

## **Closed Caption Log, Council Meeting, 02/22/12**

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>> Mayor Leffingwell: Good

morning.

I'm mayor lee leffingwell.

The quorum is present so I'll call to order this special called meeting on wednesday, february 22, 2012 at 10:07 a.m.

We have actually four items on

[10:08:00]

our agenda.

We can't address item number four until after 11:30 a.m.

And just to advise everyone that 00 noon.

So we may have to adjourn at 12:00 noon.

Council, without objection, at the request of the mayor pro tem, we would like to take up item number two first.

Con sill member morrison?

>> Morrison: I wonder if one would impact item two.

Requesting them to use item two.

If we have a work plan, we want to incorporate that -- the timing of that in the work plan.

>> Mayor Leffingwell: Mayor pro tem, comment?

>> Cole: If you looked on february 22 for today, it would include making a decision about the auditor.

So we could -- if you see february 22 on the process.

It doesn't matter if we make a decision about the auditor first.

I just wanted to make you aware that all of the items if we adopt a schedule, then adopting the schedule would mean that we would follow the schedule for at least those items discussed today.

>> Tovo: I would like to know what the auditor's estimated time line might be if he does a review of the revenue requirement.

If he comes back and says three months, we want to push off any discussion of the revenue requirement until we get his input.

>> Cole: Okay.

I'll concede, mayor, on bringing up that item first.

>> Mayor Leffingwell: If there's no objection, council will go to item number -- we'll go to reverse order, item number three, then two, then one, then four.

So we have one person signed up to speak on item number three.

[10:10:08]

Pena?

>> Mayor, councilmembers, united states marine corps veteran and concerned taxpayer.

This is round number -- I can't remember how many rounds.

I lost count of how many meetings we've had, forums.

Councilmember tovo tossing his hands up in frustration just like I am, man.

Many, many people.

I am a former investigator for the department of treasury irs.

I worked a lot with auditors, audited.

We audited a lot of returns for the taxpayers.

I wanted to say we should have had an audit a long time ago.

I want to say this one more time.

I was cut off last council meeting.

I spoke to a councilmember about -- I called it a cash cow.

The austin energy cash cow.

We need to fully fund social services, you remember that fiasco last year.

I call it a fiasco.

That councilmember told me, oh, no, they don't have more money.

I'm at fault also.

That should have raised up a red flag for me that something was wrong.

But I cannot be everywhere.

I will tell you this much, i don't represent -- I'm not president of anything.

I am a former bilingual educator, esl educator.

I served as a federal bilingual educator under the 1996 reform.

I'm laying the predicate.

A lot of our immigrant community members are concerned about this.

We need to find out exactly what's going on, what brought us to this level, and how, maybe, what step we can to take to remedy thesiation.

And I'm for the best interest for the tax payers.

Keep it short, we are for the audit.

But, please, make it an

[10:12:00]

all-inclusive audit and I trust the auditor.

We met before.

And I want to make it as informational as possible so where the tax payers can understand the language and the verbiage.

I'm not a rocket scientist.

I have to trust y'all.

But when this type of situation occurs at the city of austin, we're the laughing stock.

I've heard people from washington.

I've been in washington with the department of treasury and justice.

There's the laughing stock.

What's going on with your city council, austin energy, your rates, you're scaring a lot of the people, specifically a lot of immigrants who don't have a voice for them.

I'm not their voice.

I want to find out what happened to get us here.

I'm in favor of this.

Long-winded statement.

Should have happened a long time ago.

Thank you very much.

>> Mayor Leffingwell: That's all the speakers that we have.

So, council, discussion?

Or action on this item?

Mayor pro tem?

>> Cole: I would like to call the city auditor, ken morey.

Ken, we basically discussed a process that you could go through to where we could give the public some assurances about the revenue requirement, not rubber stamping the revenue requirement that we put out there on the many that have been put out there, but to help council get a little bit more comfortable that we have done due diligence in coming to some amount that you may recommend or arrange the amount.

Can you explain to my colleagues how that would work?

Of.

>> Thank you, mayor pro tem.

I'm ken morey.

The city auditor.

My understanding of the objective of the review that we're looking at is to do an assessment of the amount and adjustments to determine whether the revenue requirement being presented is reasonable.

The audit would focus on those revenue requirements but would not do a cost of service study or rate design which are two

[10:14:00]

different types of items.

Just looking at the overall revenue requirement at this particular point.

We think that we have taken normal audit steps that we normally would do in this audit nature, we think we can provide a reasonable report that can be useful to the city council probably to the end of april, depending on, you know, what we run into.

But I think we've got a lot of the information already from prior reviews that we've going.

So we think we can provide something as of that point in time if the city council is in agreement with the scope and objective that I just mentioned.

>> Cole: Thank you.

>> Mayor Leffingwell: Councilman spelman?

>> Spelman: Tell me what kind of standards you use to determine what's a reasonable requirement?

>> They are -- from an auditor's perspective, it's a reasonable standard that we use professional judgment based on the substantive appropriate evidence that we determine by looking into the evidence as provided by austin energy to the extent that it's a management decision.

There's nothing to support it.

We would state that.

To the extent that it's well supported in documentation by austin energy, we would state that.

And to the extent it's reasonable to the perspective of the public utilities out there of similar size and operations, it fits well in the range, we would indicate that would probably be reasonable.

As to whether we say the entire amount is reasonable or not reasonable, that probably would be something we cannot do.

It's probably portions that are reasonable or range of reasonableness and we can concur they've been properly supported and there may be while they may be appropriate would be based on management judgment that we would not be able to attest to.

We'd have to rely on management's judgment on that or you would have to do that.

>> Spelman: It seems to me two ways to go about this, two big issues.

One way of going about this is it sounds like what you're talking about, review what it

[10:16:00]

is, the ae staff have come up with.

And to determine whether or not that proposal is a reasonable proposal.

Another way of doing it would be to de novo, how much revenue is that you really need?

Let's look at the record of how much electricity is sold.

How much revenue -- what our costs are likely to be.

And estimate from scratch the need \$100 million or another \$15 million or some other number.

It sounds to me that after the first way of going about it, which is reviewing the ae proposal and not the second wave, which is coming up with the de novo, here's my best guess of how much money you need?

>> That's correct.

I don't think we're qualified to do the second version.

I think I would have to have an expert onboard that would have regulatory experience.

Either through me or you could go and engage someone to do that for y'all separately.

But I certainly do not believe that my people and myself are qualified to do that.

>> Spelman: Given you're not qualified to do the second one, I understand.

I admire that you're able to come out and say that you don't think you have the people to do that.

That's a good thing we know that in advance.

It might be helpful, even if all you're doing is reviewing the ae staff proposal to have somebody at your disposal who can -- who is in a position to have done that second one, to have come up with that revenue estimate from scratch, to help you make sense of what it is that the ae staff did.

So that you're not as dependent on the ae staff themselves for an explanation for what was done and why.

Does that make any sense?

>> It could be useful.

I think the way we're going to approach it the way we do any audit.

One of the things I tell people, the key trade is an expert of becoming an expert pretty quick.

We do an audit the way we donor mall audits, see what they've

[10:18:02]

got, substantiate it.

We would look at the tests of 2009, evaluate it all, make sure it does not have any blips not considered in the adjustments.

We look at the adjustments, review the adjustments, particularly the material ones, the ones that matter to the revenue requirement.

Determine if they're supported or not well supported.

A third step is to find one in conjunction with ae, we want to make sure we're finding comparable utilities out there and do ratio analysis to see if we fall into the area.

To the extent something falls out, we would sit down with ae and other folks and ask why would this be different?

Why would it be an amount that's out of the norm or range of the norm.

That's the way we want to approach it as we do many audits

>> Spelman: Can you foresee in approaching it in that way there may come a point you need outside expertise?

>> Could be, could be.

>> Spelman: Do you have the authority right now to go out and get that, or do you need us to grant you that authority?

>> You would need to grant me that authority and also the cost of who I would need.

I don't think we have it at that point.

I think we've got about \$70,000 in our budget for outside assistance available at this time.

Let me look over my budget person.

Yes.

I have a yes we do.

But if it was more than that, we'd have to seek additional funds.

>> Spelman: So long as the transaction was under \$50,000, fits inside your budget, you wouldn't need us to bless it particularly.

>> If you ask me to do that, yes.

But I would like for the city council to tell me, yes, they'd like me to seek that assistance.

>> Spelman: Having an early warning system would be a good idea.

That calls for periodic updates as to where you are and what uh you need between now and the end of april to make sure we give you that authority if you need it in plenty of time for it not to hold the process up.

>> The amount is \$70,000, not \$50,000.

>> Spelman: Okay, \$70,000.

[10:20:01]

Second question.

Seems toe many the smartest thing we heard on the revenue requirements came from the member of the electric utility commission, commissioner webber who said the only way we can make sure is that ae needs \$100 million more plus or minus \$100 million.

That seems to be properly encapsulate what it is we really didn't know about the revenue requirements.

My guess is that there's going to be maybe not a \$100 million range plus or minus but a substantial range of reasonableness behind what would be a reasonable amount for us to require in order to run the operation.



Does that make sense?

>> Yeah, from our audit.

That could certainly make sense.

For my audit, probably, we would not be looking for additional adjustments to drive the revenue requirement up.

We don't have the expertise to identify that.

>> Spelman: Okay.

>> Probably what we'll be doing is saying okay, this does not appear reasonable, this is not supported, this is not in range, or is it in range, it is supported.

I would anticipate that probably a good portion of it would be.

The decision would be is once we told you what the support was and what the outliers were would be for the city council to determine if they make sense and if it's something that should be considered in the revenue requirement.

>> Spelman: From my point of view, I may be alone in this, what seems to be the single result, you're in a position to provide this, maybe as is, maybe an outside consultant is.

The best number is \$50 million, you can envision a number between \$30 and \$70, for example?

>> It would not be dissimilar to what we did in water treatment four.

We went all through the piece part, reasonable, not reasonable and we ended up with a range.

>> Spelman: The range that falls out of it -- the pieces look like they're unreasonable in the following ways and we could work our way backwards to a real number.

[10:22:00]

>> Yes.

>> Spelman: Not giving us a number of 53 plus or minus seven, something like that?

>> Probably not.

>> Spelman: Okay, thanks.

>> Mayor Leffingwell: Councilmember morrison?

>> Morrison: mory, could you remind us of the review you've already done presented recently when you were looking at debt equity ratios and things like that?

>> Yes, I can.

We looked at funding levels from the reserve funds that I think we still owe city council reconciliation with ae that will be presented, I this i, in the near future.

We'll look at the accept about of the cost allocation methods.

The proposed rates in comparison with other texas utilities, debt service coverage and debt ratio.

All of that would be outside of what we're looking for at this point.

>> Morrison: If we're looking at the revenue requirement, could you remind me of the other elements that you'll be looking at besides debt service and debt ratio?

>> We'll be looking at revenue requirement from the share that they provided us and looking at the adjustments they had, which would include, you know, the revenues, expenses, administrative and all of the expenses we did not look at previously.

>> Morrison: Okay.

We -- you and I had a discussion about potential participation and study that you could do at this point.

And you mentioned that if you -- the possibility of hiring somebody outside that has regulatory expertise that would be more involved, could you describe temperature kind of level of work that we would be able to -- the result that we would be able to get if we had somebody from outside with the regulatory experience?

>> If we got it to any kind of forecast into thinking that something would have been

[10:24:00]

missed, that expertise is needed.

If we get to the cost allocation by class, we may need that.

And if we're looking, with need the rate of development that we would -- the rate design.

We certainly would need someone to do that.

It would not be something that we would be comfortable in doing ourselves.

>> Morrison: So you're comfortable for the most part about the revenue requirement issues which is what we're talking about here, are elements that you can handle on your own?

>> We think we can at this point.

If we can't, we'll be asking for that assistance.

>> Morrison: Okay.

>> Mayor Leffingwell: Councilmember tovo?

>> Tovo: I would like to zero in a little bit on the time frame.

I think I heard you say you could finish this by the end of april.

I guess based on our conversation, our earlier conversation, that just seemed a little bit shorter than the time frame you initially named more in the lines of six months.

So I wondered if you could elaborate on how -- how you will be able to achieve this within this time frame?

>> I'll be happy to, councilmember.

We're looking at the six months we're thinking about doing all of the rest of it, including the cost allocation and the rate design.

And also we've had time to go in and look at what we've got available and work with austin energy.

We had contact with them.

And we're able to determine that we think it would be reasonable for us to provide you that review and assessment within that time period.

Could it go over a couple of weeks?

Yeah, it's possible.

It could.

We can tell you what we have done if you need that report in that particular time.

If you could give us a little more time, we'd be happy to take it because it makes the quality better for us.

>> Tovo: How will it impact some of the other audits you're working on?

>> I'm sorry?

>> Tovo: How will it impact the other audits you're working on?

Will it have an impact?

>> Absolutely.

We'll present a brand new strategic plan.

Because between this and the short term rentals and a couple

[10:26:01]

of the other ones we've done, we're having to relook at the whole plan at this point.

>> Tovo: In our meeting, you had mentioned that you might need to ask the audit and finance committee with more assistance.

Are you able to jockey with it at this point?

Barring the need of outside expert teams.

In terms of your staff workload, are you able to reschedule things with so you can continue with the work without bringing it in.

>> I would like to hold that off until the afc meeting, take a look at that.

And discuss with you guys what would be postponed.

The strategic plan is all of the things that we think should be on the overall strategic five-year plan.

It's a selection of what we think are the most important things to look at.

And I think forward the feedback from the city council or at least the afc to let us know, you know, what can't -- we can't put it off.

What can we do to get it done anyway?

We have brought in students and temporary people to assist us in --

>> Tovo: Sorry, there's a school group behind you.

[ Laughter ]

>> okay.

Now I'm nervous.

>> Tovo: Come on in.

>> We got quite a few people to assist us doing some of the audits in the short-term rentals.

So that's easing some of the pressure.

>> Tovo: Okay, good.

I assume you recapped some of the previous audit.

I know that some of the work you did had a direct -- has a direct impact on the revenue requirement, the debt service coverage and some of the conclusions that you reached in that audit looked at the debt service coverage of austin energy compared to other utilities or reserve funds and their level compared to other utilities.

Will you be folding that in to your final report?

Because I think it is really essential if we look at the revenue requirement, we can consider how those individual elements, several of which you've already studied, impacted that overall revenue requirement.

[10:28:00]

Do you see that within the scope of the report that you'll be presenting to us in april?

>> I do now.

Yes, we can do that.

>> Tovo: Okay.

>> We're working with austin energy, looking at the way they looked at reserve requirements, , debt service, and the revenue requirements.

So we'll be looking at them and relooking at it as per the request of the mayor and we can fold that in there as well.

>> Tovo: So, I want to clarify, in looking at the test to your , w l y making some assessments about whether or not the 2009 test year data is the most appropriate year to survey or to use in this rate proposal?

Will you be making assessments about the validity of that year?

>> Tovo: --

>> we'll be looking at the numbers to see there are no outliers in the 2009 data to begin with not recognized in the adjustments.

If there are, we'll bring that out.

We'll do a three-year average, '10, '09, '08, the nearest three years, or compare it to the test to see what pops out.

Some cases it might pop out, it might be absolutely reasonable.

If that occurred, in that case, we can bring it to the attention of the city council if there needs to be an adjustment.

We'll let you know if there's an issue.

>> Tovo: What you described does include getting to the -- getting to the heart of one of the issues that's been raised about how offsystem sales are treated within this rate proposal?

The off systems sales for 2009 and whether normalization and all of those -- are those also issues that you discussed with austin energy and that will be included within the scope of your review?

>> I don't think we specifically discussed that with austin energy.

But that will be one of the items to consider.

>> Tovo: Another question i have for you.

We heard a lot of discussion or

[10:30:04]

several people made the comment that austin energy is losing \$2 million a week.

That's really not an accurate statement.

It's based on a revenue requirement of \$126 million.

But it doesn't mean that our expenses are exceeding revenue by \$2 million a week.

This is something I'm going to ask austin energy to address when they come up in a little bit.

That's a kind of -- we see that as part of the study of the rev requirement but you will be able to make some assessments about the validity of that statement?

>> We had not considered doing that.

That will require extra actual work.

We had not consider that.

It would add some substantive time for getting it done for us.

>> Tovo: So when you come back to us, do you think you'll be able to -- and you'll be able to assess the -- you'll have assessed the revenue requirement?

>> Yes.

>> Tovo: And some of the call -- calculations.

But you can be able to give us an assessment of how the income statements line up in that revenue requirement.

>> Which ones?

>> Tovo: 2009.

>> We will look at that for sure, the 2009.

But if you're asking today, they're losing \$2 million.

Without doing an audit of the actuals today, which would be a major project, I would not be able to state that as an auditor.

>> Tovo: Right.

That claim is based on the revenue requirement which is based on the 2009 data.

>> Right.

>> Tovo: So I think we will be able to --

>> the problem for me would be the actuals today.

I'd have to audit that.

>> Tovo: Hopefully your audit will shed light on that claim.

Thank you.

>> Mayor Leffingwell: Council, I think we're authorized action on this.

I'm going to entertain a motion to direct the city auditor to conduct a review of austin energy's revenue requirement and

[10:32:01]

report back by the end of april.

