service, principal and interest, was 23.8 million, violation higher than fourth fourth forecasted due to a rise in interest rates. This resulted in \$30 million. While we show a deficiency of 57.4 million, the vast majority of that is from the transfer of cash from working capital to power supply and capital reserves which accounts for 35 of the 49.7 million. This is not unusual for Austin energy. The majority of our sales occur later in the year, which will bring higher revenues in future quarters. This chart represents the amount of electricity we sold to our retail customers compared to the forecast. We've been slightly below our forecast due to more moderate weather during the first quarter. As you can see from the forecast for the rest of the year, our sales are heavily weighted in the third and fourth quarter of the year, however our fixed expenses are much more evenly spread throughout the year, causing the deficiency. We'll reverse that deficiency in revenues later in the year. And as you would expect, our revenues closely mirror the performance of our electric sales. During the last rate review in '16 we moved to eliminate seasonal base rates. This has helped smoother cash flows and decreased the

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deficiencies in the first and second quarters and provided more even building for our customers. To cover the ongoing expenses in the first and second quarters, we use cash from working capital to pay the bills. This chart displays our power supply costs. What we actually billed customers compared to our forecast. The diamond displayed above the bar represent our actual costs of the power. As I stated, our consumption is slightly below forecast due to the moderate weather we experienced in the first quarter. We are 96% of the budgeted amount and when compared to actual costs we're 94%. And this difference is by design. As you will recall, Austin energy sets the power supply adjustment for the rates during the budget process. This year we had an overcollection from prior years and set the rate below our actual costs expectancies, there by bringing the cash collected to our customers. Our capital improvement plan our capital improvement plan viewed in terms of how the projects support our business units. The largest component supports our distribution system. Where we take power from our substations, connect it to our customers' homes and businesses. This includes both connecting new customers as well as maintaining and upgrading our existing system. Our on-site energy is our chiller business. We've seen significant growth in this business unit and needed to build out the infrastructure to support it. This includes installing additional chiller for downtown and supporting growth in the domain development. We will soon be working on a plant to support Austin community college's campus at the former highland mall. Costs are borne by chiller customers and are not a part of the electric rate structure. Transmission projects relate to the infrastructure that moves electricity from our generation facilities to our service area substations. This business is highly regulated by the state of

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Texas and we have strict reliability standards associated with these facilities. Mr. Dan Smith our vice-president of electric service delivery is going to speak to you a little later on upcoming major electrical transmission and substation projects and can give you a better sense of these projects. We finance the cip projects with resources of funding. First is cash from our depreciation charge. We use debt in the form of commercial paper which we later convert to long-term bonds and contributions and native construction. These are funds we receive from customers to pay for capital projects such as line extensions and connections. We amortize those costs of the projects over the life of the asset and collect it through a depreciation charge and base rates. Austin energy has a strong balance sheet which helps us maintain our aa credit rating. Since we don't have a balance sheet for comparison we compared it to last year at the same time period. Both cash and current cassettes from increased since last year of 2017. When I refer to working capital, this is the cash balance shown on the balance sheet, that top line there. Our reserves are on the line called current assets. So when I told you we earlier transferred 35 million from working capital to reserves, that decreases the cash balance and increases the current asset balance. The circle graph shows where the cash resides in the various accounts totaling \$612 million. Our long-term liabilities also increased by 31 million. This is due to our use of commercial paper to fund our cip. The bar chart shows where we >> We have a total of 275 in commercial paper and 162 million in use. As we get closer to that \$275 million number, we're bringing you to a request to sell revenue bonds to pay off that commercial paper.

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I wanted to spend a little time with you going over our working capital and reserves. You can think of working capital as a checking account. We have a balance of 378 million in that account. But we know we have bills to pay, commitment to meet in the future with that cash. So here we start with a 378 and we know we have the power supply adjustment over recovery, the money we're returning back to our customers in the power supply cost of 29 million. We also have accounts receivable. We know people will pay their bills on the books so that's going to bring in 103 million. We have account payable and sales tax we owe, 75 million. Deferred fuel revenue, revenue we return back to our ratepayers we use debt to purchase with, and finally we have pensions and post-retirement benefits of 422 million obligation. So we have total commitment right now today of 488 million. So if you take that out of 103.78 we're short 110 million for our working capital. So if we had to pay today we'd be short that 110 but of course we have the additional working capital and reserves. If you add that to our bol we get to 124 million. Measured against minimum of 410 leaves us 286 million short of our target. But we know that we do not have to pay these bills and commitments today and we'll generate additional true help meet those commitments in the future. How does Austin energy generate cash and we will be able to meet commitments in the future? Given city council has a fiduciary responsibility for Austin energy it's important I spend time discussing how Austin energy generates cash to meet its commitment. When rates were established in 2012, cash and reserves were precariously low. To help replace the cash Austin energy included reserve replenishment in the rates of 18 million per year through 2016.

