

Austin Energy Utility Oversight Committee (AEUOC) – 4/5/2022

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[2:42:55 PM]

Leslie pool, I'm the chair of the Austin energy utility oversight committee and happy to be here with a quorum of my colleagues. I see council members vela, Kelly, mayor pro tem alter, council member Ellis, and on the screen, I see mayor Adler, and I heard the door just open behind me, so there's probably another council member coming in. It is 2:43 P.M. On Tuesday,

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April 5th. I just want to take a moment before we take the agenda to wish somebody a happy birthday, a longtime Austin energy employee is Mr. Mark Dombroski in the hall. We are just going to wave at you. We are not going to sing. But we do want to pass along our sincere congratulations for achieving another full transit around the sun, and hope you have many more. Happy birthday to you, mark. And now I'd like to take items a bit out of order to give us plenty of time for the base rate review process briefing, and I see that council member tovo has now joined us as well. So, let's move quickly through housekeeping items with the minutes and the director's report. And we're going to hear from Mr. Naser as well. So, why don't we do that now.

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we Hello. My name is Craig Naser and I'm the conservation chair of the lone star chapter of the Sierra club. The resource management commission has very recently sent you a list of eight recommendations

concerning Austin energy's portion of the fayette dirty coal power plant. The Sierra club strongly urges you to follow them, and I would like to explain why. This morning, we woke to horrible images from Ukraine. It brought to mind 20 years ago when jet planes fell into the world trade center. I would like to point out the similarities between these two events. Thousands of innocent people died and both events were wholly funded by the human addiction to dirty fossil fuels. The most recent ipcc report just came out on Monday.

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This report tells us that unless we take major action very soon, we will see a level of worldwide human suffering that will dwarf these two horrific events combined. There's no longer any scientific doubt about that. The evil of Osama bin laden and Vladimir Putin the obvious, but who bears the responsibility for the evil of inaction on climate change. Today in April, it will be 97 degrees in just a little while. Last February, during winter storm uri, when the high temperature in Austin was lower than the high temperature in Anchorage, Alaska, eight feet were amputated in the Austin area from local citizens caught out in the cold. It will get worse.

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Please follow the eight recommendations. There is simply no more time to waste.

>> Pool: Thanks, Mr. Naser. Appreciate that. Let's move quickly through housekeeping items. We will take up item 3. We have two updates after that. Decker creek power station update, which is item number 5. Item number 3 is winter storm uri. And our last update is on the reach program, which is item four. This one's a very important program that will help us reach our climate goals. So while we have a brief update schedule for today, I would like to have -- to indicate I'd like to schedule a more expansive update at our June meeting with the opportunity for board discussion. Thank you. Is there a motion to approve the

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minutes from our last meeting? And I see the mayor pro tem make that motion, and council member Kelly is seconding. Any discussion or amendments to these minutes? All in favor, please raise your hand. It looks like, mayor, are you voting yes on the minutes? Yep. Okay. Looks like it's unanimous for those who are with us. I see that council member Renteria has also joined us. Good to see you all. Okay. Item number two, the general manager's report. Welcome, general manager Sargent.

>> Good afternoon. I'm Jackie Sargent, Austin energy general manager. Thank you for outlining the agenda for today. If you could go to the next slide, please. I'll begin today with a briefing for upcoming

request for council action. I have six to review with you today. The first item is to authorize a \$2.75 million contract increase can brace integrated services

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inc. This is for continued insulation and heat trace services at sand hill energy center and the decker creek power center combustion turbines, and includes the addition of three new district cooling plants that have been added since the original funding request in October of 2019. Heat tracing helps us to protect pipes from freezing conditions. The next item is to authorize negotiation and execution of a \$200,000 contract with John B. Kaufman LLC to provide independent consumer advocate services for the upcoming base rate review process. The next item is to authorize negotiation and execution of a \$325,000 contract can McGinnis Lockridge to provide hearing examiner services for the upcoming base rate review process. Next slide, please. The next item is to authorize negotiation in execution of a \$6 million multi-term cooperative contract with teqcis inc. To

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provide net backup products and services including maintenance, training, and support services for up to five years. The services, support, recoverability, and integrity of corporate data. It ensures data can be backed up and restored to meet retention policies for critical data, service level agreements, and compliance mandates. Execution of a five-year contract with crown Texas inc. To provide prefabricated substation control houses on an as-needed basis in the amount not to exceed \$10 million. Substation control houses weather-proof and controlled environment to protect vital utility equipment, things such as relays, communication equipment, and batteries. The final item is to authorize a \$4.8 million increase in the existing contracts with pro serve industrial contractors LLC for continued power plant and chiller maintenance services for

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revised contract amount not to exceed \$21.2 million. The original funding was based on the need for existing locations in service over six years, and since then, we've added three new district cooling plants with has resulted in the need for this increase in funding. Next slide, please. I want to talk a moment to talk about supply chain. After two years of news about manufacturing challenges and cargo ships unable to dock for unloading, it's no surprise that supply chain shortages are now impacting the power sector nationwide. The weight for equipment varies depending on the location and advise of the utility and on the items that are being ordered. Unfortunately, Austin energy is not exempted. We are seeing impacts to our operations in both increases and lead times for supplies in equipment, along with significant price increases. Austin energy strives to work on time and on budget. We are increasing our planning

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to help offset the supply chain problems, but still timelines and budgets for projects may be affected. This is an issue that we can't solve alone because it's a nationwide issue. So we're working with the national partners such as the large public power council and the American public power association to leverage industry-wide mitigation strategies during there time and we are looking forward to things returning more to normal and hopefully that will be sooner rather than later. Next slide, please. I would like to mention the annual Austin energy regional science festival, that once again was held virtually. It encourages and rewards innovative student research and it also provides scientists, engineers, and other professionals a chance to volunteer in the community. This year, 1,080 students participated in the elementary division. 278 in the junior division. And 232 in the senior division. Six projects were selected to

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advance directly to the regeneron science and international fair which will take place in may. I'd like to say thank you to all the sponsors and the volunteers for their support. As always, it's great to celebrate the young scientists of Austin and the surrounding area. Next slide, please. I'd like to highlight that Austin recently hosted the 20th anniversary of the American public power association's line workers rodeo. I had the honor to welcome 55 line worker teams plus 100 apprentices competing from 47 utilities in 18 states, all the way from Massachusetts to California, and all across the country right here in Austin. The last time the rodeo was held was three years ago in snowy Colorado Springs. It was so wonderful to see the camaraderie, the smiles, competition, and our folks simply out there having a good time. Austin energy had five journeyman teams and six apprentices compete. I couldn't be prouder of how

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well they represented all of us. This was an incredible event and truly a success. I heard from competitors and their executives that it was a great rodeo, fantastic venue, and how grateful people were to be back together. Most importantly, this was done safely and without injury. With that, I'll pause to answer any questions you may have.