It looks like we have on the proposed schedule which we haven't considered yet until may 16.

That would fit in that.

>> Cole: I move approval, mayor.

>> Mayor Leffingwell: Mayor pro tem so moves.

>> Spelman: I would like to additional direction.

If the authority is necessary to hire an outside consultant to address the issues that you've discussed, please let us know in the audit and finance committee as soon as possible so we can bring it to the attention of the rest of the council.

>> Cole: We have an audit and finance committee meeting tomorrow.

So I agree with councilmember spelman that we would be like to be able to -- I think we're posted to look at your projects.

But I think we clearly need to give that authority now as part of the motion.

And I actually think you already have it up to the full \$70,000 for outside review.

You would just not do that without talking to us.

And I'm saying now is part of the motion that if it is needed, I would feel comfortable with that.

>> I'm not sure whether it's required, but I certainly would like it so with -- \$70,000 is a lot of money.

And I like the council to be in agreement with it.

>> Cole: I'm including that in the motion.

>> Mayor Leffingwell: Motion by mayor pro tem, second by mr.

Spelman.



>> Morrison: Are you saying pursuant to councilmember number three, you're over administrative limit, he has up to \$70,000 of authority to spend?

I'm trying to make sure that it's clear that that's what you're saying pursuant to that.

>> Cole: Not to answer a question with a question.

But does the city auditor, i thought his city authority limits are different than the city manager because he answers to us.

>> Morrison: I think the limits are in the charter.

They don't talk about the -- the

[10:34:02]

charter requirements are on -- or just general about expenditures.

>> Cole: So this posting is.

>> Morrison: No, the posting may be broad enough.

I want to make sure you're directing the auditor in conducting the review that he has that authority to spend that amount of money?

>> Cole: Yes, I am.

>> Mayor Leffingwell: With that clarification, councilmember spelman.

>> Spelman: I was going to further clarify that thought.

Although I'm happy with that motion, I'm happy to second that motion.

I thought I heard him saying if you wanted to spend any money at all, he would let us know in advance.

Do I hear you correctly, ken?

>> I will let you know in advance, the audit finance committee so you could inform the rest of the councilmembers that we'd like to do that.

>> Cole: I made it part of the whole motion so the whole council would know other than --

>> right.

>> Mayor Leffingwell: Whatever money you spend has to be in accordance with the city charter and the direction you receive today.

So that can be resolved if not tomorrow, at the next council meeting if you need additional authority.

All in favor, say aye.

>> Aye.

>> Mayor Leffingwell: Opposed, no?

Pass on a vote of 7-0.

So now we'll go to as previously discussed item two.

If there's no objection.

Which is discussion and approval of work session schedules to consider austin energy rates.

And I'm assuming that this means that future meetings on this schedule will be scheduled as work sessions.

We do have three speakers signed up.

Now -- now four.

So we'll hear from those speakers.

Michael zitzevonitch?

Not here?

He's here?

Okay.

And correct me on that pronunciation if I got it wrong.

[10:36:02]

>> It's zivanica.

>> Mayor Leffingwell: Okay.

You have three minutes.

>> It's nice to be able to speak after two or three sessions signing up and not being able to speak.

You need to find a fair and consistent way of allowing speakers, in the evening,er can't stay until midnight or two in the morning.

Twice I got home and my name was called.

My disability isn't highly visible.

Also, consider the rates, are you going to pay what the teachers do for free or volunteers do for free at a city ready to take over that?

>> Mayor Leffingwell: Thank you.

Sarah freed?

Sign up and you have three minutes.

>> Thank you.

I'm cyrus freed.

I work with the sierra club.

We have many members in austin.

We're interested in this rate case.

I wanted to generally support all of you in the need to take an additional period of time to consider these key issues.

There's three major issues you have on the table which you obviously have to assign this rate case.

The revenue requirement, the cost of service, and the rate design.

But there are secondary issues as well, what are we going to do the with the cap program?

What are we going to do with solar?

The energy efficiency programs, and also the issue of inside the city versus outside of the city.

I saw mayor pro tem, your editorial this morning in terms of having additional three or four months to take up these issues.

I think that's a good approach.

But my suggestion is going to be you may need more time than

[10:38:00]

that.

We heard just now that in the end of april you're going to have an audit on the revenue requirement.

Even if you made a decision in may, it would probably take a significant period of time to get the computer and billing system right.

So I've seen additional information from some of the other councilmembers.

More of a six-month time period.

As opposed to a three-month time period.

I'm not going to tell you guys what to do, but that's more reasonable.

>> Cole: That's what you do all the time?

Why would you change that?

>> I'll say it.

I think you're going need something like six months.

There's a couple of reasons for that.

Some of the additional issues.

The issue of whether or not you can use 2011 as your test year or you need to continue to rely on 2009.

You want to know something about what happened in 2011 because in december of 2010, that's when we went nodal.

So the offsystem sales, the way we do that, changes.

Who determines that.

How much money you make from the off-system sales.

How the dispatch does change.

You need to consider that fact as you go forward and not -- if you have to base it on 2009, at least have additional information about how going nodal changes things.

You also, mayor, are going to have an update to the generation plan in september.

It's also going to look at the future of the coal plant.

That may bring up additional either revenue requirements or savings that you may want to consider.

So the long and short of it is that I think six months is probably a more reasonable time period than three months.

And you have an additnal issue which is if it's going toe you six months to reach a decisi, do you need to give a temporary rate increase over the summer to austin energy if,

[10:40:00]

indeed, not having a temporary rate increase would lead to problems in terms of the requirements.

So I would be supportive if you feel there's that need, I would be supportive of that as well.

>> Mayor Leffingwell: Thank you.

>> Thank you.

>> Mayor Leffingwell: Next speaker is tom smith.

>> Good morning, mayor.

Members of the council.

I'm known as tom smith, smitty.

I, too, support a fairly thorough and rigorous analysis of the various components of this case.

This is an extraordinary complex field.

This is a \$1 billion deal with lots of moving parts.

And we're apparently two propose sales -- proposals on the table.

One to do it in may and one to do it over a six-month period of time.

Because of the complexity of the various components and the amount of dligs in fact finding, we, too, join with cyrus and many others in suggesting we need to do this in a more lengthy and thoughtful way and if necessary do an increase in surcharge.

Among the thing that's of particular importance is the question of how it is we attain our goals as a utility to be as efficient as we possibly can and to be as green as we possibly can.

One of the issues that's missing as I understand it, from council -- or mayor pro tem coles' analysis is exactly the issue of how we do efficiency and renewables and keep our revenue high.

There's an oversight in there.

There's not a block in that section for that particular analysis.

There are a variety of rate-making mechanisms that can be used and are used in other parts of the country to accomplish these goals.

And I think bringing in experts would be a good modification to whatever goes forward on this.

As cyrus mentioned, I'll hone in

[10:42:01]

a little bit further.

We're in a situation where the electric utility world changed substantially in december of 2010 when we went to nodal.

That has led to a revenue -- to a situation in 2011 where we actually made \$27 million more than we expected.

Largely due to significant off-system sales.

Could be fluke, could be really hot year.

Also, 2009 was a really hot year, as you'll recall.

The question of are we going to continue to make money in an increasingly warmer climate is a good one.

We think we ought to have a 2011 test year for the analysis because the rules of the game have changed.

To be really clear, austin energy and its executive staff were deeply involved in development of nodal.

Because of their involvement, we are well positioned to profit from off-system sales because the system really does reflect the values that we have in terms of efficient and cleaner plants in many different ways.

Another big thing we think is important is looking at the way state law has changed recently to allow for a basically a rate adjustment package that is different from what we've traditionally done.

And the investor-owned utilities on their transition distribution systems now have basically a file and use, which is really simplistic.

But basically there's a new mechanism for them to true up their expenses and it works -- t -- he said I could have his time, if that's all right with you, mayor?

>> Mayor Leffingwell: I don't see you signed up.

Okay.

But go ahead and get signed up and you can have three additional minutes?

>> Can I keep talking while he's signing up?

>> Mayor Leffingwell: Yes.

>> Thank you, mayor.

Appreciate it.

Another big issue, this thorny one, is that the question of how we deal with the out of town rate payers.

I think this is an issue that's

[10:44:00]

going to require some thorough and thoughtful deliberation.

There are significant costs to serve out of town consumers.

Because they are typically the newest consumers, we have to extend lines and because of many of them are in heavily forested areas, although certainly not all of them, you have the question of whether or not it's more expensive to do maintenance and to do repairs when lines go down out there.

They also tend to live in larger houses.

So the appropriateness of creating a separate rate class for out of town consumers is an important one.

As I mentioned to you the last time I spoke, we believe they get specific value to their contributions to austin energy, whether it be the hospitals, the roads, the economic development we do here as part of our community.

The arts and cultural facilities that we as a city support, all of which make austin an attractive place to be and more fundamentally, we as austin energy have through various court decisions sort of the fundamental right to earn a rate of return much akin to a profit for an investor-owned utility.

We ought to do a thorough look at how other municipalities handle this within the state and other municipal utilities and what the profits are for our friends in the investor-owned utility world.

What their rate of return is.

If they make 13%, 14% on every dollar that goes through their system, we, too, ought to have that opportunity.

All of this would suggest a more thoughtful, extended period of time in bite-sized chunks is an appropriate mechanism to go forth and we would urge you to consider the possibility of a short-term rate increase to enable austin to meet whatever the financial obligations are over the next year or so while they're doing it.

Lastly, one of the other things you have as a rule is you have special rep responsibility as a regulatory to do a thorough

[10:46:00]

analysis, not to be arbitrary and capricious in your decisions.

So in doing policy decisions and then setting up a fully developed rate-case process akin to what you would see at the puc, where the hearing officer who takes testimony, analyzes the revenue requirement once your auditor comes back.

Make sure that's appropriate, looks at cost of service, and all of these other issues and then comes back to you with a recommendation is a very good system for developing fair, just, and equitable rates and there is lots of case law to guide you in the setting up of that process, to determine what are the appropriate rate-setting process is.

It's the kind of thing that would happen at the puc if you're appealed in any case.

So assuming you do a surcharge orp temporary rate, the system you set up could mirror and basically be the regulatory process that you expect the puc or any other regulatory body to do.



We'll talk more about that in a few minutes.

Thank you for your time.

>> Spelman: Mayor?

>> Mayor Leffingwell: Councilmember spelman?

>> Spelman: Mr. smith?

Just to flow up.

You had six minutes, you had to rush through it.

I want you to expand slightly on the last point about having a hearing's examiner.

Who's done that?

How does the process work.

If linda is going to talk about it, don't feel the need to duplicate it.

But I want to be sure.

>> You have done it in the past.

Lanetta can do it.

You hired rafael quintanilla in the 1993-1994 period of time to basically hold a hearing like the ones at the puc and make recommendations.

The statute is fairly vague as to what process you have.

But basically if you look at what happens at the public utilities commission, they have a process that starts out with the utility filing their rate

[10:48:01]

case and then the various parties -- opponents or supporters -- then have a process where they filed various interrogatories or requests for information that then lead to data.

Then there's an opportunity for them to hire expert witnesses, analyze the rate case, present that testimony.

Have a hearing, have cross-examination, and then the hearing officer takes all of this stuff and looks at the issues that are in contest and then makes recommendations on the appropriate rate increase.

Now, they also do this based on policies that are established by the council.

And this is what's important.

And in terms of getting the horse before the cart.

By making decisions on the policies that you as a council want to have embedded in the going-forward plan for this.

And the -- the making sure that the rates reflect that.

You make the policy decisions, ask austin energy to modify their rate-filing package appropriately.

And then that's the set of metrics that the hearing office will use to determine whether the rate case is accomplishing that and whether or not the size of the rate increase is adequate to accomplish those goals.

And whether the structure of the rate package is going to accomplish those goals.

And then they come back to you.

You then have the formal hearing to adopt or modify that decision.

Then it goes -- then by statute, I think you then have been 15 days.

After you make a decision to notify all of the various parties about how it's going to affect their rates.

And then there's an appellate process that begins after the 15-day period of time which says the out of towners have 45 days to perfect an appeal.

Then it goes to the puc.

>> Mayor Leffingwell: Okay.

Holding aside what happens when we file at the puc, there's an appellate process.

The out of towners get a chance to file our petitions and so on.

Holding that all aside, up to the point where we drop the rate

[10:50:01]

case on the puc, there's two big pieces to it, it's now three big pieces to it.

One of them is that we either adopt policies or amend the current policies as a council.

Secondly, we have an administrative law judge to hold the trial, more or less, and report out his or her findings with respect to the rate case.

Now, does the administrative -- I call him the administrative law judge, not a hearings examiner, but basically the same thing in this context, would the examiners say here are the rates that I recommend?

Or I recommend that these rates are okay in the following respects and not okay in the others?

>> They would make a recommendation based on the evidence before them.

I would suggest, because this is complex, you would do an rfp or a -- for a contract employee.

I'm not sure what the right terms are -- the purchasing, that basically would specify you want to hire someone through has these kinds of experiences at the puc or with the state office of administrative hearings because utility law is pretty unique and extraordinarily complex and it has a lot of case law and there are a lot of retired hearings officers who have those expertise that live here in austin that would be able to provide that service to you.

>> Spelman: Right, we wouldn't issue an rfp.

That requires to take the low bid.

It sounds like a bad idea in these circumstances.

But it would be a way of doing that.

We would hire someone who really knows what they're doing if we chose to go down this route.

We hold the trial.

The hearings examiner would report out a finding that would be a substantive solution to the problem.

Here's the rate structure, the cost of service.

There's the allocation you should be choosing.

The revenue requirements, the whole nine yards.

And then we would tinker with i89, adopt it, project it, send it back, do whatever it is we felt we needed to do.

>> That's correct.

>> Spelman: A lot of time involved in these three pieces.

When we did it in 1994 or '92,

[10:52:02]

when ever it was, how long did it take?

>> I don't recall anymore.

I'm at the age where I don't recall certain things.

I would -- yes, it does take a while.

And typically what they have at the puc is a time limit of about 180 days.

>> Spelman: Okay.

>> And from -- once it gets to them.

And so whether it goes directly from here to an appeal, there would be -- let's assume you don't do the hearings officer thing, there would be a 15-day period of time to collect signatures.

15-Day notification.

Once that 15-day expires, as i read the statute, they have 45 days to collect signatures and then it would go to the puc.

There would be some process of verification to determine if signatures are valid.

Then they file it for a hearing.

Then once it's docketed, there's a 180-day period of time that may be extended.

But that's a typical -- that's a sort of by rule, procedural rule period of time.

And I think the average is closer to 270 days a the puc.

But that's a fair idea of how long a case would take because they are complex.

But they're done all the time.

And so the parties to these kinds of cases and attorneys who are smart at this stuff know basically what the rhythm is and can get prepared up to date, hire their experts, get their stuff in, and the judge can make a decision in that period of time.

>> Spelman: The reason for talking about the puc's process is it takes them six months, nine months, to go through a similar procedure and it might take us about the same amount of time if we were to do it ourselves?

>> I think it's a fair expectation because of the complexity of this.

This is a \$1 billion deal multiplied by however many years.

And it behooves you to do a really thorough analysis.

And whatever -- whatever appeals go forward, the quality of the

[10:54:01]

work you do as a council will be a -- essentially a measure of whether what you have done is rational or whether it was arbitrary and capricious.

>> Spelman: And in your experience, there are good logical reasons to believe that the puc would give a deferential difference to a rate assigned accomplished through this kind of process.

Do we give empirical process that they do give a defense if we go through a hearing process?

>> I don't know that.

But typically the -- if there has been a process that mirrors what they would do anyway, the number of issues that then is considered on appeal is significantly reduced.

>> Spelman: Right.

>> And especially, this is a point I want to make is that if you all have established policy goals and reasonable policy goals that guide the rate-making, that is far less questioned if there has been a reasoned, thorough, and thoughtful process in determining the policy goals and the rates that reflect the policy goals.

>> Spelman: Right.

>> So you're taking it to an appropriate step whfr path you go down, whether it's the mayor pro tems or the morrison and tovo-martinez proposal to take a look at the fairly thoughtful process in analyzing things in bite-sized chunks and making policy decisions.

>> Spelman: Right.

Right.

>> The second question is, what do you do with that?

How do you take advantage of the data from the auditor and the other experts who would present testimony in this case about the -- about the validity of the rate package, the need for the rate package, the test year, the cost of service, and all of the other issues you've had outlined for you.

>> Spelman: Let me add one more -- I'm sure you were thinking of it but didn't mention, one more argument in favor of doing something as

[10:56:00]

intrusive and time-consuming as this.

We are contemplating a large CHANGE IN PRACTICE As FAR AS OUR Rate design is concerned.

If you're talking about a small change, small changes, you can probably do seat-of-the-pants approach without much question.

But this requires a lot more thought.

>> There are two fundamental changes.

Going from zonal to nodal dispatch system means your revenue stream is it going to change.

Having a 2011 test year is critical in my opinion mind and in the mind of many of my colleagues.

And the second is one of the issues that has been talked about in the paper that from -- that a time that Roger was announcing his resignation, we're really seeing a fundamental change in the way utilities operate.

And you all are in many ways the cutting edge in saying that we want to be among the most if not the most efficient utility in the United States of America and we believe that it's important to increase significantly the amount of renewable energy we have on our system, both because of its relative cleanliness, but also because of the economic benefits to the community.