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When we established rates in 2016, we eliminated that replenishment. The next source of cash comes from depreciation. We collect -- >> What was the [indiscernible] I apologize for interrupting. I've got to go. My staff is here to make sure I leave. I'll be turning the chair over to councilmember alter, and before I go, just two quick questions since I won't be here to ask them. On page 17, when you were showing the balances and cost analysis, my question just generally, which you can answer later, I suppose, is how different is this than previous years? Because my sense is that while the numbers may be somewhat different, the ebb and flow of revenues and expenses tend to be predictable over a period of time. So I just -- >> For the most part, yes. >> Even though this may look kind of drier -- dire, the fact is this is a standard snapshot for these accounts. >> I equate this to if you had to pay off your mortgage today where would you get the money. >> Pool: But you don't have to. >> That's the point. >> Pool: I asked when you first started your presentation if you had made the presentation to the euc and I thank you for doing that next month. I just wanted to convey a message to the euc and you are carrying it or they may hear it from here, I want to invite them to provide any feedback they may wish to provide in the form of a formal resolution on the financial picture and -- or any informal input that they may like to have for the council. Because I think we all appreciate the euc's diligence and diligence so their diligence is very welcome, to me certainly as the chair, and I expect that my colleagues join me in that appreciation and support. And that we welcome their input by way of this committee. >> Okay. >> Pool: And so if you could maybe convey that message to

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them, we could -- if they have any responses to this, then they can feel free to provide them to us. I also wanted to acknowledge we have a new chair of the euc, commissioner Hadde has retired or she's staying on? >> She stayed on but relinquished the chair. >> Pool: New chair is? >> Kerry [indiscernible]. >> Pool: Which is great. I appreciate chair Haddeen's extra efforts in the past, especially on the rate case. I think the new chair will do a really good job filling her shoes. I turn this over to councilmember alter. Are you going to stay over there or come over here? Whatever you want to do? So thank you all for being here. And see you next month. I apologize for having to leave. >> Okay. So as I mentioned, we used to actually collect a portion of rates to help replenish those reserves and we eliminated that in the last rate case. The next source of our cash comes from depreciation. We collect a charge on long-term assets and base rates and with that cash from depreciation we pay two things. We pay principal on our long-term debt, and we use cash to fund our C.I.P. Projects. As shown by green arrows or depreciation is fairly level between 150 to 160 million per year. However, the principal in our debt has decreased from 105 million in 2013 to 35 million in 2018. This is a result of a decision made more than a decade ago to fund sand hill energy center with cash, which is more than \$400 million. So while we did appreciate that asset over life that cash used is returning to the utility in the form of depreciation and since we have no debt on that, that is converted to

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cash. Since 2013, our depreciation contribution has increased from a loss of 24 million to a gain of 65 million over that period. The final significant source of cash comes from net income. So when we established rates using actual expenses and spending history in a normalized weather year, however we experienced lower than anticipated expenses or warmer weather than expected, we will generate more cash than planned. Of course the opposite is true as well. So with that you take the reserves, you take the depreciation contribution and net income and that is how Austin energy generates the cash. So in a market industry analysis I did want to bring out something that's getting attention we have in Austin about our population growth. I wanted to show an issue we're concerned with that may impact future rates. So last year we saw a 2.5% growth in the number of customers we have. So that's very high in the utility business. One of the reasons why we see so much capital spending for the distribution system. We're incurring growth in our fixed costs as a result of that. However, the growth in load or the total amount of electricity consumed by our customers only grew by .8%. So on one hand that's good news. Our attention to energy conservation, effective building code, weatherization and the smaller dwelling sizes are working to lower our energy use. The downside is we collect the vast majority of our fixed expenses in variable rates based on the kilowatt hours used. So this will impact both operating margins as well as debt service coverage ratio in the future so we need to look at this when we start designing rates and we'll keep an eye on this as we move toward our next rate

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review in 2013 -- 2019, excuse me. I thought that was an interesting result. We'll use 2019 as our text year, do the rate review in 2020 and rates become effective in 2021. So last section we have is the -- compares this metric. As I stated earlier during the 2011 rate review city council established an affordability goal for Austin energy with two metrics. First metric managed affordability. And second measure is our competitiveness in the Texas market. Around November of each year the energy information administration publishes information for the previous year. So in November 2017 we received the data for calendar year 2016. It's a nationwide study. Collects information from 3,162 energy providers. So we filter that out to just the Texas providers, and we take out Austin energy and that leaves us with 186. We also exclude providers that serve commercial industrial customers only, serve refineries in the Houston area or manufacturing site. We also exclude providers with less than 3% residential load. That leaves us with 154 utilities we compare ourselves to within ERCOT as well as outside ERCOT. We take that total retail revenue and divide it by the total kilowatt hours they delivered and that gives us a weighted average retail rate to compare ourselves to. The reason we do that is others if we did look on utilities, folks in Del Rio would carry as much weight as the folks in Dallas. We want to make sure that it really represents what customers are paying across the state of Texas rather than what utilities are charging. So this shows the results of the comparison of Austin energy's average system rates to the rates paid on average by customers of

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other Texas utilities. For the cleared year 2016 Austin energy we're about 9.3 cents per kilowatt hour versus state average of 9.20 Cesar Chavez. I note the base rate reduction of 6.7% occurred in 2017 so that is not reflected in these numbers and I would expect we'll drop below that average next year. We'll find out in November. I'd also point out since 2001 Austin energy customers have avoided 1.75 billion in utility cost compared to the state average. This average pretty much mirrors the price of natural gas it generates most of the electricity in Texas. As gas prices rise, electricity prices rise. However, for Austin energy since we're nonprofit, we don't seek high. We just seek to recover our cost. That's the reason we have those lower rates during that peak. So here we have the data for residential customers only. It looks very similar to the average system rate. As you can see, we are below that state average for residential customers. And part of this was by design, where we set those residential rates. However, on the commercial industrial side when compared to other CNI customers in the state we are above average by a fair amount. And, again, this was by design when we shifted some costs from our commercial -- residential customers to the commercial/industrial customers. So that's as we expected. One thing I noted earlier that we have significant [indiscernible] in energy conservation, weatherization and reducing the amount of energy our customers use. Really what you do is you see that in the builds. Here is a residential average monthly bill for calendar year '16 and you note that only El Paso