>> Pool:fully questions for our general manager? Yes, council member Kelly.

>> Kelly: Thank you, and thank you for that great report. I want to thank the members of Austin energy for giving me an excellent tour at the line worker rodeo event that was highlighted today in your report. I was able to get a comprehensive tour of the grounds and learn all about what our line workers do on a

regular basis. The skill, precision, and intricate details of the work that is required of our line workers is not only impressive, it's unmatched. Our general is right, the smiles and camaraderie were wonderful to observe. I hope to attend future events

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and I'd like the Austin energy employees to know I appreciate their time.

>> Thank you, and thank you for joining us.

>> Pool: Anyone else? All right. Thanks.

>> I do have one quick question.

>> Pool: Sure, mayor pro tem.

>> Alter: I was just wondering, you talked about the supply shortages. I was curious if you could update us on labor issues that you might be having in terms of recruitment and retention?

>> We are facing some of the same challenges that others in the city are facing. We have some very technical highly skilled positions that we need to fill. We have engineers, we have item positions. But we're also struggling with our csrs, our call takers in the call center. When we see other entities in our region paying starting wages of \$24 an hour, it's really hard

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to compete. So those are things that we are facing, and we are broadening our recruiting strategies, and working with hrd to try to find some creative solutions, such things as can we use sign-on bonuses and are there opportunities to broaden that search for workers. Now, we have been successful in hosting some events, open houses, and we have a group that is now going through our climbing school. And their graduation is scheduled for the end of this month. So, that's helping. And we're also reaching out to some of the local school districts to get people interested in our businesses. But it's become a real challenge. And as I talk to my counterparts across the country, in every major city, they're experiencing the same stressors.

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>> Alter: Thank you. If you could please let us know if there are steps we need to take to support you in those efforts. Thank you, chair pool.

>> Pool: You bet. All right. We're moving to item 3, which is the base rate review process. And then after that, we'll have two updates, Decker Creek power station and the after action report on winter storm Uri. If staff could come down to the front of the room, whoever is going to be making those presentations, then we could move quickly through from one item to the next. Yes, sir. Please begin.

>> Good afternoon, chair, vice chair, committee members, my name is Rusty Manu, vice president of finance at Austin Energy. I want to thank you for the opportunity today to present to you. As Jackie shared at our last AEUOC meeting, Austin Energy will be conducting a rate review process this year. And it's no secret that revenues are down and costs are up. And we'd like to give you a

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sense of what's driving that need for base rate adjustment and the process ahead. But first, just to get one concern out of everyone's mind, I want to let you know that this is not because of winter storm Uri. While some utilities had to add charges in the wake of the winter storm, that is not the case here. Instead, this is about continued changing landscape for electric utilities overall, as well as some specific challenges unique to Austin. As I discuss in-depth, please know that our goal is to continue to offer some of the most affordable customer bills in the state with the best customer assistance programs in the nation. We hope to do that while also making sure that Austin Energy is fiscally sound, meets its financial policies, and continues to provide significant benefits to the community and the city's general fund. Kerr in the final stages of scrubbing numbers, we are in the final stages of scrubbing numbers, so this presentation will not include any numbers about how much the base rate review will impact

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customers, but it will speak to the need of why we need a base rate increase, and also the base rate review process. Next slide, please. This is a disclaimer that says that in this report, there might be estimated or forecasted financial information, and that the actual results will vary from this forecast also. Offer audited financial statements for fiscal year 2021 were published, and can be found on the link listed here. Next slide, please. So this is the agenda. I'll have a quick one-page summary. I'll talk about the financial needs of the utility. And then I'll pass the baton, if you will, to Tammy Cooper and she will talk to you about the base rate review process and the rate review schedule. Next slide, please. So, over the last two years, Austin Energy has had combined net losses of over \$90 million.

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And through that same period, and through January of 2022, we've lost over \$130 million in cash. The rate filing package will go public. In mid-April, we will have public meetings from mid-April to mid-May.

Participant conferences and reviews from June through September. It will be in front of the city council on November 17th for a review and approval. And hopefully, you'll have base rate changes go into effect in January of 2023. Austin energy looks for your support in this base rate review process to ensure financial stability. Next slide, please. So we look to certain guiding principles for establishing rates. First, that they're equitable and fair. That the rates are stable, that we don't whip saw our customers. And that the rates are simple, so that our customer can come in, read a tariff sheet and understand how he's being billed. We want to protect our vulnerable customers and we want

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to preserve energy efficiency and conservation. Next slide, please. Historically, once base rates go into effect, they typically stay in effect for a fairly stable period. Four, five, six years. In fact, this slide speaks to the base rate changes that we've had since 1994, and as you can see, the last base rate change we had was an actual reduction, and Austin energy has not had a base rate increase in nearly ten years. Next slide, please. This is a base rate review. I'll draw your attention to the pie chart. That affects about half of the customer's bill. These base rates will go to cover cost to own and operate the electric system. This base rate review will not address power supply costs or transmission costs or our other passthroughs such as regulatory costs. Next slide, please. This is not an exhaustive list.

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But shows a variety of the costs that base revenues pay for, things like supplies and equipment, tree trimming, debt service, employees, information technology, and general fund. And as I said earlier, it will

-- as encapsulated in the Orange block, it doesn't include things such as the customer assistance program, energy efficiency program, or power supply costs. Next slide, please. So, Austin energy delivers clean, affordable, reliable energy and excellent customer service. But we are much more than just your electric utility business. We provide numerous community benefits, things like energy efficiency programs, renewable energy portfolio, and a premier customer assistance program. And you get all of that at a bargain basement price. This slide shows our residential bills compared to our peer utilities, and you see where we're circled at the top, some of the lowest in the state.