And all of those changes mean that we have to design a rate structure that's appropriate for the next decade as opposed to operating on a rate structure that does so by looking at the rear-view mirror.

What's worked in the past.

-- The past.

I think there's a lot of controversy about how to get to the rate structure.

I would suggest there's a thoughtful debate before you all and you bring in experts to talk about the best rate structure.

That will require first-of-a-kind rate recommendations by whatever hearing officer you have.

Having that fully debated and lots of expertise will be useful to her or him.

>> Spelman: Are there any other municipally owned utilities or co-ops.

There's no reason for an iou to

[10:58:01]

go through a hearing process?

Any other public utiies that have gone through something like this in texas recently?

>> I don't know, historically -- I don't know anymore.

>> Spelman: Thank you very much.

>> Mayor Leffingwell: Councilmember morrison.

>> Morrison: Sorry, mr. smith.

I hate to belabor it.

I want to make sure I get real clear on the concept of hearings examiner because it sounds very prudent.

If we work through the issues in a work plan that you've seen -- I've shown you the one that we developed.

There are other ones.

Would the hearings examiner be part of that process?

Or I assume that -- that's the new policy in the hearings examiner process comes in after that?

>> The hearings officer would come after that.

The first stage is the policy discussion.

And the hiring of a hearings officer would be an independent.

It would not be appropriate for that person to be part of any of the discussion about the policy.

>> Morrison: And then given the policies that the council may come up with, does austin energy then go up -- often come up with a recommendation based on those policies then the hearings examiner works through the process from there?

>> That's right.

>> Morrison: They're not part of the recommendation.

>> That's right.

>> Morrison: Thanks very much.

>> I want to stress here.

It's important during this process to look at maintaining the financial health of austin energy and our bond commitments.

>> And you have asked a very good question, mayor, and i certainly ask you get better legal counsel than I since i am not a attorney but my belief is if you are setting out a very thoughtful process that mirrors that of what would happen at the public utilities commission, that it would be a very appropriate motion to say, we would like to stay the appeal at the public utilities commission until such time as we have completed our process, both in setting policy and in setting rates, and that they would clearly establish jurisdiction and it would pend that rate appeal until such time by the final decision of the council.

It is a matter of millions dollars in any case.

I don't want to underplay that.

But if you are opponent to this rate case and you are now realizing that what is happening is you have a fully thought through process that is going to come up with an answer that is different than the interim, why would you spend millions of dollars on short-term appeal only to have redo it again when the final rate case is finished.

And I suspect the courts, when looking at this, assuming they will go ahead and appeal it and have a hearing, why would you not then grant a stay until such time as this process is completed?

Again, you need to do this in executive session.

You need to have your attorneys thoughtfully look at this but that would be my recommendation to you.

got you.



Okay.

Council member martinez.

>> Martinez: Thank you.

I wanted to continue in this conversation briefly and ask a couple of other questions.

It is my understanding that in any rate case, the only folks that can appeal to the are those 50,000 or so that are outside of the city of austin city limits.

>> That's correct.

>> Martinez: So any decision makes also wise would only affect those 50,000 customers?

>> I am not sure that is a settled question of law and it is a risk that you run.

There is sections of that statute -- again, let me counsel you, I am not a lawyer but I have been around this process a long time.

It basically says this is a de novo appeal and to the extent policies that you have established here, cost of service models, et cetera, affect the out of towners, it is my concern that they may well be able to go beyond the impact on those 50,000 out of towners and look at the core decisions made by the utility or by the council and say, well, that is not the right service model, we want you to use this one.

I think there is good reason to believe they will get into the meat of whatever it is that you do.

Then the question fundamentally is, what is your appellate's possibilities and I don't want to --

>> Martinez: So likewise, as you have mention and I tend to agree if we implement an interim rate proposal and then contemplate for six is months or so what we are going to do long term, we face a potential appeal?

>> Yes.

>> Martinez: Likewise do you agree with austin energy's current proposal with an increase today of 8% plus and then in two years come back for an additional 3% plus, would also trigger two ?

>> I have been assured by people who live outside of the city that they will appeal.

>> Martinez: Thanks, mayor.

but i think your question was the current proposal, which is a phased approach would trigger two potential appeals and that is not the case, it is my understanding, that as long as the second phase is included in the first proposal, that would only be one rate case, even potentially?

>> I don't know.

>> Council member tovo.

>> Tovo: I would like to request that we get legal to weigh in on that.

That was not my understanding based on my discussion with the outside legal representative but i think it is a discussion we have to probably take up in executive session, unless -- it is your call.

I would be interested in -- is that something that can be discussed through an open ..

>> Probably is a subject better addressed in executive session.

>> Mayor leffingwell: okay.

The next speaker is karen hadden.

>> Good morning, mayor and council.

I want to -- I am here on behalf of sustainable energy and economic development coalition and also serve as solar austin board member and I want to first of all thank you, because I really appreciate your thoughtful approach to this and your desire to work hard to get it set upright from the get go and I think that's incredibly important.

I support your efforts to take a little longer, to take the six months, if possible, to do additional study and to look closely.

I think it is a lot more important that this be done right than quickly.

If there does need to be an interim adjustment, we can live with that but certainly we need to take our time.

I concur with the statements made by cyrus reed and tom smith and I won't repeat those but I would like to add briefly that during the process I hope you will also look closely at our picture of generation throughout the process, because this is a time of transition, and it is the right time to be looking at that.

What is going to be our affordable means of generation and electric production in the future?

And in particular, I think we should look at existing generation and weigh in how effective is it, what are the increasing costs for coal and nuclear, what are the chances that they are going to be up and running?

We are having problems with south texas project two.

'S not going to be fixed until late april, early may.

I think you need time to weigh that into the big picture and, again, I thank you for your efforts on this front.

thank you.

So those are all of the speakers that we have.

Laneta cooper, thank you.

I almost forgot you, i apologize.

>> I am a here on behalf of texas legal center and great panthers of texas.

We support any work plan or resolution that will provide for some interim relief, because we do have a concern.

We want a healthy utility but at the same time we want a methodical approach and we want y'all to seriously consider a hearing examiner to aid you in determining whether you need a rate increase.

A hearing examiner would create deliberate and independent decision making process with players knowledgeable about rate making who would be provided adequate opportunity to vet the relevant issues to be determined.

A precedent has been set by you all involving an independent hearing examiner.

The approach would provide impartiality to a decision make making process that would address concerns of arbitrariness that may be argued before the public, p.u.c., or even legislature.

The hearing examiner process would better ensure issues issues stontially affecting consumers will not fall through the cracks, including the fuel costs for customers who are on special contracts.

Hearing examiner process would also provide the ability to speak additional rate relief if shown to be necessary pending a final decision or even for other parties to challenge any temporary rate relief.

In other words, it sets up a really good process that would help you really make a really good decision and I i could certainly more technical questions if you want or try to answer them.

I don't have anything else to say.

any questions?

Council member spelman.

>> Laneta.

I am going to ask a couple of questions I asked a minute ago.

Do you have any experience with hearing use examiners to come up with electrical ?

>> Yes, I do.

>> Spelman: Tell me about it?

>> I would like to kind of shift to when we had the hearing examiner because the concepts you need in a hearing examiner are due process, giving people a reasonable opportunity for discovery.

So I wouldn't recommend you use the more formal discovery process because that would first of all cost lots of money for everybody and second of all take more time.

I would recommend things you did in the rate case and have a series of technical conferences where the parties could come to the austin energy and have their questions asked more in roundtable so there are a lot of ways to shorten the process time line but still give people due process a fair opportunity to be heard.

If you want to ask --

>> go ahead.

Sorry.

>> Spelman: So you are suggesting that this is not -- what somebody was suggesting and probably the purest form of this is more or less a trial with all of the baggage involved with that.

You are suggesting something that is a lot less formal than that and underlying the two suggestions must be true that we have a wide variety of ways we can set this up?

>> Yes, there is the whole variety but key points to me would be giving awe of the various people -- giving all of the various people, various interests a reasonable opportunity to be heard on all of the issues because that's going to be really important.

A lot of issues will fall through the cracks unless all of the various parties come in and aggressively represent it.

Like one example, your auditor came here earlier this morning and said he will look and see if the correct known and measurable changes were known.

Well, other parties would come in and go, there are additional known and measurable changes that should have been made to reduce the revenue requirement.

And so those are very important issues.

That's how a lot of the rate -- revenue requirement gets vetted, at the hearing, so those are very important essential things, to give them an opportunity to learn more about austin energy which I think can be done much more informally than what they usually use at the p.u.c.

Too, you probably will want some kind of hearing process where you do have the right to cross-examine and put on evidence.

I would think that you would probably want to mirror what unlike trials with perry mason, you prefile your direct case, so you actually start with your hearing examiner on cross-examination.

>> Spelman: Right.

>> And that also quickens it up and it also decreases the cost for discovery, so it is actually really a good thing and I would also hope, which even the administrative hearings examiners do, take into consideration parties with few resources because it's terribly unfair in a public hearing process to punish people and exclude them from the process because they do not have the resources to do it in a very saw formalistic way.

>> Spelman: Sure.

>> So those would be some of the key things.

>> Spelman: Direct and cross-examination evidence are presented on formal record, there is a rod of the whole proceeding.

>> Yes.

>> Spelman: And everybody has an opportunity to present its case and present the facts.

>> Yes.

And you could also specifically request the examiner to issue whatever recommendation you want in the format that y'all consider the easiest to understand.

Well, that's an important thing.

>> Spelman: I agree.

>> To understand and so i would make sure that it's in plain english and if you really want to set the issues in the way that makes sense to you, you may want small interaction with the examiner and say give us your recommended outline for the decision, and that -- think of it as appellant court because whatever a hearing examiner does, a party can appeal to y'all to change the decision.

That mirrors what happens at the p.u.c.

The.

>> Spelman: I would look terrible in a wig.

It would never work.

I have authority for this -- have you seen cases where municipally owned utility or a co-op used a hearing examiner in preparing a rate ?

>> I honestly can't tell you.

I really don't have -- even when I did a lot of work at , I never was involved in municipally owned utilities except one, city of austin rate case, many, many years ago but that's the only one.

>> Spelman: Okay.

is one example of self other parallel processes elsewhere in the state government.

Have you seen this in the insurance business or water business, anyplace else?

>> Well, I have worked in three different agencies and all three different agencies sped up procedures but it is always at the state agency level.

>> Spelman: Okay.

>> My guess is it's really up to your -- your commonsense about what you think would be the fairest thing for you all to make sure you get all of the issues and big issues don't all of a sudden fall through the crack because you had hundreds of others given to you in 3-minute sound bites.

Or do it in a more deliberate process and you get to frame how you want the issues to be decided.

That's what smiddy talked to you in coming up with public policy and you can have directed investor owned utility cases, in the next rate case use x or use x.

So you are not interfering in the management and still acting as a decision maker when you make that kind of decision.

>> So really what we are talking about is with the possible exception quinn-tinilla we are talking about unchartered territories, co-ops and others haven't done this but it makes more sense to come up with a result of the and for them to come up with a substantial result obtained in this way because we haven't done this before, at least not lately?

>> Not lately.

I would say the one with the hearing examiner, I don't think that would be was appealed so it may be an indication because your credibility is not just to the p.u.c.

It is with the people who you are setting these rates for.

And if they really think they've -- they got a their shake and couldn't get -- this is all decision making, I think you should think what is best for you and what is best for the ratepayers and I believe this is a really good vehicle to make sure that you really get to see all of the issues.

That is one of the biggest concerns I have seen throughout this process is you can't really see them because they come in these three minute sound bites and there is so many of them.

Unless they are organized in a very deliberate manner, you will miss them and they could be very big ones.

Like the fuel factor formula is a very classic example.

I didn't really catch it until we were 3/4 of the way through here and if nobody had raised that to y'all, you never would have looked at it and to me it is a serious issue because it is changing the way we are charging fuel to everybody except the people on the special contract and does that mean that those not on special contracts will end up further subsidizing these people on a special contract?

And there is nothing in the rate filing package to let us know.

I think there is and indication there is a possibility that it would and there is no safeguards built in.

That is one example.

Another example like I said is the known and measurable change and the only thing i would add is I think it is really important to get a rate consultant representing residential consumers, to have it more -- to have a thoroughly vetted thing.

You need to have all of various competing interest groups to come before the hearing examiner to make their best case.

>> Spelman: Thanks, i appreciate it.

how many morrison.

>> Morrison: Thanks, laneta, to pick up on your last comment for somebody to represent the residential consumers.

Can you talk about whether that is a common approach in rate changes?

>> Well, it's a -- actually in 1983, I think, the legislature found that it was important and significant to create an independent office to represent residential and small business consumers in utility issues.

And that has been replicated at the -- in the insurance industry.

There is an office of public incounsel and there is also independent counsel -- not as independent but a sense of independent counsel at the water commission to look at environmental and water rates.

So there has been a big public policy determination that the people individually do not have adequate resources.

They are an important public interest whose views need to be interests need to be heard and set on the same footing.

So to that end, consumer advocate is important because it is such a very complicated area.

We all realize that now.

And so we really need someone who is knowledgeable and trained in utility rate making who can come before y'all and represent the interests of residential and low income folks.

>> Morrison: How would that differ from our residential advisor?

>> The residential advisor looked at some of the issues in the cost of service but the residential advisor did not look at all of them and as regulatory attorney, the things that didn't get reviewed were costs classified and allocated based on customer or general administrative costs and those things have tremendous impact on residential consumers.

One example is the economic development fund, which first was classified as a customer cost, but austin energy changed its mind it had the effect of significantly decreasing some of the -- 9 million-dollar costs, reduction from residential customers.

So that's just one example of some of the other things.

We really need someone who has particular training and expertise in rate making and rate designs, who has a broad base of experience.

Most consumer advocates, because they do have to go across the country, there is not that many people to hire residential advocates.

Have a broad case of experience and they can bring to you all a very wealth of experience and knowledge on rate design and cost of allocation based on their -- usually they have a much richer experience base than even traditional utility consultants.



>> Morrison: And it sounds to me like if we were to have such a person be involved, that it would be appropriate for them to be involved during our policy development, as opposed to just during the -- once the recommendation comes out.

Would you say that is correct or would you --

>> you would definitely want all parties which would include residential advocates to participate and make recommendations on what policies you should adopt for purposes of the rate case.

>> Morrison: Okay.

Thank you.

mayor pro tem.

>> Mayor, I passed out a schedule for a process for us to consider possible action on various items.

I am sorry, I didn't have a question for her.

Thank you.

>> Okay.

Thank you.

[Laughter]

>> a ready, mayor.

yes, I am ready.

>> Cole: I think the most important thing for us to remember at this point is we are discussing how we are going to discuss this issue so I think that the proposal that I have passed out is somewhat aggressive it is reasonable and prudent and the aggressive part is simply there because we know that no matter what numbers we come up with, the austin energy is in some level of financial distress.

I think we all agree to that right now, and so time is of the essence and so we have to be prudent and diligent about getting this done, so I am going to go ahead and move approval for the schedule that has a meeting today, february 26, march 6, march 20, april 10, april 25, may 16, and may 24, just so that we are clear, and the may 24 date would be the date for the final council action on the rate increase.

>> Mayor leffingwell: Motion by the mayor pro tem to adopt the rate schedule in what I have marked as exhibit a.

A lame attempt at humor there.

I think everyone has this.

And is there a second?

And I will second, for purposes of discussion, i want to say, that I realize there is another proposal on the table and there has been discussion about a longer period of time to work this out.

My rationale is that we can always extend this thing.

It will be much more difficult to shorten it up if we adopt at the get go a longer process, so I think it makes sense to me, at least, to go ahead and have this more aggressive schedule which can be extended as we determine is best as we go through it.

>> Cole: Mayor, I would also like to point out that the aggressive schedule includes many of the items that -- items that are on the extended schedule.

It just doesn't use the same terminology.

For example, financial policies are going to be discussed on april 10 and that would include everything for discussion on march session 1, the service coverage, cip debt equity and the reserve funds.

And, also, the -- in fact, the only thing that I can tell that is potentially not included on the aggressive schedule are two things, which is the solar and energy efficiency issue and the disconnection fees and charges.

And I would be perfectly willing to consider adding those'ns to the schedule or additional meeting if necessary.

we can always modify the schedule.

This is a tentative plan.

As I said a moment ago, it can be extended, depending on what we learn as we work our way through this process.

>> Cole: Okay.

so council member martinez?

>> Martinez: I certainly do agree that the work schedules seem to mesh in terms of similar topics, but they clearly don't mesh in terms of time frame, and, i mean, I just personally feel that the complexity of these issues and the conversations that are going to need to take place, that the

aggressive schedule is far too aggressive and so -- and the reason I say that is because -- I am not just saying that because there is another work plan on the table.

There is actually going to be a resolution at next week's council meeting that is significant to this work plan and our staff is drafting that and we will distribute that as soon as it comes out.

Long and short of it is, is it gives direction to staff to implement and interim rate increase proposal as we move through this work plan and then come back with a final rate proposal after we are done with the work plan and all of these issues can be addressed.

So that item will be on next week's council agenda.

It does start out at 3 and a half percent.

wiese, we talked about this.