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electric is lower than Austin energy. That has more to do with the weather in El Paso. But we use only on average 861-kilowatt hours per residential customer in '16 versus state average of 1,174. You take that be, multiply it times your average rate, you can see we still have second lowest bills in the state of Texas, only behind El Paso electric there. So our average bill was \$91.80. Versus the state average of 143 -- \$129.04. That's very good news for our residential customers here in Austin. So with that I'm finished and can answer any questions. >> Alter: Anyone have any questions? Councilmember Flannigan and then come to. >> Flannigan: So when I talked to my constituents about Austin energy having lower than average monthly bills, I'm rarely believed. So can you help me understand how it is that folks might think some of the other utilities' bills are cheaper than Austin? Is there something in -- that this is an average that causes some confusion in the community? Are we lower on the lower end of usage but on the higher end we're higher than other utilities? Can you give me parameters around that? >> We've a tiered rate structure. Again, it depend where you fall in your usage. We have five tiers, which is a lot in the industry. So if you're using 2700-kilowatt hours per month, you're in that fifth tier. Which is priced very high. So you will be well above that average. Likewise, if you're really on a conservation, have a smaller dwelling or maybe

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you're downtown, where your heating and cooling is provided by chilled water rather than -- you might have less than 500-kilowatt hours per month. That first tier is actually below cost of service so you'll have very low rate. Really it's where you fall relative to that average where your rate are. >> Alter: Mayor pro tem. >> Tovo: On page 5 and then later in the presentation you talk about the higher than -- the higher than anticipated power production costs. >> Yes. >> Tovo: I think you referred to some necessary repairs, and I wanted to just be clear on what facilities those repairs took place at. >> Sure. I know one was at fayette, which we had an unscheduled outage in. And one is at decker. So both of those were -- we had unanticipated maintenance costs so we were bringing it down. We do the repair work. We bring it back up. We incur-- earlier in the year when we spread our budget, since they're unscheduled, we don't know when that maintenance might occur so assuming you don't have other major maintenance there as we progress through budget, that we won't be above budget later on. >> Tovo: So it's above for the quarter but -- >> For the quarter. >> Tovo: But you don't anticipate it will be necessarily over the year. >> That's correct. >> Tovo: How does that -- what was the scale of decker versus fayette for the repairs? Which absorbed most of the costs or which prompted most of the costs? >> I'd have to look that up. >> Tovo: I ask, you know, in part because we're having ongoing conversations about the viability of continuing with the coal plant so it would be good to know how much we're investing in repairs. >> Yeah. >> Tovo: You can get back to me. Just -- it's not -- >> 1.8 million was at fayette. And I don't -- I'd have to get the number on decker.

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>> Tovo: Okay. Thank you. >> I can get that for you. >> Tovo: And then I didn't understand -- and I may have missed it, the customer care increases. What those were? >> Sure. That was a contract that -- we simply signed the contract earlier than anticipated so we encumbered the full contract amount for the year. Again, it's a timing issue. As we get through the year, additional budget will flow into that and we won't be able to budget at that point. Again, it's nothing to be alarmed about here. >> Tovo: And the power supply costs cannot absorb the cost of maintenance, right? We don't do maintenance through power supply? >> No. >> Tovo: Those are just the cost of energy? >> That's correct. >> Tovo: You made a comment about the power supply charge I wanted to be sure I understood. I think I'll have to find that. I'll come back to it when I can find it in the presentation. I found it in the presentation. Page 17. Are you suggesting that you overcollected on the power supply adjustment? By 29 million? >> That's correct. In previous years where we -- we try to estimate where that needs to be, when power costs come in lower than that, the rate collects too much cash from the customer. When we reset it, we lower the rate to return that cash to the customer. That's what we're doing now. That 29 million hopefully by the end of year will be eliminated. If not, we'll continue to lower that rate until it's given back to the customers. >> Tovo: That was based on last year's power supply charges? >> That's correct. >> Tovo: Okay. Thank you. >> Alter: Anyone else have questions? Simplify a couple questions. I wanted to make sure that I was fully understanding the noncompliance on the reserves. I'm understanding that overall you think you have sufficient total cash, but can you go through that again? I'm referring on page 6 to

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the reserve policies where you're talking about -- >> If you look on that page 17 I pulled up right now, you'll see that, you know, normally we would have a contingency reserve, and this one is set at \$96 million or a minimum balance, we have 97 in there. So that meet the policy requirement. Our power supply stabilization is designed to have 90 days of the power supply reserve in there. We estimated what that might be back when we set the budget and I believe it was around 95 million. Since then our power supply costs changed so it's about 102 million really should be our minimums. We just transferred \$5 million into that reserve that we had in our budget. We have no more budget authority to transfer anymore reserves or anymore cash to that reserve so we're short on meeting that minimum but the money is in the working capital balance, so that cash is there. It's just not in the reserve. The same for capital reserve. We transferred 30 million into that, went from 12 to 42. That's designed to be about 50% of -- or 2% of depreciation expense per year. So that would be \$82 million so we're short on that -- we're making that up over the years. Again, we maxed out our budget capacity on transfers. So the cash is there in working capital. It's just not in that reserve. >> Tovo: May I ask a follow-up question on that? I can't completely recall all of the discussions we've had about reserves but we've had some very vigorous discussions about reserves both in previous rate cases as well as I think it was -- it was a subject of at least one audit. I think the suggestion was made that when we're considering our financial policies, maybe looking at all of them together for this reason. It shows we're out of compliance but we're not. It's just in a different fund. >> Correct. At the end of the day there's a statement that