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Next slide, please. This slide does a good job showing that costs are outpacing revenues. Draw your attention to the bar chart. So the yellow bars are revenue. The Orange line represents costs. You can see that commencing in 2018. Costs start rising in a fairly steep slope, and they exceed revenues in '20 and

'21. And when we don't generate enough revenue to pay costs, we have to rely on our cash balances to do that. You can follow the red arrow around and look at the line graph in the far right. You can see where we've had to dip into cash reserves to meet our needs. And that at the end of January 2022, we have \$558 million of cash in reserves. Now, part of that cash is already claimed by things such as unrefunded power supply that will be passed back to our customers. But if you look at that \$558 millions and along with the trends on the yellow bars, that if those things continue, that

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we'll soon be to this red dotted line. And so what does that mean? So it says minimum balance needed is \$480 million. So Austin energy has financial policy that says we will keep a minimum of 150 days of cash on hand. That's what that \$480 million represents. As we get close to that, and to put things into perspective, in 2021, Fitch peer review put out a study that says if you're a aa rated utility, you should have on hand about 275 days. And so as you see, as we get closer and closer to that red line, we're only about half of the cash that our peer aa utilities currently have. Next slide, please. The title of this page is why are costs outpacing revenues? Two reasons. Costs are going up, revenues aren't. A lot of our costs are driven by customer goals. Austin is a popular place, and

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Austin energy has an obligation to serve. So as customers move into our service territory, we are obligated to provide service. So I draw your attention to the Orange line. Pardon me. 2014 is our last test year. 2021 is the current test year for this rate case. It's a seven-year period. And over that seven-year period, our customers have grown 18%. Now, what does that mean? That means over that seven-year period, we have added over \$80,000 customers, and invested almost two billion in new infrastructure. Now, customer growth does pay for part of that. You assume about \$40 million in contributions in construction, which is about what we're at now. Over seven years period. You can see that contribution construction cumulatively over that seven-year period, it's about \$300 million. Keep in mind, though, that we spent about two billion. So there's a lot of money that Austin energy has to rely on base rates to pay for.

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Now, let's look at revenues. Why hadn't revenue kept up? Well, that coin has two sides. And the first is the good news story. For a myriad of reasons, our customers have become more energy efficient. And not just here in Austin, but nationwide. But that's not why revenues haven't kept up. Yesteryear rate design is not effective under this new paradigm of energy efficiency. We're using outdated rates that rely too heavily on kwh sales to generate revenue. You see, our customers have evolved. They've

become more efficient. But our rate design hasn't, and that has to be fixed. This next slide will demonstrate that. So, if you look at this slide, it's got a lot of information, and I'll lay the groundwork in just a second. But what this is summer consumption in 2009 compared to

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2021. Looking at this slide, those are kwh, in 50 kwh buckets, on the Y axis is the percent number of bills, and if you look at the very top of that graph, you'll see tier 1, tier 2, tier 3, tier 4, tier 5. Those are representative of our five tier residential structure. Also draw your attention to tier 3. If you draw a line, about right down to the middle of it, everything to the left is below cost. Everything to the right is above cost in our rate structure. So, let's look at the Orange line. So, why 2009? 2009 was the test year, when we developed this current residential rate structure. And at that time, you can see the Orange dot, where about half of those customers used 1,149 kwh or less. The other half used more. And I just talked about this new paradigm of energy efficiency.

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So, as we move forward to 2021, that Orange dot now becomes the yellow dot, if you will. So now, instead of 1,149 kwh, the median is 900 kwh with about half using less than 900 and about half using more. So that's a 22% decrease in consumption. So that speaks to the issue about energy efficiency. Now, I want to talk a little bit about how our old rate structure doesn't accommodate this new paradigm. Back in 2009, if you look at the Orange line, about laugh of those kwh fell to the right of the tier 3. And about half fell to the left. So we relied on kwh sold in second half of tier 3 and tier 4 and tier 5 to help pay for not only themselves, but those kwh sold that were below cost in tier 1 and tier 2, as we move from

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the Orange line to the yellow line, what you start to see is more kwh being congregated in tier 1 and tier 2, which are below cost, and less kwh out in the high value tiers in tier 4 and tier 5. You can see a little bit of a swag in tier 4, where we see lost kwh sales. Those kwh sales aren't around anymore, for one of two reasons. They either have migrated to tier 1 or 2, or we've simply lost them. Next slide, please. So we have about \$1.8 billion of debt outstanding and we have a fiduciary responsibility to our bondholders, and so when revenues don't cover a cost, our master bond ordinance requires us to fix that. Section 4 speaks to it. It says it requires the city to fix rates, to pay all our current operating expenses. We also have a financial policy that says we'll conduct rate review adequacy studies, at a minimum of every five years. And that when we find that we're

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deficient, that we move forward with a rate case, and then of course we're always concerned about a credit rating. And need to look no further than what moody's said in its October 2020 credit report that says factors that could lead to a downgrade include failure to implement a needed rate increase in a timely manner. So, as a recap of why we need this base rate review, you know, we've talked about customer growth and an obligation to serve and so we get this significant customer growth. We have to build plant to serve those customers, plus maintain reliability. We talked a little bit about energy efficiency and that we need to improve fixed cost recovery because we have this outdated rate design. Higher o&m costs associated with the additional o&m. And our bond rating health.

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Next slide, please. So at this time, I'm going to turn it over to Tammy cooper and she will talk to you about the rate review process.

>> Thank you. As rusty mentioned, the process is much like the process used in the 2016 rate review. This is based on the public utility commission's procedural rules. As we did in 2016, we will retain an impartial hearing examiner to oversee the rate review process who will provide council a recommendation on Austin energy's base rate proposal. We will also retain an independent consumer advocate who will specifically represent the interests of residential and small commercial customers. And as Jackie mentioned earlier, both of those rcas are up for council approval on Thursday. Since 2016, we have enhanced the process to make it more flexible and more accessible to the public. All of the same procedural protections are there, including discovery and an opportunity for each of the parties to make a

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presentation to the hearing examiner. The enhance process also provides additional opportunities for participants to ask questions in-person of Austin energy staff through technical conferences. But we have streamlined much of the formal processes and reworded some of the legalese so that the process is more easily understandable by the public. Next slide. That should have been that slide. We will engage in extensive community outreach to our customers and educate them on the need for a rate review and inform them as to how they can get involved in the process. We have a combination of in-person and virtual meetings scheduled for all customer classes, residential, small to midsized businesses, and large customers. We will have a dedicated web page, explaining how customers can participate in the formal process or how they can submit comments if they wish to participate informally. All feedback from the

community is valued, and will be provided to the impartial hearing examiner and the independent consumer advocate.