I still remain open to another number that works better for austin energy, but at the same time maintains a level of equity for all of our customers.

I just believe that there is a lot more work to be done, and so I won't be able to support this, but as soon as we get the draft from the printer, we will distribute that as well.

and i would just say, I don't see anything in this motion or proposal that would preclude what you are discussing, your resolution, which will be presented at subsequent council meeting if that proves to be the best course of action, then that can be deliberated at that time.

This is just a preliminary schedule and if that resolution were to pass, then obviously it would give much more flexibility in the schedule to be modified, as I said before.

>> Martinez: I want to make a substitute motion.

>> Mayor leffingwell: Council member martinez.

>> Martinez: Make a substitute motion.

>> Mayor leffingwell: Council member martinez.

>> Martinez: For the extending work plan -- for the extended work plan motion by council member martinez.

Second by council member morrison.

Council member morrison.

>> Morrison: Obviously I am not going going to support the substitute motion and it is interesting both proposals are very similar.

I agree with council member martinez, that the shortened one, I think it is unrealistic and I think we need to be realistic about having the time that we need.

For instance, try to lay out in this extended proposal a sort of a logical citizen's logical sequence of steps so we can move through revenue requirements, cost allocation and then rate design and rate structure.

So another piece of this that I think is really important because there are a lot of significant, complex issues to be dealing with, is to not only -- what this plan also has is to not only have a see is equivalence of discussions through -- to have a sequence of discussions through sessions but also to take a moment to get preliminary thought and collective action by council so we can have an iterative approach and see where we are so at the end, we will have a process that leads us to a better consensus.

I just want to get an example of what are the differences.

For example, on the aggressive proposal, to address during a special called work session which is also on the same day as our regular work session, not only cost allocation method, consumer assistance program, schools and worship facilities, although of together, I feel that is going to give us enough time to delve into the issues that we need to really do that.

And then, as council member martinez mentioned, he and council member tovo and i are bringing a resolution next week to implement an interim proposal -- an interim increase now so that we would be able to achieve the goal that we've heard from austin energy, to get something in place before so, in fact, this would -- this will -- this process would allow for us to do that.

Whereas if we are not -- if we haven't taken council action until may 24, implementing, as i understand, 2, 3 months, to implement the rates that we decide, so that will take us to the beginning of august and as everybody knows in a minute we are going -- in a minute will be discussing another item, which is the billing system and we have heard concern about really trying to implement significant rate design changes at the same time we are trying to solve some significant problems with our new billing system.

So I think taking the more conservative approach and realistic approach in the schedule will allow us to achieve many of our goals.

>> Tovo: Mayor.

i would say in response to that, the substitute motion absolutely requires that we take some interim action and we have not settled on that.

We have not had the legal discussion about it yet.

Whereas the primary motion gives us the flexibility to potentially do an immediate rate increase followed by a more steady rate increase after a longer process, so it seems to me that the flexible approach works best for issues we don't have yet answers to.

Council member tovo.

>> Tovo: I would like to voice my support for the substitute motion and talk just a little bit about -- just a little bit more about it.

And I want to thank mayor pro tem cole for bringing forward her work plan and i do think there is a lot of correspondence in terms of the items.

We have had several discussions -- well, multiple discussions now about the energy rates and i think there are some very clear issues where we need to make some complex policy decisions and I want to point out a few differences between the work plans and suggest that regardless of the time frame tha adopt, that we go with the outline that's before you in the proposed city council work plan.

As the summary in the beginning talks about, the three of us put our heads together and really tried to come up with, what are all of the issues people have raised, very valid concerns that they raised about areas that need a policy decision, and we have tried to be as thorough as possible and as -- and to lay these out in as logical progression as possible.

My concern about the main -- the work plan in the main motion is that not only is it aggressive schedule but, again, I would like to put aside the time frame for a moment.

We are also mixing up the three key areas.

We have, as have been stated, to make some choices, regarding some policy decisions regarding revenue requirement, regarding cost of service, regarding rate design.

On march 6, for example, you will see cost allocation method, well, that's one big decision area.

The customer assistance program is a revenue requirement issue.

Schools and worship facilities gets into rate design.

We are touching an all three of those main components in one session and that's going to be tricky.

The next one, out of city customers, rate design, april 10, back to revenue requirement, financial policies and general fund transfer.

April 25, back to rate design.

Next one, back to revenue requirements.

And I appreciate so much the work that has gone into this.

I think that it is -- it does lay out some key topics we need to talk about but this is one complicated body of decision making and i don't think we are doing ourselves any favors if we are not talking about them in categories, and so just to walk you through t work plan a little bit, not to belabor the subject, but we have laid out all of the labor requirement issues that comeohe surface as areas that require it, debt service, general fund transfer, additional transfers, solar and efficiency goals and that may have impact on the revenue requirement, customer assistance program goals, we have had done some talking about this and i understand that it needs some revision.

I am certainly really supportive of that but was need to know what is our policy decision with regarding the customer assistance program because that will factor into the revenue requirement.

And then as council member morrison said, there is an opportunity there to take some preliminary action.

So before we move on to the next body of discussion, the next body of decision making, we have an opportunity to really make some preliminary decisions about those issues while they are still fresh in our head and we have a good grasp of the material.

And then moving on to some additional revenue requirement issues and then we are moving on to cost of service, so we have done really hard work, thinking about the revenue requirement, about the -- all of the individual issue that is play into that revenue requirement, and then we move on to cost allocation method and we are giving it the attention it deserves which is one whole session and we had asked -- we had put it on the work session a few times ago and we ended up with ten minutes.

This is one really complicated area and we need to make sure we have the time and, again, I am open to reconsidering the time frame t laid out here.

I think these are very these are weighty issues and we have other issues for the next months ahead.

This is a realistic schedule, I don't think it needs to be more aggressive, but again, I don't think it needs to be more aggressive because it's paired with almost immediate interim rate increase that will be able to generate revenue for austin energy in those summer months where they have indicated is a goal.

But, again, I am open to time frame but I would really, really urge you to look carefully at the schedule and think about what makes sense in terms of orderly progression of decision making.

I am happy to answer questions.

Maybe we can have a discussion about the topics.

I don't see anything on the main motion work plan that is not included in the substitute motion, but I do think the progression here is going to be a little bit easier for those of us who are

nonexperts in these issues, and I also think it's going to make sure that we are not missing some ski areas.

>> Cole: Mayor, I have a couple of questions for council member tovo.

>> Tovo: Any of us, really, it was a collaborative effort.

>> Mayor leffingwell: cole.

>> Cole: When you say you don't have strong feelings about the timetable, you just care that the issues are laid out in this manner, is that right.

>> Tovo: I will just speak for myself, not the other council members who helped craft this.

I am certainly open to rethinking the time frame.

I think that the time frame we have come up with is really very prudent for a variety of reasons.

One it is going to take us this amount of time, i think, to work through these issues or at least this number of meetings, but if we want to try to knock it out on a more aggressive timetable, I would be open to that option.

>> Cole: Let me ask you, then, I did understand you and I appreciate that.

Then the second question is, the item that I don't see on this schedule has to do with the out of city customers, and I specifically made that a special item because i thought that we needed to actually have testimony and go see them?

>> Tovo: Well, that is on session 8 in the rate design section and I agree that it is important that we have a full discussion about that and that we make sure we have lots of input.

Right now it is under consideration of rates for specific types of customers, faith communities, school districts, out of city ratepayers and industrial users.

If it seems to make sense to break those -- and I see council member spelman frowning, if it makes sense to break those down into a few sessions, absolutely, but I think they all fall into category of rate design, number one and consideration of -- and they are specific types of customers that have specific needs within the rate proposal, so I am certainly happy to break them down into multiple sessions.

>> Cole: My point, is simply we have a large issue with the out of city cases -- ratepayers and I know it will take considerable time to go through that and to actually visit with them about that and so -- and we have done a lot of talking with some others and we haven't done any with that.

>> Tovo: A full session is something I would support.

>> Cole: That is the big difference I see.

>> Tovo: Again, that is one reason I am open to other timetables but I do think it will take us some months to work through this.

And I just want to make a couple of other comments.

Again, that's my rationale for the more complete work plan -- the longer we plan, longer in terms of detailed and longer in terms of time frame.

And I think, too, that this will give, coupled with an interim rate increase, I think that this really will give confidence to Austin Energy, to the staff, to the community, we are -- and to our bond rating agencies that we are moving through this in an orderly, logical fashion that, we are progressing.

We are not -- this is not just endless process but we are progressing to final goal of adopting a final, formal rate proposal, and that we are doing it in the fiscally responsible manner that our constituents expect of us because we are -- you know, that is our job as council members, and so, you know, with that I think I will -- I will wrap up, but I do think this kind of deliberation is going to be necessary.

city manager?

>> Thank you, mayor.

And we continue to appreciate council's thoughtful deliberation with regard to this matter.

This very important matter.

In light of the motion and the item that's before you now, that you are considering, I just want to note that the direction here that speaks to three and a half percent across all customer classes will have some implications for Austin Energy's current budget.

Obviously their budget was based upon the recommendation that was originally offered in regard to a rate increase.

This would be a substantial change, not that you can't do this, of course, but it would be a substantial change and I suspect, wise as there, that it would entail making some changes operationally.

>> Well, I think that's right.

We would have to go back and -- and -- we have not run any numbers through the system of what -- of any scenario -- short-term scenario so we would have to go back and do that.

I suspect it would have budget implications for this fiscal year, yes.



>> Mayor leffingwell: Council member morrison.

>> Morrison: I guess I am a little bit confused because are you saying that the current budget year is based on implementing rates that were not even presented to council until this december?

So in object we approved a budget based on something we hadn't seen?

>> No, we have -- in our rate proposal, there is a schedule that shows when the revenue comes in, and we have it coming in several years.

It doesn't come in all at once.

It comes in as the bills go in and we have that in our presentation.

We could bring it up, if you need to, but it is in the documents that we have shown you before so --

>> Morrison: The confusion that I heard, the budget we are using right now.

>> Right.

The budget.

>> Morrison: Based on rates --

>> the budget we are on right now, which includes planning which goes over several yearses, contemplates additional revenue kicking into gear this year.

Well, it goes into the next fiscal year.

It goes into the next fiscal year, so it isn't tied into fiscal years into specific budgets but washing through 3 and a half percent into what it has for the budget for next year, I don't know what the implications are, but I can tell you there will be impacts, yes, absolutely.

>> Morrison: To be clear, it won't impact there fiscal year's bucket?

-- this year's budget?

>> This one we are on right now, no.

>> Okay.

I see.

Thank you.

>> Mayor leffingwell: Martinez.

>> Martinez: The other point I would like to make in regards to the comment that was just made is that regardless of what we do, if we don't accept your proposal, you are going to have to make adjustments.

City manager.

You acknowledged that yesterday in the meeting with myself that adjustments will be necessary, so whether we adopt this work plan or the aggressive work plan or your rate proposal, which won't be ready in time, there is to have to be adjustments somewhere along the way this year.

Is that correct or not?

>> Yes.

>> Martinez: And so, mayor, I think you made a point that -- it was a very good point.

Anywhere in this work plan, I would be open to -- where there is a specific statement of action, I would be open to adding some language that poses it as potential action.

Obviously, this council can post anything 72 hours -- with 72 hours' notice and take action on anything.

What really it shouldn't necessarily connote a definitive action taking place at section four.

It's just potential action at that point and we didn't have that in the language and I am more than happy to put the word potential in front of all of the action statements so it is fluid and dynamic and not necessarily set in stone, that if we adopt this substitute motion, that it contemplates and mandates an action by the council.

>> Tovo: Mayor.

mayor pro tem.

Well, let's go back, council member morrison accepts the friendly amendment, is that what it was, council member martinez.

Okay, mayor pro tem.

>> Spelman: We are frequently mistaken.

>> Mayor leffingwell: Council member morrison.

Yes, sorry.

>> Spelman: Who had the floor, mayor?

you do.

>> Spelman: Thank you.

How I feel about either of these two motions depends on large part on two things.

One of them, what is the interim tariff that we would be able to charge relatively soon to cover the period, however long it is for us to discuss what the permanent tariff ought to look like?

And the second one is, what are the implications for a appeal of that temporary tariff?

Is it likely that somebody would appeal that, and if appealed, is it likely that would stay consideration of that appeal, or whether they actually take it up?

It seems to me the second issue in particular is a legal question which I would like to have the advice of the attorney on.

He suggested we ought do that in the beginning of executive session.

I think it would be good idea to have as much of this being out in the open as possible.

I think some of this stuff is probably proprietary, but some of this stuff almost certainly ought to be done in public and it seems to me the easiest way to do that would be to hear from our attorneys in private first and then transfer to public realm much as this as we possibly can while maintaining our proprietary position.

[One moment, please, for change in captioners]

>> Mayor Leffingwell: Counselor morrison.

>> Morrison: The resolution counselmember martinez said we were posted next week called for doing a rate design and review on a 2011 test year.

I understand the point the work plan seriously suggests an interim rate, which is originally why we put the resolution together about an interim rate with this work plan as an attachment so they could be considered in tandem.

But since it was open the agenda for today, we ended up investigate do that.

>> Cole: Let me ask some questions --

>> to be clear, this is not part of the resolution passed out.

>> Morrison: I agree with the sentiment council member tovo mentioned that the flow of the item is significant here -- and then just lastly, one other item.

And I understand I really appreciate your suggestion that the out-of-city resident discussion should take place out of the city limits, and I think that adjusting session 8 so that it actually can be focused on out-of-city is very important, but it's also very important that it follow our discussion of the transfers, because we want to make sure we understand the transfers before we go talk with --

>> Mayor Leffingwell: Before we get too far afield, council member spelman made a suggestion that we go into recess and potentially go into specific session a little later.

Let's go ahead and if there's no objection, we'll go into recess for 15 minutes, see if we can make contact with the outside attorney so that we can go into executive session.

All right.

So if there's no objection to that, we're in recess for -- council member morrison.

>> Morrison: I just wanted to hear what mayor pro tem had to say.

>> Mayor Leffingwell: All right, mayor pro tem.

>> Cole: Oh, I know.

It was about the fact that we directed the auditor to do the assessment.

We are looking at the revenue requirement issues before he does and that's what I wanted you to think about.

>> Morrison: I think it would make sense to add the auditor report at session 5 which would line up with the timeline that he is on.

>> Cole: But you would want to do session 1 without his report?

>> Morrison: Well, we've already heard his report on the first three items in session 1.

>> Cole: I was hearing council tovo say they were related.

>> Mayor Leffingwell: With that objection, we're in recess for 10 minutes.

[ Recess ]

>> Mayor Leffingwell: We are out of recess.

Without objection, the city council is going to close session to take up two items 071 of the government code, the council will consult with legal council regarding items I related to legal issues of austin energy and legal issues related to work session schedule to consider austin energy rates.

Is there any objection to going into executive session?

Hearing none, the council will go into executive session.

[ Executive session ]

>> Mayor Leffingwell: We're out of executive session.

In executive session, we discussed items number one and two.

No action was taken.

So we are on agreement item number two, I believe.

-- Agenda item number two, i believe.

And we have a main motion on the table.

And a substitute motion on the table.

And we're discussing the substitute motion.

Councilmember spelman?

>> Spelman: As -- as those of us on the dias will recall, i asked our counsel who were discussing executive session whether or not we could discuss all or part of what was discussed in the executive session in open session.

And our council concluded that it would be okay to discuss all of that stuff.

If the council will come forward, we have a couple of questions and I suspect the rest of us do too.

>> Afternoon mayor, councilmembers.

Thomas burkado.

>> Spelman: The specific questions I had that triggered the executive session came out early in our discussion.

Let me ask you to see if the answer is on the table.

If we were to pass an interim rate and go through the procedures which we've been discussing here on the dias this morning leading to a final rate which would be adopted sometime later, say in september or, i believe, the resolution that was distributed at some point, at no point any later than june 1, 2013.

But at some point later, would that interim surcharge or whether it's just a first cut, whatever it was, would that temporary change in rates be appealable to the puc?

>> Under the public utility regulatory act, any action that you all take that affects rates may be appealed by outside city customers to the public utility commission.

So the direct answer to the question is, yes.

However, if it was made clear that you all were implementing this interim decision and we're going to continue to look at these issues in some formal process, perhaps all on the line from what you all discussed today, I would hope that there would be an opportunity to forestall any talk of an appeal or at least stay that appeal once it got to the public utility commission.

>> And stays of appeals, is it true that stays of appeals have been granted by the puc in roughly similar circumstances in the past?

>> There hasn't been a municipal utility case for the puc since 1991 as I indicated to you all.

So we don't have a lot of examples with any case.

But there's been numerous instances of matters that were for the commission that were stayed while elements of that matter were being discussed in a different forum.

So, yes.

That's something that the commission is familiar with.

We see what happens.

>> The commission not in the mou.

I haven't seen an mou since '91.

>> Right.

And there's matters before the courts as well as the puc and there's been a stay while the court makes its decision.

Once they do, it comes back to the commission or on matters that have federal jurisdiction and it's before the federal entity that the commission will stay its proceeding while they get a decision from the ferc or whatever it is.

>> Spelman: I presume a stay is not a slam dunk.

We don't ask for a stay and be automatically granted one.

We have to make a case for it?

>> Certainly, the factor, is the stay abated.