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says you're supposed to have at least 150 days of operating cash. Which is what the \$410 million represents. So if we were to generate no more revenue we could still continue to operate for 150 days with the cash we have. That's that catching feature. Although the money might not be in reserving we have adequate cash and working capital to cover those contingencies if they were to occur. >> Tovo: Right. I think sometimes when we have these discussions it starts -- just starts to suggest we're, you know, deficient in some of our -- >> No. >> Tovo: Some of our places and I just wanted to verify that we have -- >> I'd say we're in very good financial health. >> Tovo: It's just a matter of, as you said, not transferring the money from cash to the reserves because you maxed out at your capacity. >> That's correct. >> Tovo: There was an interest in -- part of the conversation has been that we don't want to be can he replenishing reserves at such a rate it's -- that we're building into the rates so much replenishment of reserves that people are paying more than they would necessarily need to. >> That's correct. >> Tovo: And that's not probably how you'd express it. >> Right. That's why I walked through this piece here, which is we were doing that earlier, and part of the last rate review because we were deficient in cash but we have enough cash now and we removed that so we're not collecting anything to -- right now it's really at sand hill. Since we used all that cash ten, 15 years ago to build sand hill, as that depreciation is paid that cash comes back and I don't have debt service to pay on it so we'll use that to invest in other infrastructures. >> Tovo: Thank you. >> Alter: Thank you for that addition, mayor pro tem. The other metric I wanted to look at was the competitiveness metric. As I'm understanding it you

provide us with two different snapshots. One was the measure that you were asked to compare us to the lower 50%. And that one you take the average, find that's 100 and

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if we're below 100 then we're in the right place. If we're above 100 we're not. And that we're currently 1.7% above that average and that you're expecting with the rate adjustments that we're going to go meet that target next year? >> That's correct. Because that did not reflect our base rate reduction of 6.7% over \$40 million in rate reductions. Also doesn't reflect we made two reductions in power supply in '17. It's hard to tell what will happen with the rest of the industry but we're running a few utilities cutting base rates so there's a probability we'll be below that state average next year. >> Alter: The other snapshot was on the last two slides combining I think 24 -- the information on 24 and slide 25 where average monthly bill was 91.80 and was the second lowest. How do we -- how do I think about those numbers where in one we're above average and the other we're the second low northwest is that a function of averaging it and looking at residential and that our commercial is more expensive? How am I -- >> One is an average system rate. The majority of our kilowatt hours are used by residential customers. So it's more skewed towards residential customers. And we use that average system rate as what our metric is. However, we have data to break it down to residential and commercial/industrial. That's by design. Design rates. We did move all class of customers closer to their cost of service in the last rate review, and as progress we continue to make -- so there's still a difference between that commercial/industrial and cost of service. >> Alter: For the commercial does it cost more -- I mean, it costs more for some of those deliveries too, doesn't it? >> That's correct. Compared to what average

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commercial/industrial customer pays in Texas, on average, ours costs more per kilowatt. >> Alter: That doesn't necessarily mean that we are charging more than what it costs us to provide that service? >> No. As public power, you know, Austin energy we don't make money, don't lose money. We charge exactly what it costs us to provide the service. There's no profit component in there. And all of ours are cost-based rates. >> Alter: Great. Thank you. Do my colleagues V any other questions? Councilmember troxclair. >> Troxclair: I wanted to ask a follow-up question on the billing question that councilmember Flannigan asked. Did that comparison chart -- was that just rates or did that include additional fees and things that people might see in their total bills? >> So this -- let's see. Total retail revenue so it includes everything. It includes fees, late fees, anything a consumer might spend or give to their electric utility for electric Clarks is in total retail revenue. Customer charge. It's all of those. >> Troxclair: But the next charge. When you responded to his question you were using -- no. Sorry. The one -- the bar chart. >> Oh. This is the kilowatt hours that residential customers use. So on average residential customers use 861-kilowatt hours per month. >> The last one. >> Troxclair: There you go. >> That takes that average rate, multiplies it times 861 and that's how you get the 91.80. >> Troxclair: Is that rates or is that -- that is -- that includes all additional fees? >> That's everything. >> Troxclair: Total bill. >> Yes. >> Troxclair:

And how -- well, I guess -- I mean, in your answer you kind of explained the differences in the tiers. So it's very possible that a

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lot of -- I would be interested in seeing analysis I guess by district. I'm guessing that people in my district are possibly -- in one of the -- in a tier that possibly puts them over the average. >> Yeah. I mean, if you have districts that have larger homes, you might have more consumption. If you have solar on your roof, you probably have much lower consumption. So a lot of it depends -- like I said this is an average. Calculation. And where you vary from that average could be large. >> Troxclair: Thanks. >> Flannigan: But just to make sure that I'm hearing you correctly, councilmember troxclair, that wouldn't include, like, the clean community fee, it doesn't include the transportation user fee, doesn't include the water bill, doesn't include all those other sections of the bill? It's just the ae part of the section? >> That's correct. >> Troxclair: Okay. Thank you. >> Flannigan: Yeah. I didn't think we were talking about the same thing. >> Troxclair: So I guess -- so there are a lot of extra fees on our bills? >> Flannigan: That are not related to the utility. >> Troxclair: Not related to specific rates but when people say they have high electric bills they're not talking about -- or high utility bills they don't understand the difference. They're just -- just know they're writing a big check so I think that that would -- [overlapping speakers] >> Flannigan: I would agree that's definitely part of it but I think it would be interesting to see maybe not by district because I think even that would hide -- I've got a huge apartment complex on one end of my district and huge homes on the other end. Maybe if it was more along the lines of a typical apartment dweller, missing middle housing dweller and typically single-family home dweller, what those might look like in comparison to the relevant market might be a more relevant way to show this data for the community.