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Next slide. This timeline shows that we will be publicly filing the base rate review filing package with the city clerk on April 18th. Customers will then be able to request formal participation in the process and engage in discovery. We plan to have a hearing, which we are now calling a final conference in mid July. Following parties' briefing, the impartial hearing examiner will draft a recommendation for council's consideration. Following issuance of that recommendation, participants will have the opportunity to respond through the submission of exceptions, then the recommendation and the exceptions will be provided to the electric utility commission for their review. On November 3rd, council will set a public hearing, and on November 17th, we'll consider the recommendation for final approval of new rates to be effective January 1st of 2023. Next slide. So in conclusion, going back to what rusty said, Austin energy is seeking recovery of base rates costs, improved financial metrics and compliance with bond

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covenants, financial policy, and the aa rating credit expectations. A revised residential rate structure that better recovers costs while enhancing fairness, a gradual move for each customer class to pay their share of costs, and greater equity for our more vulnerable customers through better rate design. Next slide. And that's our presentation. We're happy to answer any questions you may have.

>> Pool: That's great, Ms. Cooper. Any specific questions here before we proceed? Yes, council member tovo.

>> Tovo: Yeah, I have some questions. So I'd like to get back to -- I would just say, manager, I hope that we'll have considerable time, either within this meeting or within our other council sessions to really talk about this as it moves forward. I know last time we had a major rate review, an increase proposed increase, it took quite a while for council to sort through, and that was really helpful for the rate payers, because I think the first proposal that came forward was

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in the neighborhood of around 12%, and we were able to cut it down almost in half. So I think it's really important that we take the time we need to really understand well so that we can talk to our rate payers about these elements. So I want to be sure I'm understanding the rationale for it, and I want to be sure for today that I'm understanding your charts correctly. So back on page 10, why the base rate review is needed as proposed. It's that costs are exceeding revenue, and I am seeing -- if I'm reading

your chart on the left correctly, it's really just the last two years where the costs exceeded the revenue; is that accurate? So until then, the revenue was indeed exceeding the costs?

>> Yes, ma'am. Those are base rate revenue costs and base rate revenue expense, and you're correct that the bar chart reflects that. Yes, ma'am. So it wasn't until '20 and '21.

>> Tovo: Okay. And I know that we have a council policy to re-evaluate

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every five years, which I think since the last one was in 2017, I know that this is -- I mean, as I -- I assume that's part of why we're being asked to consider it now, not because of two costs where the costs exceeded the revenue, but because it's time to look at it again as part of that commitment to look at it every five years?

>> Well, I think it's a combination of both, right? We're experiencing, you know -- financial ratios are deteriorating. There's real losses. We've had, as I said, \$90 million in net losses the last two years. And our cash balances are going down. We've had deterioration in things like our debt service coverage, our debt to equity coverage, our days of cash on hand is going down. So, we've had just a general decline in our overall financial health.

>> Tovo: I don't dispute that. I guess as I'm looking from 2014, you know, most of those years, every one of those years, in fact, the revenue that we brought in was more than the cost. There are some years, and I would have to sit and really

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figure it out, but there are some years the cumulative impact of that may be that the revenues exceed the cost that -- that gap make up for those last two years.

>> Well, I certainly can't speak to what's going to happen in the future, but I will tell you that looking at the trends is that that cost line is a fairly steep slope, and that you can see since 2018 our revenues have been relatively flat. If you look at the top of those yellow bars, we just hadn't seen a lot of growth in revenue.

>> Tovo: Yeah, they look like they're pretty flat since 2015 on actually.

>> It goes back to this phenomenon that I spoke of recently, is that our outdated rate design built back on 2009 data no longer reflects how our consumers use energy.

>> Tovo: Right. And I remember that conversation, that very conversation taking place, you know, before I joined the council, and then -- which was

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in 2011. But when we had our first rate review, that came up again, that Austin energy needs to address this issue, because we want, as a matter of policy, we want our customers to use less energy.

>> Absolutely.

>> Tovo: And so while this -- I understand what you're saying and it is an outdated model, but it's been outdated now and a cause for concern and something we've been talking about for a long while.

>> That is absolutely right.

>> Tovo: So it's not really a new phenomenon.

>> Right, and let me be absolutely clear. This is not about energy efficiency. That is a good thing. Austin energy and the city of Austin has always promoted energy efficiency and conservation.

>> Tovo: Right.

>> And that's not the issue. The issue is that we need to bring our rate design current.

>> Tovo: Well, and I'm glad you said that because it's absolutely the policy of the council and your utility to make sure that we're making the investments in energy efficiency and conservation that we need to, and we hope that the use

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will decrease commensurate to that. And I know that members of our community -- and I see Mr. Naser here, he and others, various others have been saying far long while that Austin energy needs to look at, you know, what is the long-term trajectory here. It's the same issue that comes up when we talk about our water utility. We want folks to conserve more. So what is that long-term sustainable financial model because we need to be able to balance it with our policy and our climate goals. So, are the cash and reserve balances as cited on number 10, are those our total?

>> Oh, the cash and reserve balances. Yes, ma'am. 558 -->> Tovo: I ask this, because I know in the past, sometimes there are multiple different funds called different things.

>> No, that is cash and reserves.

>> Tovo: And so just so I'm sure I'm understanding this correctly, the minimum balance needed is 480, and we have been above it -- we have met or

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exceeded that since 2015 on, correct?

>> Yes.

>> Tovo: So I think what I'm interested in seeing is a little bit more information about those costs that you're talking about, the costs that have especially accrued in 2020 and 2021. You started this by saying you wanted to address up front the question of whether any of this was attributable to the winter storm, and I appreciate that you said no. I think that it would help the public if they could actually see what some of those costs, since the biggest gap between costs and revenue occurred in 2021, which was the very same year. I think we do need to see what those costs were by category so that we can assure the public it wasn't about winterization. It wasn't about some of the other things that I assume are real capital costs.