Is there a specific process that's been approved by the city so that you can say, okay, we're going to ask for a stay.

But it's only going to be for a specific period of time while the city vets these issues?

And whether it's opposed or not.

That's certainly a major factor in terms of the commission granting it or not?

>> Spelman: Okay, are there reasons to believe that the appellates might be willing not to oppose the stay and wait for us to come to the final conclusion?

>> That would certainly be the hope.

I think it would be more likely that it wouldn't be opposition if, for example, it was made clear that the city was going to, you know, had approved a schedule in which they're going to address certain issues and that perhaps we're going to be getting input from those entities.

There's a number of factors that go into it.

But that would be the hope

>> Spelman: There are reasons to say, okay, we're appealing, we're not going to prosecute that appeal or insist on prosecuting the appeal?

>> I can't speak for those entities that may be out there looking to appeal a city decision.

But my hope would be that no one would want to proceed on parallel tracks at the same time.

It wouldn't be logical to have it going on at puc while the city is still considering those matters.

>> Okay.

Would the -- if we were on parallel tracks, presumably the city council would be doing similar actions, asking very similar questions, working with similar of the same members of the austin energy staff as the puc would.

That would put a tremendous strain on our staff.

Would that be an argument we could use?

Using the same people, using twice as much work.

Do it in sequence instead?

>> Oh, certainly.

Doing the rate case, even in one form is a big strain.

Because obviously austin is not hiring a lot of outside consultants that are going to be presenting testimony from employees of ae.

It's going to take away from their regular jobs.

Regardless of what the -- what the forum is, either here or at the puc.

So, yeah, that's a strong argument.

>> Even if the appellates decided that they were going oppose a stay, is it possible or likely that the puc would grant the stay anyway because of all of the other factors you were talking about?

>> Well, as I mentioned, it depends on at least several factors.

Is it?

In your scenario, you said it would be.

>> Spelman: Simple case.

>> But does the city have a specific process that they've approved?

I mean, if you all left it open ended so the commission doesn't know if it's going to be a three-month stay or a one-year stay, that would certainly impact the decision.

And I think the other issue would be, you know, is anyone harmed by that stay?

And that would be something that I think they would also consider as well.

>> Is there some way of showing that no one is going to be harmed by the stay, then that would -  
- that would be an argument in favor of granting it.

>> Most definitely, sure.

>> Spelman: Is there a -- well, you're suggesting that having a definite time would help.



Is there a time period that is so long that the puc would say, well, I think we need to hear this case?

>> Yes, I do think that there is that possibility.

What the magic date is, i couldn't tell you, four, five months seems reasonable.

A year seems unreasonable.

>> Spelman: Okay.

>> Something in between.

>> Spelman: If we could make the case that we're moving as fast as we reasonably can to get through the issues or moving as fast as we can getting to such a date, four or five months downstream, it would pass must theron.

>> It would give us a strong case.

If you have a schedule, a couple have been discussed today.

I'm not endorsing any of those necessarily.

>> Spelman: Of course not.

>> If you have something that's detailed.

Here are all of the procedural dates and we're going have a final decision on this date, then, you know, you can go with certainty and say, puc, we'd like a stay for whatever it is, three month, five months, six months.

We're going to have a decision on this date.

No one will be harmed.

It's more appropriate for you to defer to the city while they continue to vet these issues.

I think that is a strong argument.

Certainly a stronger one.

>> Spelman: Thanks.

That's what I wanted to know, mayor.

>> Mayor Leffingwell: Mayor pro tem?

>> Cole: I guess I know that a critical part of this motion that -- thank you.

A critical part of this motion i agree with councilmember spelman is the whole issue of the interim rates and what happens and what -- what effect is it going have on our financing?

And I think the sticking point with the two resolutions as to a -- to adopting a process is the interim rates.

So I think we're going to have to deal with that right off of the bat.

>> Mayor Leffingwell: That is not on the table at this point.

>> Cole: Okay.

>> Mayor Leffingwell: The resolution is not on the table.

>> Cole: The resolution is not on the table.

>> Mayor Leffingwell: Although you may talk about the effects of it.

>> Cole: Okay.

I mostly just have a couple of questions.

>> The way the resolution is intended right now and hopefully the wording is, is that it will effectively 3 1/2% across the system, which clearly if some of the contracts preclude imposing any surcharge, then the other customers would have to bosch more than 3 1/2% to achieve an effective system-wide 3.5%.

>> Right.

We were trying to read that and see if we understood what that actually meant.

So we would have to go back and run the number through the system to tell you what that turns out to be, but i think that generally it's about \$35 million.

what percentage is that?

9% on the rest of everybody else, okay, if you follow that.

5 on anybody including the contract customers.

Take the contract customers out, now it's an effective 9% on everybody else.

>> Cole: 5.9%.

and mayor pro tem, I assume we're talking about this in the context of why the content of the main motion would be better than the substitute motion.

We have to keep it on that track, but a broader 1, which we will address next.

So you understand what I'm saying?

If you're trying to indicate that one -- one motion is superior to the other because of a difference in cost, then we can keep it on that track.

>> Cole: okay.

I agree with that.

Larry, what I'm really trying to get an understanding of is the 9% temporary increase on the utility starting June 1.

What can you tell us?

>> Well, what I can tell you is that based on the plan that I brought last time, we brought last time, that it had a phase-in of how the money came in, and it still required us to be really tight on our reserves, getting through this period of time.

I can generally say that this will impact the current budget year and future years in our capital spending, in our programs, in a lot of the areas that we operate.

So in other words, it does not provide enough revenue to bring us out of the problem that we've come to be in, which is spending \$175 million over the last few years out of our operating reserves.

So we'll have to make adjustments with our operating and we'll have to go back and calculate exactly what it is now that we understand what the numbers are.

We'll go back and calculate that, and I don't know what the budget impacts will be, but there will be some, and they'll be rather significant until such time that we know what the permanent rates are, and then, remember that it takes a while before that revenue comes in, because the bills have to go out and there's -- you know, it doesn't happen immediately, is my point.

So we'll have to go back and analyze the real true impacts of what this means to Austin Energy.

so what are our reserve balances now?

Contingency and emergency reserves.

>> Well, let me -- I'll turn it over to Ann in a second, but we have spent down from 200 million -- we're down to about 25 million of cash today.

We've spent down our operating reserves by \$175 million.

And that's to -- and that's with being -- having no new employees and being as lean as we can and cutting certain capital projects, but we are growing the utility and we have a lot of infrastructure we have to invest in.

So -- well, can you tell me -- I mean, when you say you spent \$175 million from 200 million, over what period of time is that?

>> Since about 2004.

>> Cole: since about 2004.

And can you say that 70% of that is, what?

>> It's for capital projects and growth.

Capital projects and growth and operating and -- so that's the operating reserves.

What about the emergency reserves?

What's the balance?

>> 138 Million in our strategic reserves.

>> [Inaudible] emergency and contingency.

>> Cole: so that's it.

So I guess I'm -- I'm almost getting out of revenue requirement and I hate to bring it up but I'm trying to figure out from today, february 22, to may 24, that goes past your original request date, which was march 1 for us to increase our revenue, and then you all were asking us to do that by june 1.

If we did not make a decision until late may, may 24, on what we were going to do, can you tell us or give us a range of what that meant financially for austin energy?

>> Well, if you make a decision the end of may or first of june, we have to -- we have to put that into our system and start changing our billing system to accommodate it.

Now, if we're doing that with the existing rate structure that we have, that's a little easier to do, but I have to get the answers to that first.

The proposed rate design was going to take 90 days.

It may take a little less time.

I don't know.

We'll have to go ask that question, because if we do an existing -- that increase across the board, then that's our existing rate design, that's easier to implement than a brand-new rate design that we have proposed.

But I don't know the answer to that today, what that timing is.

Does that make sense?

>> Cole: right.

And I guess what I want to make sure that you understand, that I guess there's about three critical decision points having to do with financing and interim financing, and the first one is the complications with the puc in an interim case and whether or not that triggers the case in all that.

And assuming that a majority of the council decides that we don't want to take that risk, we just want to use reserves, what is the hit to reserves to do that?

And that would be the hit to reserves from now until may?

And this is something that I'm not asking you to, you know, come up -- I'm hoping we get posted and you're able to tell us next thursday, but if we adopt a schedule, you know, effective before we make a final decision in may, or if we adopt a schedule where we make a final decision in september, and then compare that -- the other scenario, 5%, 9% across the board until june 2013.

So we kind of need to see option 1, option 2, option 3.

As a matter of fact, we need to see that before the meeting next thursday, probably in a memo.

So ask us if you don't have all the data you need for you to give us back the information we're seeking.

>> I think I understand.

council member spelman?

if I can follow up just for a moment on mayor pro tem's list of questions.

Is -- we're not sure -- we haven't decided yet whether we want to make -- set ourselves up to make a final decision in may or in september or some other day.

Is there a way you could, in addition to getting the answers that the mayor pro tem asked you -- is there a way you could give us an estimate for what surcharge, what percentage surcharge on the noncontract customers would get us to a point where we are reserve neutral?

By which I mean we are no longer eating into our reserves any further but we're just working on average, our best guess, working off of our current revenues?

Is that something you could figure out?

>> Yes, I think we can.

>> Spelman: okay.

Do you have a rough estimate for what kind of number that would be right now or is that something which is just too complicated to answer?

>> The proposal on february the 2nd was really -- we were intending to reach that point, and that was 70% of the revenue requirements.

It was 8.9%.

But we can revisit some of that based on some of the time periods that you gave us, but it will probably come back close to that point.

so let me be sure I understand what you just said.

The proposal we heard last week and I think will be put before us for a week from 5% surcharge, and that will bring in 20-some odd million dollars.

We'll need to bring in more money than that, 30.

We'll need to bring in more money than that to be reserve neutral, not to have to dip further into our 9% of noncontract customers, your best estimate, is what it will take it avoid dipping further into reserves.

9 includes the contracts, so we will need to go back and run some more numbers to see what that actually comes to.

>> I want to interject here, though, remember that that was with a new rate structure.

This revenue scenario is with the existing rate structure.

>> Spelman: right.

The surcharge is just existing rate, just tacking more on top of it.

>> Right.

So the money that was generated out of the -- out of the proposal that we made in february was with a new rate structure.

So they're not exactly equal, but we have to make sure of that.

>> Spelman: sure.

>> But the number to not have to rebuild revenues but to keep them where they are 9% on that new rate structure, which is around \$80 million.

>> Spelman: okay.

9% increase in revenues to avoid dipping further into reserves and just working off current revenues.

>> If you look at it this way.

We wanted to kick in \$80 million a year of new revenue starting at the time we had said, and that way we would not complete any more revenues and we would not rebuild any revenues until we had the second piece of the rate in place.

>> Spelman: okay.

And that translates into an 9 system-wide increase, but we cannot get to some parts of that system because they're on contract and they're locked in.

Therefore, if we wanted to address the surcharge to the noncontract customers it would have to of course be 9% but you don't know quite what that number is, juts it's bigger than 8.9%.

>> Right.

5 9 effective, then the question is between that number and the 8 number that we have, what do we do about that gap.

And I don't have the answer for that today, but I think that's where you're going, is what do we do about that gap.

>> Spelman: right.

>> What are our risks and what's it do to -- a lot of different things.

>> Spelman: okay.

So what are the consequences of the shortfall, what are the consequences of running our reserves down further or finding some other -- whatever you think you need to do.

>> Right.

and then what's that number that gets you 9%, which avoids those consequences and avoids having to do all the other things that you have to do, including dipping into reserves.

>> And the prudent business thing to do is to go and look at our expenses and our projects and everything that we're doing versus looking at structurally changing our reserves or doing anything that might jeopardize our financial situation.

>> Spelman: right.

>> But then that all comes back again at the end of the time which we have to effectively, you know, do the rates, but that's the best answer I can give to you right now.

>> Spelman: okay.

Thanks very much.

a quick follow-up here.

I thought I heard you say 9% increase in your second proposal applied across the board including contract customers?

>> No, it did not.

No it did not.

that's way heard the first time.

>> I'm sorry.

The contract customers are really out of it until 2015.

>> Mayor leffingwell: 2015.

>> It's just, mayor, when you're doing the calculation of what the overall percentage increase is, that's when it changes it because you take those customers out of the calculation.

That's the only difference.

so about -- what I got out of that line of questioning was, an across the board increase, excluding contract customers, in order to be revenue neutral, that is, not take additional money out of reserves issues would have to be somewhere in the neighborhood of 8.9%?

>> Yeah, I think the number was 8.7?

Is that what --



>> mayor leffingwell: 8.7?

>> Yeah, it was in that neighborhood.

and of course we'll get a refinement on that.

>> Right.

at the next meeting.

Council member riley?

larry, I think i also heard you say that that 9 based on the new rate structure.

>> Correct.

and so if you were to do the calculation -- was the calculation of the -- of 5% increase, was that based on the current rate structure or the new rate structure?

>> Well, as I understand it, the proposal is to do a 3 1/2 on the existing rate structure.

That's as I understand it.

And we would have to go back and to the clations and see -- calculations and see how much difference there is between that and the existing rate structure.

>> Riley: okay.

So -- but are you proposing to do a calculation based on the current rate structure to see what -- how much of an increase would be necessary on noncontract customers in order to avoid getting into reserves?

>> I understand that is the proposal that's on the existing rate structure, so that we wouldn't be changing any rate structure.

We would just be -- we would just be putting that increase on top of -- that would be the 8.7.

>> Pardon?

that 7, on the existing rate structure, would be revenue neutral?

>> No, the proposal that we made was a new rate structure with the 8.7.

I know it, but you were just asked the question, what would the rate have to be to be revenue neutral, and i thought you said about 8.7.

>> Yes, correct.

I'm sorry.

Yes.

but we don't really know that because you haven't done the calculation based on the existing rate structure.

>> Right.

and I need to ask this.

Would that calculation be affected by -- well, we have -- we actually have two motions on the table right now, the original motion contemplated something like a three-month timetable and the subsequent motion contemplated more of a six-month timetable.

If we -- to the extent that you come up with a recommendation about a percentage rate increase on noncontract customers that would be necessary in order to allow us to avoid eating into reserves, then would that recommendation be affected by the decision as to three months versus six months?

Would you need, for instance, the higher increase with a longer timetable or would it keep us afloat in either case?

>> Yes, it would definitely make a difference, the timetable.

So we'll have to run the numbers on each of those scenarios and come back with something for you.

and can you help -- could you elaborate on that?

What impact does the timetable have on the percentage increase that will be required?

>> Well, because right now we're in the process of beginning our budget planning, and so we have to look at what -- what the budget items will be for 2013, and obviously the longer that you have an estimated increase that's too small, then it's not going to last as long.

So we just have to look at each of the three scenarios and see how long it would last based on our budget.

Does that answer your question?

>> Riley: I think so.

So you are going to look at both scenarios and come up with numbers as to the percentage increase that would be required as to either?

>> Yes, sir.

>> Riley: okay.

mayor, I have a follow-up.

mayor pro tem.

I thought I saw bill [inaudible] some of the bond council here.

>> We have dennis whaley with psm.

dennis, can you come forward because we've asked you to run some scenarios and want you to consider all the costs based on our potential decisions, and I'd like for him to weigh in about bonds and our ratings and the impact.

>> I'm dennis whaley with psm.

I would say in general just two things to keep in mind as far as financial metrics, and that would be debt service coverage and cash on hand.

We've had a brief discussion about cash on hand.

As far as debt service coverage we want to maintain one 1/2 times on this working [inaudible], and the reason we want to maintain that is if we're above one and a half times we don't have to have a debt service reserve fund.

Below one and a half times we have to begin to fund that.

For example, if we go down to 140 we'd have to fund about \$16 million.

At this point I think our financial metrics are at 161 for debt service coverage, and once we have an opportunity to look at that forecast we'll have a better handle on where that stands.

The other is cash on hand, and that being at this point we have, I think, 120 days in our emergency and contingency reserve, and just to cite one rating agency, we consider that to be strong, but if over time we begin to complete those reserves, that will have, you know, possible impact on your bond rating.

So two things to keep in mind would be debt service coverage and cash on hand.

Hopefully that's helpful.

I know that you've been here the entire time, and so I just want to try to put some of our comments in the context of the decisions we're trying to make.

Basically we're looking at a schedule that would not comply with what austin energy put before us originally which would be making a decision about the rate case march 1 that would go -- the rates would go in effect june 1.

We're debating going through a process -- a lengthy lengthy process and making a decision either in late may, early june, or making a decision in late september 2012.

So under either scenario, to the extent that we have not increased rates, I'm hearing you to say you put your bond rating in jeopardy.

>> We potentially put our bond rating in jeopardy if we do not maintain our financial melt restriction, yes coal -- financial metrics.

>> Cole: thank you.

council member tovo.

I want to follow up on that last point.

I thought I heard you say we put our financial -- our bond rating in jeopardy if we do not maintain an appropriate level of debt service coverage and an appropriate level of cash on hand, not necessarily that we delay in making a final rate proposal.

>> I said that correctly.

Debt service coverage is a bond covenant.

The one and a half times is a bond covenant that you have when you sell bonds, that you'll maintain that or you'd have to fund it at service reserve.

Now, the other issue is your bond ratings.