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>> Sure. I'm not sure I have state average to compare that to because I don't have another typical house somewhere. >> Flannigan: My house -- office would be happy to work with you on putting that together. I think there's ways do it that would be more informative than the full average. >> Sure. >> Troxclair: I guess maybe what I would be interested in is if you have this chart for -- well, I guess it's more difficult. But if you have some kind of similar chart for total utility bills that includes all the fees and possibly the water. That -- because that's what the average person thinks about so that -- I know it's hard. >> Yeah. I think every city is kind of unique in how it delivers utility services, whether it's municipal water or private water, well water, whether it includes broadband or not. You know, you'd have a hard time comparing. Finding an equal footing for comparison. >> Troxclair: I mean, is there a way for us to compare -- if this is just the electric part of it and not the fee part, is there a way for us to compare just the fees? Is that easier? I mean there are other municipally owned -- >> I think if you put a specific fee, we'd -- you know, it's -- water or arr, some sort of a fee, you might find a comparable number to compare that to. Because everyone delivers them differently, the way the bill is structured is going to be

different. >> Troxclair: Thanks. >> I think, it really is utility specific. So electric to electric, water to water. We can maybe help -- and I know you're working on something. I think we can maybe help with that. Total bill to total bill, that's so unique. Some utilities don't charge drainage fee, a clean community fee, they don't charge for recycling. So that's kind of a challenge. We could benchmark within the bill, like, electric. >> Troxclair: I mean, part of -- I guess part of the

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point is that other municipalities with municipally owned utilities don't charge those fees so that would be relevant for comparison. >> Others don't do recycle. They don't do that completely so they're not going to charge for that. >> Alter: I think he also might be able to get some of the stuff that councilmember Flannigan was talking about even if you just compared it to the 91.80 to understand, you know, what is that typical residential average, is that more like an apartment dweller or is it a single-family home? You know, it's also based on your consumption and so I think even within our own structure maybe we could get a little bit more detail on that even if we just compare it to this. We'd have to understand it's not a full comparison but I think it would still be useful to see the variation. I don't know in my district we've been having the conversation with respect to water to try to understand what is it that drives the consumption -- is it the consumption or is it, you know, something else that's going on. Because of the size of the houses or other things. And I think that would be a snapshot that might be helpful for us to consider. I appreciate your questions on the overall bill as well. I think we still have a couple other items, and the strategic plan may take a little bit longer. If nobody else has any other questions, I thank you, and we can move on to item number 5, please. >> Good afternoon, council. I'm the vice president of strategy technology and markets. And today I'm here to present an update on the strategic plan. We've actually presented it over the past year in different formats. This is the first time we're

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going to present the whole thing in its entirety. So the strategic plan is a five-year roadmap from 2017 to 2021. And it's structured to deliver value to our customers and maintain Austin energy's business model. That model includes affordable rates built to invest in long-term extrapolates maintain financial health and it's community-owned and customer driven. The plan articulates our mission, vision, values, and goals. It prioritizes strategic initiatives. That's the work we need to do to achieve the vision. It also has metrics that measure progress towards our goal. The plan in its entirety is on our website. The Austin energy website. I'll just -- can you click on that link, please? Just to show you what it looks like real quick. So you'll see the whole plan on our website, if you'd like to. Thanks. Prior to coming up with a plan we actually did quite a bit of analysis. One of the things we tried to look at is what are the big uncertainties that Austin energy faces into the future? You know, to provide an adequate roadmap and strategic plan over the next five years. And although there's a lot of uncertainties we face, we really coalesce around two we thought were the highest. One is the market price in the market, the ERCOT market we talk about

here and also our regulatory model. Do we remain a vertically integrated utility or become structured and distribution type utility. If you put those two uncertainties against each other you come up with four potential future world. One world you have a -- you're in a high priced market and you're regulated. One world you're in a low priced market and you're regulated. And for most part, that's where we are here right now.

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We're in the low-priced market and regulated utility. That's in the bottom left. You can also be potentially deregulated in the future and also subject to low prices or high prices. Prior to 2008 and for over a decade we were probably in the top left corner where we had high market prices and we were regulated and as our cfo showed we delivered about \$1.75 billion in value to our customers over that period. So with this market things change over time. We are in the lower left-hand corner right now, and that's where we're competing against the market, which is very low, and that's one of the reasons we're slightly not meeting our competitiveness rate, 1.7% above that right now. There's a potential we could become deregulated. You move to the right. What happens there is customers at that point would have the option to just buy off the market, at least for the power supply part of their bill. The risk there is the market does move and the market could become high priced. If that happens, now you don't have the benefit of all the depreciated assets we own right now and it's a one-way street. Once you go that direction there's no going back. It's a one-time decision. Being informed by all this analysis we put together the plan. So the plan articulates a mission and a -- plan articulates a mission. We adjusted to add the word safely, to safely deliver clean, affordable, reliable energy and excellent customer service. This is what we need to do every day on a consistent basis really well. Our vision is actually new. Austin energy didn't have its own vision, and this is the vision we came up with, to drive customer value and energy services with innovative technology, environmental leadership. What we came up with this, we need to provide that value to our customers, to