>> Absolutely. And the rate package that we released in mid-april will show the test year costs.

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So all of that information will be available.

>> Tovo: What is the test year?

>> 2021.

>> Tovo: It is 2021? Okay. Yeah, that would be helpful. And I know just based on our first time through this, that people will want to know whether that's the most appropriate year. So that will help us determine whether there were unusual costs that year that we wouldn't experience in another year and whether that's the appropriate test year. But from what you were saying, the costs -- even though that was an unusual year with an extremely weather event, and I would assume some really -- I would assume some necessary expenses. You know, one of the things that we've been talking about with regard to the after action report are some of the repairs that Austin energy has done looking forward. And so, I would expect those to be reflected in the costs.

>> Right. Our test year costs are adjusted for known immeasurables. Anything that wouldn't represent a normal year.

>> Tovo: Okay. So that's one piece of --

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>> Pardon me. That we can make that adjustment on. They have to make that criteria known and measurable. Yes.

>> Tovo: Okay. In terms of the proposal that you're bringing forward, does it propose any changes to the tiers?

>> We are proposing a different rate structure for residential, yes.

>> Tovo: And is it going to be aligned with our policy goals of really shifting and having higher -- you know, really sending pricing signals so that we have lower total costs for those -- sorry, that's not the slide I was thinking of. For those users who are using less energy?

>> I think what we will be putting forth in mid-april is really reasonable in that regard.

>> Tovo: Reasonable in that it's kind of shifting the burden of the increase to those who are higher users, higher residential users?

>> Well, as I showed you recently, there are no more, quote unquote, higher users. Everybody has shifted down. As I showed -- the Orange line and the yellow line. Our customers are reducing on

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average 22% less than they were in 2009. Those customers out there in tier 4, in tier 5, they're going away. In fact, if you look at all of our residential customers in aggregate, over a third use less than -- over a third of the bills are less than 500 kwh. If you look at 500 to a thousand, over three out of four bills lie there. There's not a lot of numbers -- there's not a lot of bills past that 1,000 mark to make up any difference.

>> Tovo: Okay, that will be interesting to see. I know that we did make some changes to the tiers. Undid them, made some additional changes last year. So I'm not recollecting some of the history there, but that would also be I think useful backup information to have when you bring forward your proposal.

[3:25:01 PM]

Are the large industrial customers -- are you proposing any changes to the large industrial tariff customers?

>> Yes. It will stretch across the board, save and except some of the commercial classes that are paying above cost to service. And that information is available in the last cost of service where we showed customer cost to unity. I don't want to tip my hand too much, because these things need to be taken in totality, as opposed to just one-offs. But, right, we are proposing increases across all customer classes with the exception of some secondary classes.

>> Tovo: Okay. But the large industrials will be considered within that? And are you able to say anything else at this point about how those tiers -- those residential tiers might be adjusted?

>> I'd just rather not at this stage of the game. It will go public, like I said, by the 18th of April.

>> Tovo: Okay. Again, I think it's going to take us a long -- you know, some

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considerable time to sort through these issues. I hope we'll devote the time that we need on this. Thanks very much.

>> Pool: Thanks, council member tovo. I just want to make sure that everybody knows, we will be having an update on this at our June 7 meeting. So we can remind ourselves and the public about the process and the timeline. So we'll make sure that's on our agenda. I think I saw a hand up there. Council member Renteria. And then mayor pro tem.

>> Renteria: We've been discussing rates and how the state has treated us in the past, especially when the big high commercial users and the threats they have. I'm very concerned about that. I also want to know where the cost is coming from. If it's some of the big investments that we did by decommissioning some of the plants and we made some big high up front payments.

[3:27:07 PM]

I just wanted to make sure that we get all that information out so that we can tell the taxpayers exactly that supposedly these investments were made -- will save us a lot in the future. And I really want to know if this is just going to be a temporary up, or is it because of the wages are being demanded by the industry now where it's going to cost us. Because we're having to pay more for supplies because of the inflation that has hit us. I want to make sure that we get all that information up front, because we really need to justify our rate increase and we need to be honest with our customers, and I just want to make sure that you realize that we're going to have to be discussing a rate increase in the future, it seems like it. And I just want to make sure that the public really knows

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what's going on.

>> I couldn't agree with you more. And the rate filing package will be very detailed when it's released. It will lay out every dollar that we're trying to recover and how we're going to recover it.

>> Pool: That's great. Thanks. Mayor pro tem.

>> Alter: Thank you. I wanted to echo the request to make sure that we have a lot more clarity on the cost. We did make the big purchase of nacogdoches plant, which seems to have paid off financially in other ways this winter, given where the energy market was. But I think it would be good to have that clarity that my colleagues have mentioned. When we talk about the base rate, so on slide 8, it says a

base rate revenue does not include the customer assistance program, energy efficiency programs, transmission related costs, purchases from ERCOT, district energy, cooling, and

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street lights. I think that's really important that we are very transparent about what this rate covers or doesn't cover.

>> It doesn't cover what we think of as pastures and only covers that to provide electricity. District cooling are not included.

>> Alter: Right. And I think the other thing would be a sense of some of the investments that we're making that should also be reducing our costs. So, for instance, when we invest in vegetation management and we manage our lines properly, that reduces other costs that we have because we're not having the reliability issues. We're not having to send folks out, et cetera. And so I think it would be helpful also to see not just the costs, but some of those are designed to make us more efficient and having a better sense of those, I think, would

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be helpful. How much of the drop of the revenue is due to COVID and a lot of offices not using energy? Because during the period where we had this gap, not only were there higher costs because of the supply chain issues, there was also some shifts in how energy was used. And it may have washed out. I'm just not familiar.

>> That's a really good question, and we have debated that back and forth. But at the end of the day, we can't define what's attributable to COVID necessarily. People use electricity or don't use electricity for a variety of reasons. And we can't pinpoint, well, this sliver is because of COVID. All I can tell you is that the consumption, the energy sales have been relatively flat.

>> Alter: Okay. I think it would be helpful to get a sense. I mean, we even know what our own energy savings were, you

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know, for our buildings that were not being used as much. That would perhaps give us something.