The higher your coverage, the higher your cash, the better opportunity you have to increase and improve your bond ratings.

If you maintain where you are or improve slightly, you would maintain the bond ratings you have now.

We've heard that from the rating agencies that by improving your financial metrics somewhat you could maintain the current ratings.

I think if your financial metrics deteriorates, though, then we do run into the risk of possibly at least a downward revision in the outlook and possibly a lowering of the bond rating.

Now, one thing I think we need to look at is, you know, our forecast based on some of these scenarios and see what kind of coverage and cash it provides over what period of time.

and so as long as we adopted a strategy, either in the short-term or long-term or both, that maintains -- maintains an appropriate level of reserves and an appropriate level of cash on hand, maintains our bond covenants in terms of the level of debt service coverage we're in good shape, and as I -- i mean, I think that's what i heard from our previous discussions and also from our auditor report, that --

>> I think we need --

>> -- bond ratings and talked about the complexity of making those decisions but consistenc --

>> we need to be able to explain what we're doing, where it's going to take us, and then ultimately whatever those metrics look like, that they are at a level that allows us to have whatever rating we at least currently have or possibly improving.

>> Tovo: good.

Thanks.

>> Mayor leffingwell: anyone?

Cil member spelman.

I've been thinking in terms of reserve neutrality or not dipping further into reserves, but it sounds like this a better set of metrics for us to consider.

If there is a way of -- does it matter from your point of view, ann or larry, for our coming up with a proposal which is, as I was referring to as reserve neutral, one which is consistent with 120 5 debt service coverage ratio?

Are those the same thing, more or less?

>> Tho are two different --

>> no, they're completely different metrics.

>> Spelman: really?

Okay.

>> And right now, I think, or the lime that they reviewed us we only had 55 days of cash on hand.

so we did not actually have 120 at that moment?

>> No.

>> Spelman: okay.

Well, you said a few minutes ago, larry, we had \$25 million in the bank.

That's our cash in hand is the \$25 million?

>> In our operating fund, that's correct.

in the operating fund.

How many days of operation is that?

>> Well, it depends -- less than 120, I'm almost sure.

>> Go ahead, ann.

>> That's -- I don't know.

It's less than 45 days.

>> Spelman: okay.

So right now we're not consistent with those two basic metrics, which the bond rating agencies are more important, the holders of our current bonds are going to hold us to; is that accurate?

>> It appears that we're headed to a place where we're not going to be on our target, and that's -- that's where we are.

So we either need more revenue or we have to make a fundamental change in our costs and our business, and that's where we are.

We're at those crossroads now.

>> Spelman: okay.

Let me amend very quickly my request from a few minutes ago.

I don't want us to dip further into our reserves, but I really, really don't want us to get below our in hand in debt service coverage requirements because that's part of -- the cash in hand is also bond covenant, is that also accurate?

Cash on hand is not a bond covenant.

that's just a policy of the council as to how much we're going to have around.

>> And something that is evaluated by the rating agencies.

okay, so it's -- rating agencies --

>> liquidity --

>> but we don't have a legal contract that says we have to maintain it.

Either way, if those two of the metrics which are either in the short run through contractor or long run use of the bond rating, we're going to have to adhere to, then if you could identify for me the percentage surcharge of our not getting any further into trouble and bringing ourselves back within the next -- help me with this -- within the -- within the easily foreseeable future and certainly by the year to the point where we can claim we have 120 days at 1.5 or better.

Is that sufficient

>> yes.

Yes, we can develop those scenarios for all of those that you requested, I think.

so it sounds to me like we've got a lot of information that we've yet to get to help us make a resolution.

The timetable that we're considering right now, whether it's timetable a or timetable b, is going to depend heavily on the information we receive at the next meeting, what that timetable actually looks like.

So it's hard to -- hard for me to really think about both of -- both of them evidently have flexibility.

Both of those timetables could be modified depending on the need, shortened or lengthened, and whether or not that is to happen is going to depend on the information that we don't have now that we're -- we have asked for at the next meeting.

So it kind of makes sense to me that we -- of course council will make this decision, our motion is on the table.

It kind of makes sense to me that we would consider the timetable after we take action on the resolution, but that's up to the rest.

Rest -- rest of the council.

Further?

Council member tovo.

I'd like to also suggest that if we have a discussion about this at the work session or next thursday, if we could also look at some of the other reserve funds, and I know we have all of this information in a voluminous materials that austin energy has presented to us, but I think it would be helpful to see.

I thought I remembered, for example, that there was about 180 in contingency reserves and I think we're still sort of struggling to understand what the reserves are.

Is that correct that there is --

>> there is 138 million in both -- in the strategic reserve, which includes the emergency and contingency.

The rate stabilization has zero.

So it's just a reserve and contingency fund.

so I guess I would ask as we address this bigger issue, if we could look at the different reserve funds, again, together, and see what the -- you know, what those look like and also if we could potentially review again some of the data that was in the quarterly report that shows the revenue -- revenues versus expenses for 2011.

I think that might help us also address some of the concerns I've heard out there in the public about the claim I mentioned earlier, the \$2 million a -- that we claim -- and that was based on the 2009 income revenue.

Basically I think we need to have a clear discussion about the issues that my colleagues have raised, but really what the -- what the recent months -- what the recent year has been like in terms of income and expenses because I do know that we were in a position over the summer of allocating an 8 million that was not anticipated because of unexpected revenues that were higher than anticipated, and I think it's just -- I'm struggling to make sense of all of this different information.

I think our community is as well.

So if we could address these issues all together, you know, what did 2011 look like in terms of revenues versus expenses, what are our existing reserve levels and what the -- what the relative costs would be of delaying three months or six months, as my colleagues have suggested.

>> We've presented all of those financial -- all that financial information.

I think what is in front of you is a -- what's in front of us that we have to analyze is a schedule that, one is, what, six months different than another schedule?

Is that -- I think at this point -- I appreciate all the information you have presented, and you're right, we have seen most of that financial information, i think I've got most of it sitting here in



front of me on the dais, but I think that we are still talking about some of the same -- we are raising collectively some of the same issues about reserves and how much, and I think if we talk about it all together as we move towards this decision I think it would be helpful.

In terms of the two plans, I think that the work plans we have before us are about a three-month difference.

Is that about right?

I think the one takes us to -- to four months, but there is an additional difference in the one would allow for an interim rate increase immediately and the other would delay any increase until the disinvestment making process is every -- decision-making process is over.

So I think that also needs to be factored into the decision-making.

>> I asked that just to make sure that we know what we're analyzing.

>> Tovo: right.

And certainly we'll make sure that you have both work plans to consider.

But I wanted to suggest just to kind of move us in a productive direction -- let me clarify that point.

Mayor pro tem, does your motion preclude so-called interim increase?

It does not contemplate that?

no, it does not contemplate it.

does it preclude it?

no, but it does not preclude it, and I fully anticipate that we would have to take some interim measures, but I thought that that would be a discussion that we would have later in terms of reserves and, you know, rates.

My preference would be for reserves, but under either scenario, if we don't do what the energy company asks us to do, which is make a decision by March 1, which I don't think any of us are at a point of doing that, we have to do something, and we either have to spend reserves quickly or quickly raise our rates or, you know, make some other borrowing provisions.

And I know that we're capable of doing that but I just don't want us to be mealy-mouthed with each other or the public about the very crucial decision that we just have to make.

sorry for the interruption.

>> Tovo: no, no.

So I would suggest -- it seems to me after hearing the discussion today I think we have some common ground here.

It sounds like we all agree that we're probably not going to make a final decision next week in terms of a final rate proposal.

There does seem to be some consensus around the fact that we have some additional decision points to make and that it would be helpful to have a work plan to guide us through those.

And so I would like to suggest to the makers of the substitute motion that we make a few changes to the proposed city council work plan that's on the table before us as a substitute motion.

One of those would be for the moment to remove the dates that are attached to each of those sessions to allow us some flexibility to move up the timetable, if that seems appropriate.

I would like to add consideration of the auditor report at session 5, because I believe it will be completed by then.

Session 4 or 5.

And then as mayor pro tem suggested earlier, I would like to pull out the out of city rate payers from session 8.

And so making a total of 11 sessions will have consideration of rates for specific types of customers extending over two sessions.

One could consider the four groups listed and then the next session could be held out of the city and address the out of city rate payers specifically.

that would be a nine?

right, and then session 9 will become 10 and session 10 will become 11.

And again for the moment we'll put aside consideration of the actual dates where these meetings will be scheduled but again it gives us an orderly, logical decision-making process to take us through these issues and hopefully on to a final decision.

You know, I agree and understand the comments that have been made about how it is certain connected to what we decide to do in terms of an interim rate.

But if we can all agree that we need a [inaudible] plan and that these are the issues, we ought to be addressing and making policy decisions on perhaps we can qhef that here today and then -- achieve that here today and debate the other issues next week.

so who made the -- council member martinez, do you accept that?

And do you accept that?

And just to try to recap, i think you wanted to remove all dates, to remove the review of austin energy audit finance from session 5?

Is that right?

I'm sorry, to add it to session -- I said session 4 or 5, either one.

Will it be ready by session -- I'm sorry, I just need to check, I guess, with the auditor.

Will it -- would it be ready by an april meeting -- he said end of april.

>> Tovo: session 5?

Okay.

So let's add it to session 5.

So yes, add -- i thought it was already in there.

actually the review austin energy 2011 audited finance are the audited finance from austin energy, which I have heard would be ready at the end of march.

So that is -- that's a review, basically, of our last year of financial data.

The auditor report would be the report that we voted on this morning.

>> We will not have the fiscal year 2011 -- the audited reports until probably april, so we can't begin restating the revenue requirements until after that.

Is that what you're requesting?

>> Tovo: yes.

So those would -- that information would not be available until april?

>> We can't start restating the cost of service in revenue requirements until we receive the audited financials, and they will not be released until probably april.

so do you want to modify your motion?

in that case -- well, right now they're on for may, so I think that that would be -- I think we can still keep them on may, if they're available in april, you can at least give us an update about --

>> we can try.

It takes us about six -- took us six months to get to get2w09 into the model e.

>> 2009 Into the model.

we may have to make slight modifications to this as we move through it -- as we move through the work plan, but for now what's on the table -- to what's on the table, I would add the modifications, the auditor report on session 5, and on -- make session 8 consideration of rates for specific types of considerations, [inaudible] faith community, nonprofit organizations, school districts and industrial users, create a new session 9 which would be consideration of rates for specific type of customers, specifically out of city rate payers.

Session 9 would become session 10.

Session 10 would become session 11.

Dates to be determined later.

all right.

Does everybody understand the changes?

Council member martinez and council member morrison?

>> Cole: I have a question.

mayor pro tem.

I appreciate those changes, council member tovo, and I am supportive of all of them.

I just have one other what i hope to be a friendly amendment, and that is that it -- in the march session 1 meeting, that we consider the interim financial revenue options that ae presents, that we make a decision -- that we look at that and we talk about those.

is that acceptable, council member martinez?

Adding an item to session 1?

Council member morrison?

I guess I have a question about that because -- I would hope that we're going to have some information on that situation before -- for our discussion next week about our resolutions.

So -- that is march.

that is march, but that's during -- that's not during what I would be considered session 1.

Maybe we could have continued conversation about it but I just wanted to -- at the session.

I just wanted to clarify that I'm hoping we have some of that information before we take action next thursday.

I think that that's what everybody is interested in.

well, exactly, and I don't know if we need to give -- I'm concerned about proper posting.

I don't know what the posting of your resolution will be, but that we are able to discuss all the options and have a presentation, and I guess I'm just directing staff to do that in connection with that resolution or any resolution that comes next week about interim financial funding or revenue for ae.

and that was certainly my understanding when the discussion about what kind of information was needed to decide, did it make sense to do a 3 1/2% by 8 [inaudible]

>> for how long.

and for how long, and those are the scenarios staff is going to work on and help us on.

yeah, and I would just clarify that we're talking about on this timetable is a series of meetings, all of which would be designated as work sessions; is that correct?

Council member spelman.

I want to clarify what we're not voting on here is we're not voting on a two-session-per-month regimen.

It might be three, it might be one, we haven't decided that yet, and we're not voting on an end date of september or may or any other end date.

We have allowed ourselves the flexibility to set that end date, folk, a week from thursday or -- for example, a week from thursday or some other time.

all dates have been removed.

>> Spelman: okay.

Thanks.

council member riley?

I applaud the idea of breaking the issues before us down into the three principal categories we're talking about.

I'm a little uneasy about the topics that are lumped into session 3 under revenue requirement.

Session 3 under revenue requirement covers distributed solar goals, energy efficiency goals and customer assistance program goals.

And in my mind those issues really would be more appropriately handled under rate design since the most important reason, to me, of overhauling our rate structure is to bring our rate structure into alignment with the goals contemplated in our generation plan, including energy efficiency and distributed generation between energies.

And I realize this would complicate the numbering but I was going to raise the possibility of shifting session 3 down to be combined with the items in session 7, and I realize that's a lot to put into one session so we would need to break it into two sessions.

But I really think that would be a more appropriate place to consider those issues rather than a revenue requirement.

>> Morrison: mayor?

council member -- let me ask the maker first, is that a friendly -- proposed friendly amendment?

>> Riley: sure.

I would like it to be considered friendly.

and let me ask the maker first, do you consider that friendly, council member martinez?

You seem amiable today.

I want to discuss this more before i say yes or no.

maybe council member morrison has something to add, then.

I did want to explain my thinking when i actually put those things down in session 3 under revenue requirement, because I think that while i understand that we have, you know, solar and - being worked on in a parallel process right now, it's my feeling that we need to set some goals and efficiency and distributed solar, so that we know how much investment we need to make in that, which will, in fact -- may, in fact, impact our revenue requirement.

So, for instance, do we have an adequate rebate program to actually achieve our goals right now?

And if we think that it's inadequate, we might want to change the -- the funding of a rebate program.

So I completely get your point about how energy efficiency and solar and all need to be considered in the rate design, but I also wanted to make sure that we consider them up front in that regard.

So while I wouldn't be supportive of moving them out of session 3, I think that it certainly would make sense to ensure that we address them in the rate design session also.

I do think it makes a lot of sense, potentially a lot of impact on rate design and other factors too.

Council member tovo?

I would just add that the same I think is true of the customer assistance program.

You know, we do have some -- we have been talking about this and about the potential for redesigning that program and considering carefully the breadth and the depth of that program, do we need to serve more customers within that program, and that could potentially have an impact on the revenue requirement as well.

But I take your point that these are very related to rate design and we'll certainly need to cycle back to them.

if I might make an alternate motion -- well, a friendly amendment is on the table and sounds like you're not accepting.

>> Right.

so council member martinez really doesn't have a decision to make at this point.

The friendly amendment is not agreed to.

All right.

Did you want to make another friendly amendment?

>> Morrison: I would.

go ahead.

thanks to the point raised by council member riley, I'd like to add the three elements, solar energy efficiency and customer assistance program, also under what is now our session 8, which is consideration for specific types of -- three specific types of customers, so we'll have time -- since we moved out of city residence out of that one, that it seems like it would fit well in there.

are you saying you want to move it -- no, I want to add -- you want to add it both to session 3 and 8?

right, so we'll be able to look at them from the perspective of revenue requirement and specifically how all three of those are going to be integrated within our rate design.

council member martinez, do you accept that?

Okay.

So that is -- that early amendment is approved.

Council member riley?

well, I would just note that -- I think that will work.

I would note that with respect to the customer assistance program, the main significance of the proposal currently on the table is to make it a fixed charge, which really puts it under -- under session 7 and not under the revenue requirement, but I'm fine talking about it.

I mean, I think all that needs -- that will be a short discussion when we get to it under session 3, but that's fine if we still want to have it.

My sense is that session 3 as currently proposed, if we're going to be exploring all those things in session 8, then we may want to consider -- we may want to rethink session 3, because session 3, if we're just talking about the impact of those programs on the revenue requirements, I think that's likely to be a fairly short discussion, because I -- I mean, this is not like -- this is not a matter of writing a check to support all these things.

It's about setting up -- designing a rate structure to foster the progress towards those goals, which really -- it's really more a matter of rate design.

So I think that -- I'm saying we could -- we could still have a discussion about the revenue requirement but I think it's going to be a short one.

that would be great.

all in favor of the substitute motion.

Does everybody understand it at this point?

All in favor say aye.

>> Aye.

>> Mayor leffingwell: aye.

Opposed say no.



Passes on a vote of 7-0.

So that brings us to item 1.

We're going backwards today, and we have a number of folks signed up to speak.

This is not an action item.

First speaker is cyrus reed.

Cyrus reed spoke earlier.

He's not here.

Tom smith?

>> Pass.

>> Mayor leffingwell: pass.

Gus pena?

Gus pena is not here.

Carol brazidski?

And you have three minutes.

>> Good afternoon, council members and mr. mayor.

I came here this morning to tell you that, you know, i really support the morrison/tovo/martinez plan to delay this rate increase because -- and I'm glad to see that you've taken some steps today to do that, even though you haven't made any final decisions.

I have -- and one of those people, I've said publicly before, that I'm not really convinced that austin energy needs all the money that it says it needs in this rate increase, so I'm a little concerned about some of the discussion that I heard about increasing the interim rate above the 3.5%.