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justify sort of where we are in this low-priced market. We've shown a lot when it comes to innovative technology. We've actually received a few awards this year when it comes to innovative technology. I think our environmental leadership is superior, and we're trying to use that now to drive customer value and increase that part of our vision. We have six strategy goals. Our cfo talked about financial health, but we feel we need to achieve these six strategic goals in order to achieve our vision. So financial health, to achieve business excellence, improve employee engagement, employee health and safety, environmental excellence, increase customer collaboration, and continue our investment and our roadmap and grid modernization. We measure how we are going to achieve these goals, and we have actually presented these measures in dashboard type of presentations that we've done over the past few months, and we presented under each one of those six goals. I'm not going to go through all the measures since we've done those in detail for you. I will say these are only level one measures. We have

level two, level three, sometimes level four measures. What we're trying to do is provide a line of sight and all these measures are tied to each other. We're trying to provide a line of sight from a lowest level of supervision all the way up to the vision. So what you do everyday when you come into work, there's a metric and measure for that and how you affect the top line goals and vision. So in order to achieve that, we've prioritized some strategic initiatives. 13 strategic initiatives to be exactly exact. And I'm not going to go through all 13 but what I will do is delve into the top one, two way outage communication. Two way outage communication was our top prioritized

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initiative. It's actually completed. What I want to do is show how by doing this strategic initiative we affect certain metrics that cascade all the way up to our strategic goal in order to achieve our vision of delivering customer value. So two-way outage communication support two of our goals, grid modernization, customer collaboration. And Austin energy has a very, very reliable system on the transformation and distribution side, as well as on the production side. [Indiscernible] Safety measure system reliability are in the top quartile of the industry. However, our customer perception of our reliability doesn't really match where we are when it comes to that metric. So through this initiative we wanted to better customer perception as to where system reliability actually is. If you'll indulge me here, instead of actually describing how this application works, I actually have a very short two-minute YouTube video that does it much better than I would. [ Video ] [ Inaudible ]

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>> I would note that this application now is mobile friendly. So you'll be able to see it on your phone on your smartphone. So how does the -- this initiative actually affect our metrics? And this is sort of a metrics map that shows how we're trying to affect the top-line metric for overall residential satisfaction, which is measured by J.D. Powers, and how this specific initiative does that for overall residential customer satisfaction there's several level two metrics. There's actually six of them. We show three here. One of them is power quality and reliability. Outage is a part of power quality and reliability. What feeds into power quality and reliability is this supplied electrician during extreme temperatures, how we promptly restore power after outages and keeping customers informed. I would argue because our safety is quite high that we actually do well on the two blue boxes, and what we're trying to do is improve purple box, which is keeping our customers now informed about the outage. There's three customers customers want to know about their outage. One what caused the outage. They also want proactive communication from their utility about the outage and now they receive text messages if they sign up. Also they'd like to know is this just me or is this my neighborhood or is this the whole city of Austin? They want to know how many customers are affected. That's actually important to customers. So by affecting these three questions, we actually cascade up to the top to our residential overall customer satisfaction. As you can see these prioritized strategic initiative were tactically chosen in order

to achieve our strategic goals and achieve this vision that we talked about. I do have a chart here that shows our recent J.D. Power

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trends. As we can see we're not quite at the average in our peer group, but we've been improving every single one of our top six metrics. We expect to exceed that average pretty soon with a focus on the strategic plan. This strategic plan is actively managed. It was launched in June 2016. The initiatives were launched in January of 2017. We have quarterly executive reviews of all these initiatives and we look at the progress. We also have an annual review where we look at the plan and check and just when we need to. That concludes my presentation on strategic plan. I'll answer any questions that you might have. >> Alter: Thank you. Colleagues, do you have any questions? Comments at this point? I have one. >> Okay. >> Alter: Actually, I wanted to applaud the recent solar purchase, which I think is a good example of our ability to maintain our financial health in the way that it allowed us to reduce the power supply charges but also achieve our environmental goals. And I would just like to encourage to the extent that our federal government allows us to still make purchases like this that we are doing our best to take advantage of those and it looks like there are several of the initiatives where that kind of purchase falls under, but I do feel like that was a great example of moving forward with our resource generation plan and I think it fits nicely with this topic. So I wanted to raise that. And I also appreciate the addition of safety into the mission. I think we've heard in some other areas, not necessarily related to Austin energy, about some safety concerns, and so I think it's really important that that comes to from the top and is part of how we think about our responsibilities to our

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employees who are out there on the front lines helping to maintain service for all of us. So thank you. Anyone else have any questions? >> Houston: I just have a quick question. >> Sure. >> Houston: Thank you for your presentation. On slide 6, on financial health, we already have a trip -- aa rating, don't we? >> We do. >> Houston: Should that be maintain a double aa bond rating through 2021 or that's just wordsmithing on my part? >> No. Great catch. It should be maintain. >> Alter: Thank you. >> Thank you. >> Alter: If there are no other questions, we'll move on to item 6, upcoming major electric transformation and substation projects. >> High chair here. Good afternoon, my name is DNA Smith. I'm the -- Dan Smith, vice president of electric service delivery. I have the privilege to present you to some of the upcoming transmission and substation projects. We'll lead in up front because I did get a question, I think, from councilmember Flannigan, your office, just asking about the focus on this and not on distribution. Just to let you know what the genesis of this was, we will have a lot of upcoming work coming in the transmission substation area, and with that will be some corresponding rcas and then we anticipate some land acquisition type things. So that was the thought in this. However, you know, we obviously do have a distribution program as well, and I can answer some questions related to that as

well. In specific -- let's see. I'll forward this. You know, what I'm going to talk about is what the project drivers are for a lot of our transmission