>> Keep in mind, when we reduce electricity, just in general, when you reduce electricity, you don't necessarily reduce base rate costs. When you reduce electricity, what you impact is your power supply adjustment.

>> Alter: Okay.

>> So if you say I've reduced the number of kwh I consumed, where is my savings? It's in the power supply adjustment and it's not in these base rate costs.

>> Alter: Okay, that makes sense. Thank you. In terms of the business model question that council member tovo raised, I think it would be helpful for us to have some analysis of the role that evs could play in that future business model, if we shift cars from gas to electric. Does that have any appreciable impact on the utility and its model if people are supplying their cars from the grid instead of from gas?

[3:32:14 PM]

And I don't know if it has enough of an impact, if that can help. And that would be useful to know for our further efforts.

>> That's a really good point. I will tell you, though, that these rates are based on a historical test year. And so anything that might come in the future is not captured in this instance. This base rate only deals with costs incurred in test year 2021. Plus some known immeasurables. When those impacts occur, we'll eventually have a rate case that will be captured and reflected in rates then, if that's what you're saying.

>> Alter: I'm sort of concerned about the broader model for how we fund Austin energy, and we have the same thing with our water utility as we push

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conservation, then we have different revenues, but we still have to, you know, provide the basic service. Even as we're doing this rate study, we're making investments that impact that business model, impact our efficiency, impact the cost portion of it over time. And yes, it is true that the rate will adjust over time and we can always go back, but I want to be able to demonstrate to our rate payers that were making those kinds of investments and that were thinking forward to understand how our model is impacted by these shifts, these underlying shifts, either in conservation, use of evs, or other kinds of things. Does that help? I'm sort of seeing both of those going in tandem. And being interrelated even if the discussions are not exactly

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overlapping. Can you speak to, just so the public is aware, we have an item I believe to pay for -- I forget the wording. But someone to represent the rate payers in the process on our agenda. Can you speak to that process a little bit?

>> I'm sorry, I didn't understand the question. One more time, please?

>> Alter: We have legal representation, or as part of this process for rate payers that is independent from the city. And I just wanted you to explain how that --

>> Yes, ma'am, I understand.

>> Alter: How that functions and why that's a part of this process.

>> I'll let Tammy speak to that.

>> We will be retaining an impartial hearing examiner who is an administrative law judge, and he will be rendering recommendation to council, again, based on hearing all of the parties' positions and make a recommendation to council. That is based on the public council meeting that is used at

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the state. That individual will specifically represent residential and small commercial interests and take those into account and advocate those interests before the impartial hearing examiner. Because often, it is difficult for those customers to participate individually in these type of processes. And this is the same model that was used in the 2016 rate review.

>> Alter: Thank you.

>> Pool: All right. Council member Ellis. And I think you will be closing out this line of questioning.

>> Ellis: Thank you, chair. I appreciate the line of questioning that we've been able to hear so far. I think a lot of us are thinking in similar directions. What I would really want to know that we make sure we know going forward is the impact to people in different tiers. I know there's a lot of folks that have put a lot of effort into making sure their homes are energy efficient and trying to bring down, you know, their impacts on energy usage here locally.

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So I want to make sure those individuals understand what their impacts to their bills are going to be and how we can ensure that the folks taking those measured approaches to conservation are not ending up carrying the brunt of the increase of costs, just knowing that, you know, salaries sometimes have to go up. There's an increased cost to equipment and timelines and supply chain issues that we know is happening all over the country. So I really want to make sure we understand how this is impacting residential customers and small businesses like you said. But also understanding folks who have taken that measured approach to conservation, how are they going to be able to continue to seeing benefits.

>> The rate package, it will lay all of those things out and you'll be able to build impacts if you will. I will tell you this, for those people that have made energy efficiency investments, the ones that you're

speaking to who have reduced their reductions, they already see a benefit and it's a reduction once again into the power supply cost, which is

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about a third of their bill. So every time they use less energy, that third of their bill comes down.

>> Perfect. So what kind of outreach is going to be done? How do people know when to participate and how to participate to make sure that their voices are included in this process?

>> Right now, we have on our website published a schedule of community meetings. We will have several that will be virtual, and several that will be in-person. And so we will be providing council offices information and website links so that we would really ask for your help in helping us get the message out and making sure that your constituents attend these meetings. And so we will be doing a lot of messaging to make sure that the customers know that they are very welcome to attend those meetings that are coming up. I believe the first one starts April 19th and they will run for about a month.

>> Ellis: Okay, thank you.

>> Pool: And I think council

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member tovo had one last question.

>> Tovo: I can get information outside this process. But there was a question you asked and you said that information was available from the last rate review and I just wanted to say that I think the last rate review was really a black box settlement.

>> The classes either go up or down relative to that unity.

>> Tovo: Okay. And to the extent we need that level of detail, perhaps we can get it in executive session, if

[3:39:25 PM]

needed.

>> That information is being developed. Yes, ma'am.

>> Tovo: Thanks.

>> Pool: All right, everybody. Thanks for the presentation and for all the information that you all provided to us today. The timeline on the base rate review is a long period over the next several months. So we'll look forward to the update on June 7th, and anybody who has any additional questions, please take advantage of your access to staff during the interim before June 7th. So we've got the Decker Creek power station update, and after that, winter storm Uri after action report update. Item number two, Decker Creek power station update. Good afternoon.

>> Good afternoon. My name is Pat, I'm vice president for power production. I'm here to give you a brief and probably final update on the

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transition of our Decker workforce. We began this journey a little over three years ago. Decker one was retired in the fall of 2020 and Decker two was retired just last week on March 31st. And both of those were as planned. In my last few updates, I indicated that we were on track to meet our goals, and I'm pleased to tell you that we've met those. That allows us to avoid the need for any staff layoffs at this point. This is achieved through a focused effort of communication and preparing staff opportunities elsewhere in the organization. That effort paid off with a number of team members taking new roles as well as taking the opportunity to retire. I want to take this moment to thank the team at Decker, the engineering team that supported it. Decker one and two, for the work they did to provide for a

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successful -- many successful decades of operation by those two units, as well as all of those members of the team who supported getting us where we are today in transitioning the workforce. With that, that concludes my remarks, and I'll take any questions you might have.