I am willing to go along with that because I think it's a good deal for the residential and low income customers that we're trying to look out for in this process.

I think that's a better deal for them than the rate that has been proposed by austin energy and that we need some more time to look at the facts.

I would also like to be sure that when you look at the issues that the customer assistance program is at the top of the list, because i don't see that there's actually a reason that we should have to wait until a final rate proposal is approved in order to begin improving that program and providing it to more people.

One of my concerns has to do with the billing system, which I know you're going to hear something about later on, but I myself have had a lot of complaints that have been given to me by people about problems with their bills.

I'm a little skeptical about agreeing to any kind of an increase in rates until we know that people will get bills that are correct and that when the money comes in it will be handled the way it's supposed to.

So I am very skeptical that we should just assume that there's going to be an interim rate increase prior to having assurances that the system that is currently in place and being used to prepare people's bills and, you know, like handle these funds is working the way it should be.

I think that's just basic -- you know, that's just -- it's just basic that those systems need to be working right and there's no excuse to -- for people to have bills that are inaccurate.

And on that measure I would like to say thank you very much for taking all the time that you did today to talk about the big picture here and what's going to happen, and I am looking forward to working with you and all the other parties as we have been to try and come up with a solution that keeps austin energy whole and also treats our residential and low income customers fairly.

Thank you.

>> Mayor leffingwell: okay.

Gus pena, did you have a question for carol?

>> Martinez: I did.

carol, question for you.

>> Martinez: hey, carol.

If you haven't picked up a copy of the resolution that will be proposed, it should be on-line later today, the very last sentence in the last resolve states that the city manager shall ensure austin energy's billing system is corrected and operating correct prior to implementing any rate changes including design.

>> That makes me feel much better.

Thank you.

gus pena.

>> Thank you, mr. mayor.

I had to take a quick break.

Gus pena, again, native east austinite.

So much information has been thrown out over here, and more likely it is possible that it is -- you're inundated with all this information, that as you said, council member tovo, the community is also inundated by something, and sometimes they don't even know -- they can't grasp, and sometimes I can't grasp what I just heard.

I don't -- I don't believe, in my opinion and others' opinion that I met with before, that a rate increase is justified right now.

The audit needs to be taken -- I support the audit, we support the audit.

I just think -- I heard some figures, 25 million and then I heard another combined increase, I can't remember the total, 138 million or whatever it was.

There's too much confusion going on.

Let's slow down and let's get this information compiled properly, correctly and let the public digest -- I'm going to need your help, though because some of this is very confusing to a lot of us out here, and we need accountability.

We need people to be forthright with us, the taxpayers, especially the poor, who we believe are going to be the most heavily impacted by any kind of decision that's made here.

So we need the correct information out here, and i want to say this also, that regarding the cap program, there have been some people that have been denied assistance from the cap program.

We're going to be investigating it.

I just found out about it a while ago.

I received a call.

I think that's highly irresponsible -- not correct, but I want to get down to the nitty-gritty of the basis of the complaint.

I'll bring it forth to you, weis, and council members.

I think there's too much going on right now.

You need to spread it out, take time to make wise and prudent decisions and you all have a judiciary statutory ability that makes you do that.

Some things I heard were good.

A lot of it -- I thought I was a highly educated man, apparently I'm not because some of it is confusing to me.

Can you imagine what the local populace thinks about this?

If they're viewing it, sometimes they don't want to view it anymore.

Some of it, I don't believe the increase, the cap program needs to be improved, extended, more money.

We have a lot of -- I don't care what anybody says, we're still in a recession right now and just because a lot of homes are being sold and bought doesn't mean that is a true indicator of the economy recovering.

It's not.

People from outside of Austin coming in buying, they can afford to buy half a million-dollar homes.

We need to get educated on this.

I hear a lot of concerns from a lot of you.

There's some shift between some council members, some things I don't like, and I hope we can correct and dissect and understand.

Please do the right thing.

Get the audit done, take some time, back up and regroup.

Thank you.

Linette Cooper.

Pass?

Michael Emanesh was here earlier, spoke earlier.

Catherine Stark?

Catherine Stark?

Karen headon.

Paul robbins?

You have three minutes.

>> Hopefully I won't need it.

I have been vexed at something ever since the water treatment plant 4 discussion and debacle, and that took place last summer, and I just have to ask this if your bond counsel says something publicly, that if you don't act, your rating is in jeopardy, and then you don't take their advice, does this jeopardize the interest rate that you receive?

In other words, if the bond counsel is going on record as saying, don't do this or your bond rating is going to go down, and then you decide in your wisdom to do it, then how can they publicly defend austin in the market?

Somehow it seems to me that if they're going to make a statement like that, it should be done in executive session.

Thank you for your attention.

those are all the speakers that i have signed up wishing to speak.

Clay did he foe is signed up -- defoe is signed up not wishing to speak.

Is there further discussion on this item, council?

All right.

We'll go on to item 4.

And mayor pro tem, did you -- I think we may have some speakers.

Let me check.

No, it's a briefing only.

No one is allowed to sign up.

>> Yeah.

>> Mayor leffingwell: mr.

We we is, did you -- one of your -- weis, waf your staff want to make a presentation on this item?

>> Right, yeah, we're getting ready to shift gears here.

Okay.

We have a -- we have a short set of slides.

This is -- again, I'm larry weis, general manager of austin energy, and we have a short presentation today on our ccmb system, customer care and building system, also known as a customer information system.

And let me start out -- with me is jj gutierrez with our customer care, senior vice president of customer care, and I'll let jj go through the slides when we get there, but let me talk about some high-level points first before we go.

First of all, this project started in 2007.

It was a project that involved collectively all of the departments of the city that bill and it's taken many years to get it launched.

It finally launched in 2009 and it's gone through a lot of work to get to where we are.

And we'll go into that.

But I wanted you to know that this is -- the cis system is complex.

It's been planned for many, many years, and this last october it went into place.

So we're implementing a very complex billing system.

It's a major project.

The process involves a lot of prep work, installing the software, then a shake-out period when all the bugs are worked through.

This process can take several months.

In fact, we planned on about ten months.

We informed the council that the shake-out period would last about ten months.

There was a memorandum that went out last fall as we implemented the system as to kind of what to expect.

And we've seen about 4% of the bills, not one in four as was reported, but we've seen about 4% of the bills issued from the go-live date to have some sort of problem.

Those problems can be anywhere from the wrong address to a time of -- the bill is due that's not satisfactory to a customer.

We'll get into some of the details of some of those system issues.

An audit report, which I believe has been distributed to all of your offices, an audit report in January sampled 25,000 bills from various zip codes, and I know that all of your offices received that last night and may have received it before, but that audit report has found a 99% accuracy rate with our billing.

So it's nothing extraordinary as expected.

However no billing issue is acceptable and we pushed the vendor to resolving every single issue.

The vendor has not worked as quickly as we would like, so we have taken some steps to accelerate the work by withholding payment and hiring outside counsel.

We did communicate this expectation with council via process memo and via emails with the city manager who offered updates to council in December and we helped our -- calls and got him through that.

Since October I want to emphasize that our vendor, IBM, launched the CC & B system, we've had many issues by four categories.

System stability issues, that is that the system slowed down, it was slowly operating and at times the system availability issues.

We had to work with our vendor to make sure that we have the right hardware and other issues that I won't go into -- make sure it happened.

Building errors affecting bill amounts, that was an issue, and billing issues not affecting billing amount.

E bill issues and receiving a paper bill.

Do we have an electronic -- this is an electronic age of banking and billing, and anytime we interrupt our systems customers can have a variety of concerns, but we have a portal that was having problems when the billing system came up.

That was probably the number one issue with customers is that it can no longer electronically bill, and so they've been receiving a paper bill with those customers that can't do it.

And contractual challenges with our vendor, and I want to emphasize that we continue to have significant concerns about our contractor doing its performance, and we are on task to holding them accountable, and we will hold them accountable to deliver this.

There's been communications to the top leaderships of that company and we continue to put the pressure on them to perform.

So I'm going to talk about the first four months of highlight -- in the first four months since we've operated the system austin energy has generated and 2 million bills.

We do about 6 million bills a year but we've delivered 2 million bills, well over 480,000 accounts.

The new system is able to handle the day-to-day utility system with customer service leps for austin energy, austin water utility and resources recovery.

We are seeing a decline in major system-wide issues and over 122,000 customers have been registered and are managing their accounts on the web.

So our portal is up and running and in my opinion improvements can be expected to continue throughout stabilization, and again, we expected this stabilization period when we put the system in.

This is normal operation.

It's rather off the shelf software that's being implemented by a consulting company to ibm, that we hired to do the implementation of it, and the software is not customer created.

Anything -- it is a standard oracle customer care and billing software package.

So I want to turn the presentation over to jj and let her go through the slides and then we'll be prepared for any questions.

>> I'm going to cover the first slides -- first two slides very quickly.

They're basically a recap, weis covered in his opening statements.

The first slide, the background information, has a little bit more information, detail about the start of the project as well as the number of bills that are billed annually.

The last bullet on this page describes the cost components of the projectment I want to state that the -- I want to state that the project in total is a \$54 million project.

4 Million is required for the implementation.

6 Million is the cost for a six-year operations and maintenance services.

The amount paid to date is \$32.4 million.

That includes the cost of implementation.



The remaining payment amount 8 million, and there is also an outstanding 1.2 million set of invoices.

Together there is a \$5 million remaining balance to be paid to that contract for the implementation.

Again I want to reiterate that 4% billing issues that have been found over the past four and a half months really are a variety of issues, and I'll use the remaining slides to talk about what those issues are specifically, but they are not one in four.

They are approximately 4%, and the audit reiterates that.

Let me move to the next slide.

So we still have a set of outstanding issues or items that are vendor or contractor, ibm, is required to deliver, in order to deliver a fully functional solution that meets all of our requirements.

These items are listed in our contract.

They are specific.

They are detailed, and we are holding and tracking these items with the vendor daily and checking for progress.

The items are at a high level.

We still need to receive deliverables and prove that the requirements that were specified in the contract were met.

So that's first and foremost.

That has not been completed.

We also need to ensure that all system and software defects are resolved, and so that is another outstanding item, and thirdly, we need to ensure that the system is operating in -- in compliance with the service level agreement metrics, and so some of those metrics are listed on the slide.

So these are the items that we are tracking and holding the final payment before it is paid to the vendor.

The last slide really speaks to the issues that we have experienced both internally and externally with our customers, and these are the high-level issues, the things that have been most -- that have gained most of our attention over the past four months, and we've grouped them into four categories.

weis identified as system instability issues.

And three core issues there have to do with the system not being available or unexpectedly going down, and as a result of that our ebill program, the program in which our customers can receive and will only receive bills electronically, was deactivated.

We were unsure that that was a reliable way to send customers their monthly bill and so we deactivated the ebill and began providing them paper bills, so that was a remedy for those customers.

And that is the largest category of customers that have been impacted.

There were 65,000 e-bill program participants on the old system.

Those 65,000 had their e-bills deactivated as a result of stability issues.

I'd like to make a note that since then, since the portal has become stable and more reliable, any customer that is -- that is registered on the portal can reinitiate their e-bill enrollment, and they have to the tune of 10,000.

So we already have customers reinitiating and reenrolling themselves into e-bill and receiving now their bill via electronic mail.

The other issues under instability issues, customer web site registration issues, these occurred early on and resulted in customers being very frustrated with the web site.

Every customer was asked to log on initially for the first time viewing the new web site, and that log-on registration process may have been hampered by the fact that the system was having difficulty matching their current log-in information with the cc & b information.

That was a manual fix.

We were able to resolve those and we are resolving those as they occur, so those 30,000 customers have been taken care of.

Moving on down to -- moving on down to the second category, billing issues affecting bill amount, these are the issues where the customer may have received or did receive an incorrect bill.

There are two separate issues here.

The first is we discovered that there was an incorrect rate on the bill for about 35,000 accounts.

Once discovered, those all were repaired manually and rebilled, so those have been resolved.

We also had -- we also currently have a process within cc & b that automatically reviews each bill for very high or very low amounts, very unusual amends, and that automated process we

discovered was not functioning properly, and approximately 500 customers received a very high or unusually low bill.

Those again have been identified manually and repaired manually.

Finally -- or I'm sorry, the third category, billing issues not affecting the billed amount, this category has to do with mostly display touch and feel, look and feel issues with the bill.

The bill itself, the new customer bill, paper bill, was redesigned with the system, and we have found that there have been certain items that do not display as specified.

The most noticeable one, the most discussed one has been the fact that the solar generation metering information was omitted, and that since h resolved.

On february 1 all of the bills that require solar information is -- is being displayed.

There are also several messages on the bill, and this one is one in particular.

The message is specific to each section, can be customized and changed each month.

We found that the message specific to the water department showing a comparative average, that that message was incorrect, and so each water customer would have gotten an incorrect consumption average for their neighborhood that would have been incorrect on their bill.

So these are the kinds of things, these are the issues that have been addressed and are continuing to be addressed by the project team, by the staff, working alongside with ibm.

The last issue on the slide has to do with internal -- internally focused issues.

These are items that have not faced the customer but still require staff to resolve.

The first is that we have increased the security component of the system, thus it's not accessible today to outside agencies as the prior system had been.

So the system today is very tight, very secure behind a secure network, and not -- access has not been provided to outside agencies.

Outside agencies may include outside police departments outside the city, constable's office and other organizations.

We are working with those organizations to find an acceptable solution, and one is in progress.

Finally, the last issue that's plaguing the city staff has to do with the fact that data within the system is very difficult to extract, and we are developing -- in the process of developing reports, but those reports have not been completed, and so that is a very slow process.

So in summary, these are the issues that we see and this is the status of those issues and how they've affected the customer base.

At this point I can answer any questions you may have.

[One moment, please, for ]

>> Tovo: The newspaper reported that there were 100,000 customers that were impacted and that's a number they received from you.

We have to be honest that's a shocking number.

We received constituent complaints and concerns as my colleagues did as well.

I had no idea that was that number.

What I hear you talk about today is the number of bills that have been impacted.

But I want to know the customers.

Has it been 100,000 customers who have had billing challenges as a result of the new billing system?

>> The last slide really speaks to that.

>> There have been quite a few customers impacted.

The way we track those issues is by accounts and bills.

Truly, there are 65 -- I'm sorry, what's the number there?

There are 35,000 accounts and that's the one that received the incorrect rate.

35,000 Accounts.

35,000 Bills, many customers have multiple accounts and receive many bills.

So we track these things.

We track these issues by bills.

So customers -- that's a very different number and it's a very low -- it's much lower.

The 100,000 includes the issues that I described such as the FACT THAT THE eBILLS TEMPORARILY Deactivate above 65,000.

Of that 100,000, 65,000 impacted because they were receiving a paper bill.

Others were impacted by say the fact that the bill didn't have their -- the billing methods was incorrect or -- as in the case of the water bills, things like that.

So the issues range from very minor nonbilled amount does not affect the build amount to the issues that do affect the build amount.

>> And so looking over this -- thank you for that clarification.

>> Mm-hmm.

>> Tovo: I see how we got to 100,000.

I agree there are distinctions on individual customers -- individual rate bearers.

Looking at this list, which category would put you to -- i guess 35,000 would be the rate issue.

They would have had the wrong bill.

Those would have been a -- that's a substantial impact.

But 65,000 had paper bills INSTEAD OF eBILLS.

Can you address for a minute the billing system.

We received some on the challenge on that.

And I think it relates to the billing system being in place.

I don't see it on the list.

I know based on the presentation that was done for the euc that -- that the method of assessing customers shifted and the letter that ought to have gone out january 1 didn't go out because of the billing system.

I wonder if you can speak to that.

I know there are questions in the audience that may have questions on it.

>> I can speak to that.

The issue there was the budget billing program.

It's that the new system created or allowed us to develop a new budget billing process.

And the change in the process required that -- we called it true up.

But it required that every six months a customer's account, a customer that participates in budget billing is reviewed to understand -- to make sure that the past usage is creeping up higher than the average bill of that billed amount that they're paying.

So it's a way of understanding whether or not at the end of their 12-month participation in the program whether they're going to have a very high credit or a very low -- very high or very high debit.

So it's a way of monitoring and ensuring that the customers are not impacted.

The -- the new system created an issue for us when it looked at every bill, every participant on the budget bill and decided to true up for anyone that hasn't been true upped in the past six months or longer.

And that was a little bit of a surprise for us.

We expected the customers that really needed to true up that month would true up.

And the others would true up on the subsequent months.

Therefore that -- we were not prepared and we did not communicate to all of the customers that were impacted.

We then subsequently -- we then subsequently did create a communication and a letter and directly mailed each of the customers that were impacted by that true up and all other participants so they would understand the change in the program.

The program still uses 12-month history, usage history to calculate the budget amount.

That doesn't change.

It just looks at it every six months.

It always looks back for 12 months.

To get the average.

>> Tovo: Thanks.

And so it sounds like all of those customers have now been notified so they can understand the process.

Again, that was another billing system?

So one of the people who contacted our office this week indicated that it was their understanding that there would not be late fees assessed during this period.

I would like for you to address that.

For customers who may not receive a bill and receive a high bill and an additional late fee.

I think that's really something that austin energy should consider waiving.

Is that in the plan?

>> Yes, it is in the plan.