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substation work and then give you a snapshot of some of the major, not necessarily all of the projects we have over the next five years. And then I do want to take a moment to talk about the land acquisition process, as I mentioned, that will be a part of something things we're doing, and then related to that, very important to that, is the community engagement side of that. You've already seen this but I think it's important to note what we're doing from the transmission substation side definitely dovetails well into our overall mission electric service delivery specifically is to safely deliver reliable electric service to customers by planning, designing, constructing, incorporating, and maintaining our electric delivery system. And as I stated that really matches well and dovetails with the mission to safely deliver clean, affordable, reliable energy and excellent customer service. So the main drivers -- in fact, you know, you've seen it. I actually summarize these in our six strategic goals. First being a customer collaboration side. A lot of the work that we need to do on the transmission substation side ultimately is about supporting customer needs and sometimes it can be a customer locating in our service territory and the need to serve that customer. But it's also managing the system in a capacity requirements to continuously serve our customers. Second one I grouped kind of together, the grid modernization strategic goal and business excellence goal. Really the key elements of this is reliability, where I will yensy based projects. So there's a lot of work we have to do to continually deal with, in some areas aging infrastructure, sometimes end of life infrastructure. But all of these feed into the reliability of the system, resilience of the system, there are projects we do to enhance that and provide increased levels of that.

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There's significant employee engagement side, and councilmember alter, I appreciate your comment. We're safety first. In fact safety starts with me as the slogan for the company. From that perspective, some of the work we do on the transmission system, especially transmission, something increases the accessibility, maintainability of that infrastructure. We've got areas that are very difficult to access, and so by doing some of the work and upgrades it puts us in a better position to do that safely for our employees. Environment, so projects that -- some of the projects we do are driven to do, for example, renewable resource interconnections and that's some of the stuff, part of our program as well. There's definitely a financial health element about in understood that to system efficiencies and economic benefits there. Those are the main drivers. This is a quick picture of the substation projects but I have a few slides. The first set of slides is on some of the substation projects we have going. And just to briefly tell you how I put it together, once again it's not all projects, but it's a good number, and I list them. Then I list the time frame, roughly the energyization time frame to give you an energy of what that is. Obviously the project spans a longer period of time. I included the budget estimate. And then I did

include the district where that was applicable. And then if we also believed that there might be an eminent domain shall known eminent domain type situation. So as general manager sergeant had mentioned, you know, on the bluff springs project we did locate a suitable piece of land to build that station. It is in the two-mile etg. And it does involve eminent domain. We are currently working with that particular landowner, and we believe we have maybe reasonably good communication in regard it how we're moving forward there on that, but we will

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be moving forward, I believe, next month with an rca that will be for the purchase of that land and moving forward with the eminent domain parts of that. You know, I won't go through all these projects but I will mention -- I've already talked to you before in the past about repowering downtown. That's a multiyear type project, and it has both substation and -- largely substation impact and all. So we list that here. It is in districts 1 and 9 and at this point we don't have any expected eminent domain-type issues on that project. To cap off we do have a number of projects that we believe will be associated with the resource generation plan, and there's some work to do. We're currently in a lot of the study phase of that right now at this point so we don't have enough detail to really state, you know, what will we'll be dealing with as far as land acquisition on that. We believe a number of those projects will probably go in some of the existing substation locations. There's possibly some additional that may be needed. This next one is the first of two slides I have on transmission projects. I've already a number of councilmember offices related to circuit 811. That's in districts 4 and 7. Right now we don't know that we have any eminent domain-type issues. We're currently working with landowners as we speak anesthesia as we are coming to make offers and all. As I go through the land acquisition process that may make part of that a little clearer. Let's see. Going to that last slide, you know, another project that I would continue to highlight is that transmission projects to support the resource generation plan. There will be some transmission work, you know, at this point maybe a lot of reconductors, possibly a new line. So those are things that

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will be determined a little more clearly as we move forward. As a whole I would say we do have overall a number of these projects relate to a major emphasis we have in upgrading our system, where we have 69kv transmission and converting that to 138kv or 138,000 volts. So just to kind of briefly take you through the site selection process. First there's a need that's generated and that comes to out of my organization so I've got a planning group that both distribution transmission planning, they analyze the system, they're looking at the needs, they're analyzing customers, they're analyzing things coming from ercot. All of that fits into a point where we do cost benefit analysis, and that includes some scenario and evaluation of alternatives. Ultimately that then generates requests that are sent to my transmission substation engineering group. Then from there they generate the preliminary requirement that would be needed for land, whether that's right-of-way for transmission or if it's actual a big piece of land

needed for a substation. Then those requirements are set to my public involvement and real estate services group. And then they begin to actually look at the land and do -- you know, determine what the requirements are for the land connectivity, all those type of things. Then they perform research and do a land-use analysis. I've got a next slide that will talk about some of the things we look at related to that. And then ultimately the -- my public involvement and real estate group will come back with some possible sites, and then selections will go from from there and the land acquisition process will occur and I've got a slide on that. This is just some of the things we look at, you know, with the land use analysis. You know, we obviously are going to look at the