>> Pool: Any questions for Mr. Sweeney on the Decker Lake restaffing? Yes, council member Tovo.

>> Tovo: I just want to make sure I heard you correctly that there are no layoffs that are going to be necessary?

>> Correct.

>> Tovo: Everybody has found -- well, I just want to thank you and your team and those before you in your role for the ongoing updates. I know that that wasn't always

-- that required extra time at each one of these meetings and I appreciate you taking that extra time. I think it was really important for the public to see that ongoing work. But, you know, really more than that, I just appreciate Austin Energy for working hard with all of those employees to make sure that they landed well, either within the organization or elsewhere. So, thanks again.

>> Thank you very much. A team effort. And pleased to be where we are today.

[3:42:27 PM]

>> Pool: Yeah, I agree. Thanks, council member, tovo. And the winter storm uri after action report.

>> Vela: One more question.

>> Pool: Yes, council member vela. Did you want to ask Mr. Sweeney something?

>> Vela: Decker, one unit is being retired. Please correct me if I'm wrong. I'm just trying to understand the assets. One will continue operating there at decker?

>> So, as general manager Sargent said earlier, we still had four gas turbine units that remain in operation. The two oldest units there, which are very large steam boiler units built in the '70s basically, those were the two units that were retired.

>> Vela: Okay, and the other two

-- and just out of curiosity. I'm sorry. When were those units built?

>> Those came along in the late '80s.

>> Vela: Okay, so they still have a substantial operating life left in them?

>> Yep.

>> Vela: Thank you very much.

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>> You're welcome.

>> Pool: All right. Winter storm uri.

>> Thank you. Good afternoon, chair, vice chair, city manager. I'm Thomas peerpoint at Austin energy. I'm here to discuss the status of the 2021 winter storm's after-action report. Next slide, please. The topics we're going to cover is a quick overview of the after-actions report, status of follow-up actions and some questions and comments. In February 2021, the polar vortex above the north pole was disrupted and descended into central Canada, the central U.S., reaching as far south as Texas and northern Mexico. For central Texas, this event lasted from February 11th to February 21st, 2021, and included periods with snow,

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torrential rain, multiple ice storms, localized high winds that were coupled with the freezing temperatures. Portions of this event resulted in weather will have related outages, something that utilities in Texas have many decades of experience dealing with. Unfortunately, the situation greatly worsened when electric demand exceeded generation supplies. This resulted in ERCOT mandated load sheds to prevent grid collapse in the ERCOT footprint of Texas. ERCOT member utilities included Austin Energy, were required to follow the ERCOT mandated load sheds which occurred from February 11th to February 18th, 2021. Following these events, Austin Energy started development of an after-actions report covering the period of February 11th to February 21st, 2021. Internal staff, leadership at all levels, and executives worked openly, collaboratively, and energetically to devote many

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hours on detailed and comprehensive after-actions report. The expertise of the electrical power resource institute, was leveraged as part of a long-standing relationship. This follows a framework used by FEMA. The after actions report addresses 19 major observation areas and includes 116 individual items. This report was delivered in October 2021, and is posted on the Austin Energy website. There's four areas I'd like to highlight today. Observation five focuses on ERCOT mandated load sheds. Staff of Austin Energy have worked to increase the load shed portfolio. This includes formalizing programs to curtail large industrial and commercial customers. Many of these customers can provide significant reductions that can be sustained over a long duration, thus providing

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some relief with the cycling of other circuits. Two large industrial customers have agreed to participate and the program is being expanded to others, including downtown commercial customers. Another area is observation eight, which focuses on vegetation around power lines. The Austin Energy system is strong and resilient. In fact, it is among the best performing electric systems in North America following a thorough and independent analysis by two benchmarking organizations in the industry. Despite this, no electric system can withstand strikes from heavy branches and falling trees. Austin Energy very much appreciates the ongoing and continued support for the activity of tree pruning. It is gratifying to see the performance improvements on recently pruned circuits. Another area is observation 9,

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which focuses on substations. There was a great deal of circuit breaker activity during the winter storms as circuit breakers were used to energize and deenergize electric circuits. Austin Energy staff working with EPRI was able to develop and execute quick and affordable practices to improve breaker performance. Skilled in-house staff at Austin Energy were able to perform necessary activities in the %-

field. At this time, improvements have been made to 87 transmission breakers and 178 distribution circuit breakers by in-house staff. Going to outside contractors would have cost approximately \$2 million and included delays for a multi-year procurement cycle. And lastly, observation 15 focuses on employee health and well-being. This event very much impacted everybody in Texas, especially those in the ERCOT region. Employees of critical service organizations like Austin Energy had to also endure this, yet

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continue to perform their critical service role over the entire 11-day event. Items that have been completed include continued leadership check-ins with employees, reinforcement of the employee assistance program, and review of support procedures for front line employees. Next slide, please. Austin Energy has had quarterly schedule for each of the 116 items. All items that were due in Q2, Q3, and Q4 of 2021 have been completed as well as the recent items in quarter 1, 2022. All these items have been closed out on time. At this time, Austin Energy staff has completed approximately 70% of the 116 items, especially focused on events that were impacted on getting prepared for potential winter storms this year. Thank you very much. Next slide. I'll see if there's any questions or comments.

>> Pool: Any comments for Mr.

[3:49:31 PM]

Peerpoint? Yes, Mayor Pro Tem.

>> Alter: I don't really have a question. I just want to make a comment. I had an opportunity to sit down with Elton and talk about the vegetation management process, specifically in my district. Just want to underscore how important that work is. If you actually look at the numbers of outages on those high wildfire low reliability lines where we've been able to finish the full circuit, you have circumstances where you have something like 30 outages a year, down to zero. Even through the weather that we experience in February and in the wind storms. So that work really does matter. And, you know, we need the continued cooperation of the neighbors who are working with our Austin Energy who are coming through to take these steps. This is really important for the reliability. It's really important for the

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wildfire risk. It is a high wildfire risk day today. So just want to flag that. I want to encourage you and your staff to continue to find ways to accelerate the vegetation and management process. I know there are challenges with finding folks to work in that. I've connected Elton with the Austin conservation core, which is actually doing well for our mitigation. So those folks would be really good candidates to work

with you. But we really do need to be investing in that. It really makes a huge difference for our ability to weather the storm. And I say that because, you know, for those of us who were on the dais when this happened, my district, everything happened four or five days earlier because the vegetation wasn't cleared in a lot of the places and the ice just sat there and created a lot of havoc, even

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before the ERCOT initiated challenges. So we really do need to be making this progress. We are making real progress. I want to just recognize that and underscore the need to continue that throughout the city. Thank you.