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ownership of the land. We're going to look at zoning. We're looking at the floodplain. There's a whole lot of suitability aspects about, you know, what we need to accomplish there, ability to build it, build it safely, operate it and maintain it safely. And there's a community analysis done. So these are just a number. I won't go into a lot of details with it, but it gives you some ideas of some of the things we look at. And then when we actually reach a point where we're going to acquire a piece of land, and these are processes that or in accordance with senate bill 18, which describe land rights. And we start off with just an owner engagement. So there's a point where we meet with the property owner and we -- we perform a customer notification and then ask for permission to survey. And then we begin a prep work phase, where we're surveying, it get a legal description of the land, notice of intent, and then an appraisal. Ultimately legal is involved, and they perform legal preparation of contract documents. And then we reach an offer phase, where we do initial purchase officer, negotiate with the customer. Hopefully reach a final officer. And then ultimately execute a contract. And then that's something, once we've reached that point where we've got agreement, then we bring that to the euc and council for approval, and then close on it. Our -- I think a real key point is our main objective is to have the lightest possible touch with the land and with the customers, the landowner. So that's really how we approach it. We look for alternatives whenever possible certainly to use existing right-of-ways, existing land to do everything that we need to do. When we do reach there we really try to make it as -- as unobtrusive as possible for the lashes. If we don't -- for the landowners. If we don't come to terms in

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that offer phase that is when we would consider if there's any alternative site or locations we can go to. And then if that's not the case, then we -- that's the last resort is eminent domain. And it just outlines the community involvement process we take. We do identify the stakeholders. This is -- by the way I should say up front this is something that's worked really company-wide so our corporate communications group is very deeply involved with this. Our public involvement group. And then we identify the stakeholders and we create basically a summary of the project, and we're making those preliminary notifications, and we develop a community-involvement plan. We create the -- understand the channels we're going to need to reach out to, the -- set up the meetings, who we're going to need to

meet with, the resource requirements, and then we ultimately implement that plan. Yeah, I think one of the things I'd maybe highlight for a moment is on this next slide. So one of the things that we've done is -- oops. Let's see. Where is it. That's interesting. Where did slide 12 go? It jumps from 11 to 13. All right. You have it there? All right. So if you'd turn to your slide deck, 12 -- that's interesting. It's not there. But, you know, one of the things that we've started and we're going to really build on this is a web page on our website that's build a better Austin, and that website is going to highlight projects. One of the projects that I already talked to you about, repowering downtown, it's already one of the pages. In fact that's what's shown in your handout there. And that's a great opportunity for us to just be up front and communicating what's coming up. We've got that circuit 811 I mentioned, transmission circuit in north Austin. That's another one that we have up there and we'll

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continue to build that. So that's one of the avenues or channels that we're outreaching to our customers and all. I believe that's all I had. Entertain those now. >> Alter: That last slide wasn't available for the public who is watching is just a slide from the existing website off the Austin energy website, if you click on build a better Austin, you can find that project if you don't -- it's already in existence. >> Yelp, councilmember. You're right. >> Alter: Thank you. Does anyone have any questions at this time? Seeing no questions, thank you very much. I think that was our last item other than identifying items to discuss at future meetings. Does anyone have those? Councilmember Flannigan. >> Flannigan: I handed out -- my staff handed out the meeting schedule. And my recollection is that at the meeting in December we talked about trying to get the meetings on the off weeks. And then what was apparently either adopted or implemented, there's a couple of changes I'd like us to discuss. Since we're not posted to talk about this, we'll have to talk about it next month. April, may and June are the ones I think that we can shift over just to get off the council meeting week. >> Alter: Thank you. I appreciate you bringing >> Alter: Thank you. I appreciate you bringing that up and maybe you can talk to the chair, councilmember pool. I think there was a need that we had them to be able to communicate with the electric utility commission and also we don't have things like the meeting like last night and the meeting here today on a regular basis, but I'm not aware of all of that. So perhaps you could have that conversation with councilmember pool and then put it on the agenda for next time if that would -- if that would be appropriate. Flan flan I think we will have to are that --

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>> Flannigan: I think we will have to have that conversation in the meeting next time. >> Alter: There are any other future items for discussion? I guess I would just say that I would like at an appropriate time for us to be able to have that briefing about the dispatchable renewable energy generation and appropriate format. I understand that we we -- we just did our resource plan, but one of the things about the resource plan is it comes to council pretty much baked and maybe that's a conversation we want to be able to have earlier in the process for that 2019 plan, so that may not be that it's appropriate next

month, but some time this year I think it would be important for us to begin that conversation. So if we want to provide some guidance with respect to that, near a better position to do that, having some of the basic information already at our fingertips. Are there any other items that folks would like -- >> Houston: I just have a comment. And to the staff of Austin energy, when I first came on the council three years, four months, 55 days -- [laughter]. And some hours ago, but who's counting. We have come such a far away from where we started. And I wanted to thank you for trying to make this so available to people and understandable for people and giving us a kind of head's up of what's going on so we're not surprised when \$14 million comes and we have to vote on it and we have no clue what it's about. So we've come such a far way and I just wanted to thank you for that because we started -- where we started was horrible and now we've gotten to a place where even I understand what we're doing. [Laughter]. I appreciate you. >> Alter: Yes, we appreciate -- there's clearly a lot of hard work and clarity and thought behind all the material presented today, and it allows us to be in a better

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position to make the decisions that we have to make in our role. So thank you. So can I just adjourn us? So the Austin energy committee is adjourned if there's no objections. Thank you.