>> Pool: Thanks. Anybody else? We really appreciate the additional details and the diligence in the follow-up. Thank you so much. Council member Vela.

>> Vela: Off of Mayor Pro Tem's comments, what about the burying of utility lines in order to prevent future outages? I know we have a trimming program. But in terms of just kind of an analysis, cost benefit, what does Austin Energy think with regards to that?

>> In general the practice in the United States is to -- lines in many neighborhoods are buried. That probably started in the

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1970s. However, the feeds into neighborhoods are usually overhead. All industry studies have been done unfortunately show a cost benefit -- it's prohibitively expensive to bury all the lines.

>> Vela: So at this current time, there's no plan or, you know, nothing from Austin Energy's point of view to begin burying problematic power lines, anything like that?

>> Not on a whole scale basis, no, sir.

>> Vela: Is it done just on a particular basis? If and when one particular segment is identified as problematic?

>> Austin Energy will look for rerouting opportunities or reconfiguration of the electric system opportunities, absolutely. And there are some customers that want -- and they pay for it with CASC to bury the lines that run along the front of their establishment, so we also do have that, too. But no whole scale plans for burial.

>> Vela: Thank you. I live just north of the Mueller subdivision, and I know that was

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obviously a green field development, so we had the opportunity to not, you know, retrofit that. But just visually, it is so nice to be in a neighborhood like that without the power lines overhead. It's just -- I mean, I know that there are benefits beyond just the aesthetics, but the aesthetics are just tremendous when you have that unobstructed view of the city and your neighborhood and the trees and so on and so forth.

>> Absolutely.

>> Pool: I would say, I think all of us asked that question when we joined the dais, because it's universally understood that it is much more -- it's just much nicer for neighborhoods not to have those overhead lines. And my understanding, it is extremely costly, and then there's the disruption to the neighborhoods to do it. Because I think if we could have afforded it, we would have done it more broadly around the city. But to retrofit would be prohibitive.

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But I really appreciate the question that you're asking. I think -- like I said, I think a lot of us feel that -- everybody feels that same way. I see the mayor has his hand up. Yes, mayor Adler.

>> Mayor Adler: Thank you, chair. Has there been any movement or any new ideas associated with how in the event we have to shed load, that we might be able to do it in a way that doesn't shut down as much of the city, or that we can rotate that obligation?

>> Yes. That's a great question. As part of the load shed portion of the after actions report, we have looked at building up the portfolio of load shed, different types of load shed that we can do. So the one that I mentioned that we're really aggressively pursuing is around curtailments, and trying to bring large commercial customers down to pre-agreed levels. So the larger customers can reduce significantly and hold

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that reduction for a long period of time. And if we can -- the more we can get there, the less disruptive we can be in the cycling of circuits.

>> Mayor Adler: Was there a way for us to put smaller service area on circuits so that we could shut down more circuits, but smaller -- impact smaller areas?

>> He configuring the electric system could get pretty pricey, make it smaller chunks of an electric system, and to do that, just for a load shed that might happen in the future, so there's kind of tradeoffs with it. And it would also -- it would result in more lines running through the city as well as we broke it into smaller chunks.

>> Mayor Adler: Thank you.

>> Pool: Anything else on this item? Thank you so much, sir.

>> Okay, thank you.

>> Pool: So our last item -- well, our next-to-last item is number four, which is the reach

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program.

>> Good afternoon, chair, vice chair, and committee members. My name is Erica, and I'm vice president of energy market operations and resource planning at Austin energy. And today, I will share with you what reach is. Our performance to date, and how we can use reach more fully next year. Next slide. Thank you. Reach means reduce emissions affordably for climate health. This strategy is designed to protect our customers from volatile electric prices in the ERCOT market, helping our customers power supply adjustment, or PSA, stay stable and affordable. It's designed to be flexible, allowing us to generate at those high levels when needed for price protection, and then reducing our generation down to lower levels and emitting less carbon when prices are lower.

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In 2021 and '21, since introducing reach, we have reduced carbon emissions by 2.7 million tons, which is roughly 30% of the forecasted emissions for those years. These bars show the emission reductions we achieved in each year versus our targets. In 2020, we slightly exceeded our targets. Last year, due to conditions like URI and high natural gas prices, we came in slightly under target. A key takeaway here is that reach is an effective tool in reducing carbon. Lastly, I'd like to share how we might apply reach in the years to come. On the left you will see that we're communicating that our portion can sit at LSL for many hours of the year. When I say "LSL" that means low sustainable unit or another way

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you may hear it referred to, it's sitting at the bottom. Coal plants can't be turned on and off each day, so they have to sit at the bottom until more of their output is needed. On the right I'm showing how we can apply reach to our portion, while ICR manages their share of each unit as they see fit. Each unit's low sustainable unit is 150 megawatts. ICR shares 75. You can see that on the right two bars. If ICR wants to generate at the full capacity -- their HSL or high sustainable limit, they can do so while we're at the bottom. You can see that reflected on

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the right there. One of the things that's important to note is that over the last three years the market sustained prices over \$100 two per cent of the time. And during those two per cent of the hours in the last three years, fayette represented 90 per cent of its plant revenue. An exit has not yet been achieved but this valuable and effective tool is being utilized to achieve as much of an exits result as soon as possible while being reliable for grid reliability and support. If you have any questions I'll be happy to entertain those.

>> Are there questions here? We will have additional

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discussions about the reach program. Any additional questions for our staff here today? Mayor? Okay. Great. Thank you. I think the last item is just items for future agendas. We know of at least two, so we'll proceed with those two on our next agenda. Does anybody have anything right now that you want to add on? Okay. Thanks very much, and I think we have concluded all our business for the Austin energy utility oversight meeting today and I adjourn the meeting at 4:01 P.M. Thank you so much, general manager and all our staff. Appreciate it all. Thanks.