We decided in october and actually had decided prior to october that the -- during the stabilization process of the new system, we would not assess late fees.

Nor would we disconnect for nonpayment.

So during that period, we have not starting in october and even continuing through today, we have not assessed late fees.

We, too, want to understand before assessing late fees and disconnecting that the bill that the customer received is correct, the information in the system is accurate.

So we had made that decision early on and we're still abiding by that.

>> Tovo: I guess that policy will change when the system will stabilize?

>> Yes, it will.

>> Tovo: So, let's see.

I have some other questions.

But I guess I would like to know how this has impacted the wait time for customer service?

I had my own experience.

That was rather lengthy.

I won't share the details with it right now.

But it was, you know, i understand when people call my office and say they've been experiencing very long customer care times, just what they're talking about having experienced it myself.

So what are -- if you've got an average wait time, and how that's changed in this period of time and how austin energy is helping to mitigate that for the people who don't have lots of break time during their work day to spend on the phone trying to resolve billing issues?

>> Our average wait time prior to this is typically 90 seconds to -- we may see as high as two or three minutes.

The wait time during the initial implementation of cc&b sometimes crept up to 14 to 20 minutes.

That might have been the time you experienced.

>> Tovo: No, that would have been welcome.

>> Nice?

>> Tovo: Yes.

But that gets it --

>> so there was definitely a shift in those wait times.

And in response or even in preparation, we have added staff to our -- to our call center.

And that staff really -- it -- to come to up to speed in order to be able to answer calls required about four weeks of training.

That staff is in place now.

And our hold times and our average wait times are back to normal.

We're experiencing between three and sometimes maybe five-minute waits.

But we've employed the new staff, the additional staff of 24 and I don't know where the other numbers are coming from.

But we -- we add up 24 new csr customer service reps to our call center to reduce the impact of those long hold times.

>> Tovo: And so are those temporary employees or are they permanent?

>> They're temporary employees?

>> Tovo: Is that a cost that can be passed along to ibm during this period of -- because it is certainly related to the billing problem.

>> That remains to be seen.



I think we have work to do going forward on that.

But --

>> Tovo: Okay.

Well, I -- and I certainly, you know, appreciate your proactive attempt to limit the rate times for all of the rate payers that are impacted.

So I guess I would like to get to some of the issues that were addressed in the article.

One of them referenced a conversation we had here at council in which I asked you about the billing system challenges and whether there were -- whether there were some.

reese, you said that there are always difficulties when you put these systems in.

But it's your understanding that we're having quote/unquote the normal problems when you do this and the situation was becoming more stabilize.

Though it wasn't going as fast professionals might want it to go.

It's around the same time you wrote to ibm and indicated that the problems were increasing.

Could you just talk me through that chronology a little bit?

I felt reassured after our discussion and again was a little shocked when I read in the newspaper that you had been conversing with ibm?

>> Right.

>> Tovo: Management about the -- that the scale was a little bit --

>> some reluctance on my part to want to talk about the specific issues with a contractor.

Because I have not closed out our deal with them and we still have some work to do.

We need to keep the pressure on.

So I think part of that just like I am today, I'm a little guarded about what we're going to do about our contractor, in this case, just as it was then.

And probably unfortunately i have gone through this experience before.

A couple of times with new cis systems and they are very difficult and very complex to put in place.

And this is 6 million bills, probably double the size of the last system that I went through.

And while it's pretty easy for me to say it's pretty typical, it's probably difficult for council to understand that we are going to have problems and we knew we were going to have problems and we got into the problems and they're being resolved.

So we built in problem solving and time to take care of the system and from my perspective, depends on the timing, we had the portal system going down, not allowing people to do their electronic billing was, you know, kind of a crisis moment in my mind, I'm not sure whether that was before or after and what --

>> Tovo: Before or after.

Before -- I think, our discussion.

>> But I think going forward, we're going to continue to work on our contractor.

We're working on that.

Our legal team is on it, we've got us on it.

I will send council a monthly report on the status of where we are with this project.

Because I think it's, you know, the heightened sensitivity of it is there.

I will tell you that we've been preparing for putting new rates on to this system.

It's built for it.

This isn't -- this isn't a holdup for rates or anything like that.

This is something that's been built in to the timing, in fact, of the -- with the new system is being put on because we knew that we're going to be looking at a new rate structure that will -- the old system has been here for 12 years and was very outmoded and needed to be changed.

>> Tovo: And looking at the situation now and the number of customers that have been impacted which I understand is different from looking at the number of bills, which is a relatively low percentage.

Looking at it now, do you stand by your assessment that this is still pretty typical or have we moved to the atypical arena?

>> Hard to answer.

With today's era, so much of the on-line banking, some of the complaints I had is I used to pay my bill on the fifth and now it's been moved to the seventh and I have to go to the computer and change now when my bill is paid.

That's an inconvenience.

It's not necessarily an error, it's an inconvenience.

And to answer your question, the time I've gone through this before, the electronic banking wasn't around like that.

So, really's the job of cutting a new system in today in this technology era is hard compared to how it used to be.

In my career, if I do it again, I'll let you know.

But I don't know.

I keep asking the question every week of staff.

What I do, I occasionally talk to employees that are on the phones.

I ask that, I ask, is it getting better?

The answer is yes.

It's stabilizing getting better week by week

>> Tovo: Glad to be in that direction.

It sound like we're getting better maybe for the reasons you identified, you don't want to comment right now on whether this is typical or atypical.

Did you want to --

>> we have to work with our contractor.

We have deliverables that have not been delivered.

>> Tovo: I appreciate you coming in and talking about it.

I'm interested.

I'm sure my colleagues are as well.

I have one last question.

That is because some of the channels have been in customers receiving bills, I wondered if you could speak to the number -- to what kind of customers who are not receiving bills.

Are these typically residential customers, commercial customers, large industrial customers, who are the customers out there who may not be receiving bills and thus not, you know, paying the revenues that we really need -- that we're really relying on at our utility?

>> There isn't a specific category.

The issue happened in several different customer classes.

But we've not seen the issue being wide spread.

At last count, we saw roughly less than 100 when we did our own query of customers that had accounts with us but have not been billed.

And so the issue, we can tie it down to one of a couple of things.

You may even have seen in the article there was some issue with the addressing within the system.

And it not showing up on the actual bill and that prevented the bills from reaching the customers.

When we delved into that, we found there were 70 that had that issue.

Others, 30 to 40 or so have other issues.

These are very individual things.

A issue with the meter change out, an issue with the premise, the location, all of the technical things but very specific to that account.

So, again, it's not a wide-spread issue.

But there have been a handful, less than 100 that we notd for it not to receive a bill.

We have since begun running that query, that report each day to see are there new customers that have not received their bill?

So we can manually prorate that and manually generate that bill and get to the customers.

So you may see that the customers are asking for a bill.

They haven't received it yet.

And in those cases, we have to fix that core problem that caused it not to bill in the first place.

And, again, a meter issue or whatever it might be.

And then create and generate that manual bill.

It takes sometimes several days.

Sometimes it took over a week.

>> So it sounds like you have some work-arounds if customers aren't receiving bills.

But are all of the customers groups, I mentioned, are they impacting residential small users as well as the large users?

>> Within the 100 I mentioned, there was some residential and some large commercial -- and some small commercial customers.

>> Tovo: We're spending so much of our time these days thinking about revenue and, you know, the impact in terms of the finances, I would assume if they are some of the largest use thaers you are prioritizing getting manual bills to them so that that revenue can be --

>> most definitely.

That's the other point to make is that although that bill may have been delayed, that revenue is still billed.

And the revenue is still captured, you still receive it.

It may be -- it may have been delayed a week, a billing cycle.

But we still receive that revenue.

So that's not revenue that's foregone.

It's just delayed.

>> Tovo: Just delayed.

>> Yeah, mm-hmm.

>> Tovo: Sounds like you're keeping on top of which accounts those are and making sure --

>> yes, via a manual process.

>> Tovo: Thanks.

>> One point I wanted to make is with the old system and with this new system when it's running perfectly, we will still have problems as big as the system is.

Doing 6 million bills a year, there's a probability factor that goes into it that you assume.

So there's always some things that change, little glitches that happen.

We stand by to fix them and we have systems built in to catch them -- to catch the problems as they come through.

>> Tovo: Thank you.

>> Riley: Thank you for the presentation.

First, I hope this is an easy one.

Over there on slide five when we talked about the -- the current status on old systems issues.

5,000 Counts -- accounts -- issues with 35,000 accounts were resolved through a manual process.

That just sounds awful.

Can you -- can you help me understand what that meant?

Was that austin -- was that austin energy staff going through to 35,000 accounts and doing some banking?

>> It was austin managing staff completing the changes, but we did not have to one-by-one address each account.

We applied a query that would make --

>> Riley: It wasn't as labor intensive as it sounds?

That's a relief.

>> We used some technology to make that happen.

>> Riley: That is a relief.

>> The reason that manual is specified there is because we're still waiting for a systemic, a program fix from the system.

So each time we run across this issue, we still have to implement this work-around process that we've built.

And what we'd rather have is the program, the system itself, taking care of it like it was --

>> glad to hear that.

Now to my main question -- we are currently looking at a rate proposal that would impose significant changes to our current rate structure.

The proposal would add fixed charges, increase the number of tiers.

It would have fairly significant implications for our billing system.

Obviously we're going to have more discussion on what shape that rate proposal takes before it gets approved by council.

But it's important for us to know that we can be confident that the utility will be able to work with the decisions on the rate case and work with the billing system in a way that avoids serious -  
- avoids more confusion and hassle for customers.

Can you -- is there anything that you can tell us that would give us any assurance about the -- about the degree of confidence we can have in our billing system's ability to respond to the decisions we make on the rate case?

>> Well, I'm very proud of the staff that I worked with from and Allen who's our chief information officer.

So I asked the question this way -- in -- is the billing system going to be capable of learning this new rate design?

And the answer is yes.

And the other question is how much time do you need to make sure that it is in place and working correctly between the time that we approve and the time we implement?

And the answer is 90 days.

And that's the framework I'm looking with.

Aside from that, the technical challenges that has to make sure with what the billing system does work with the rate design that you've seen us propose, that Oracle platform, that software, is built to accommodate rate designs like that.

It has to be.

These types of rate designs are might not be too popular in Texas or ones that people have seen before, around the country, they're everywhere.

The tiered structure, that is.

So I hope I'm answering your question.

And I hope counting on the fact that we're going to deliver it when we get to the point that we have new bills to print.

>> Riley: Just make sure i understand.

The billing system we have is an off-the-shelf system that is used by other utilities around the country with rate systems that are every bit as complex as the proposal that --

>> I can't say they're exactly like our rates, you know, exactly.

But, you know, the presumption is, yes, tiered rates are very popular with utilities across the country.

And the cc&b system is a very -- how many utilities -- how many utilities do you think use it?

>> I would say within the state, 40 to 50 utilities?

And then it's a global system as well.

So it's worldwide.

>> Riley: So the billing system should be able to handle whatever decision we make on the rate case?

>> Yes.

>> Riley: Okay, thanks.

>> Spelman: Did you say elsewhere in the country they liked the rate increased?

>> Yes, they do.

It's a similar experience as well.

>> Mayor Leffingwell: So all of the complaints you're getting, electric rates or other parts of the utility bill?

Any questions about the water, solid waste, transportation, ?

>> Yes, the complaints really span all of the aspects of the bill, including the other departments.



There are some issues that are specific to water and there are issues that are specific to Austin resource recovery.

And, so, yes, we're getting complaints about the other areas as well.

>> Mayor Leffingwell: Just wondering.

Because I only heard about complaints about Austin energy.

But it's really about the entire combined utility billing system.

And you think that just lately we increased the complexity of our utility bills, including a lot more information.

Do you think that's a factor in this?

>> Well, it's probably --

>> Mayor Leffingwell: Smiling or?

>> I'm just -- I know from experience that any time you change a customer's bill, what it looks like, what it says on it, and everything else, that -- with as many customers as we serve, that's going to generate some calls in to customer service saying, you know, a variety of -- a variety of things that may come about.

And --

>> Mayor Leffingwell: So there's about one page worth of billing information and about four pages of additional information or three pages?

>> Yeah, it depends on whether you get all of the services or not.

It can go up to three pages?

Is that right?

>> Mm-hmm.

>> Up to three pages.

>> Mayor Leffingwell: It seems to me that at some point we need to take a look at -- I'm not suggesting we change anything right now until you get everything fixed.

But seems to me we need to take a look at the use of extra paper and extra expense that goes into that.

And see if it's really worthwhile.

Anything else?

Councilmember morrison?

>> Morrison: Thank you, i appreciate you taking the time to do this and help us understand.

I'd like to understand a little bit more.

But first just to clarify one thing -- I was really taken by your first statement, and I want to get that clarified, and that was it's not one in four cust maniers that has a problem, it's only 4%.

I know what you're talking about.

The 4% is what came out of the internal audit.

And that, as I understand it, merely checked to see, given the right information, were the calculations of the charges correct?

And there were only 4% errors there?

>> No.

No.

>> Morrison: Is that correct?

>> -- No, the internal audit was 7% accurate -- it was billing accuracy in terms of the residential bills in terms of zip code.

That was a separate analysis.

What we're saying is that if you count a customer that has a problem, they received 12 bills a year.

And if there's a bill on one month, one of 12, then it depends on how you want to do the mathematics, anybody will want to say that's one out of 400,000 customers.

We actually have 480,000 customers that we bill as well.

So what struck me is that one in four gets a good headline, but the reality of it is different.

Because you can have one customer who that one month has a problem, we fix it.

The rest of the 11 bills of the year are fine.

Okay?

Are you following?

>> Morrison: Yeah, so the 100,000, what we see here is 100,000 people, sometimes duplicates, did experience a problem.

>> Some kind or another with the bill.

>> Morrison: Right.

>> And a large part of them they COULDN'T GET TO THE ePORTAL BUT They still got a bill.

>> Morrison: Okay.

So I do want to -- one of the other issues raised in the article that we all read on Saturday morning was about the cap customers and that some or all of them, that information was lost in the system?

They were no longer reported as cap?

Do you understand that?

>> I don't have all of the details.

But I did read that information in the article.

I did do some fact checking.

Certainly if all of the customers, cap customers were dropped from the program, I would have known about that.

What I did find out is there was a glitch, again, the addressing issue.

But it -- like it affected some residential, it affected some commercial, it also affected several cat customers.

Once discovered, it was a simple reenroll or re-add that customer back to the program.

There is no truth to the fact that many or all customers were dropped from the cat program.

>> Morrison: How confident are we that everybody that was a cat customer in the old system is today a cap customer?

And how do we -- what do we build that confidence?

>> We actually have both the enrollment information or the list from the old system and the enrollment information from the current system.

And I've already asked for that assessment to be made upon reading this article.

Just to ensure.

>> Morrison: So we can double check.

Can you let us know what you found?

That's a concern for all of us.

Can you -- so we talked about this oracle off of the shelf product.

But it's not nearly as simple as buying it, putting it in a disk -- a cd on our computer and " it took years to install.

Can you give us an understanding of how big of a -- not necessarily lines of code.

It could be a different kind of command, how big of a system this is in terms of what we had to build on top of the off-the-shelf?

>> Yes, the system itself has a data base that's comprised of -- and I really need my cio to answer the real technical, but many, many, many data tables.

And we're not only -- we not only had to configure each table to meet our business -- business rules and business processes, so that's configuration.

That took a team of about 40 people from within the city, an interdepartmental team, plus the vendor that we hired to help us with the expertise.

So that team of 40 worked for approximately two years configure and test the system.

In bringing over data from the old system so you had to actually have current information in the cc&b system to bill.

And so we brought over 480,000 accounts.

But we also brought over 13 months of historical information on those accounts.

So that we would have some past information with which to make decisions in the new system.

And you can just imagine the terabytes worth of data that have to be pored over, placed in the right field, and ensure that each individual account is made whole and looks like the account when it was in the old system.

So it was quite the undertaking

>> Morrison: So you would measure the size of this maybe in terms of -- the number of database tables and the number of operations that you have to -- you don't know that off of the top of your --

>> I don't have that.

>> Morrison: Okay.

We received an audit.

You all were with us at the audit and finance committee I believe in September prior to going live.

We talked about the go live decision and the status of the testing.

And there was an issue, you know, the conclusion of the auditor at that point was that there were still a large number of outstanding issues and some risk.

And the reason I wanted to just touch on this is not necessarily to go back in time, but to understand the situation because I think that we all need to understand how it is we're going to have confidence and know when the system is running according to an adequate accuracy and, you know, with adequate confidence.

And I was concerned about -- when I started reading about this, concerned about where we left the testing at the -- during the audit that we had that there was still a number of outstanding issues.

Also there was an issue about the fact that the traceability for the requirements for the testing was not direct.

So it was going to be hard to chase down and know exactly what was and was not working.

Can you comment on that?

And how that relates to where we are now?

Either why we got here?

Or how we're going to use our tests to know that we're okay?

>> The audit report -- all of the items identified in the audit report, I believe, management concurred with.

We began upon receiving that report to put things in place to remedy or mitigate those findings.

And the test plan at that time had I believe been completed in preparation for go-live, or maybe it already -- we'd gone live.

>> Morrison: It was before.

>> It was before.

And that test plan has been revised several times since.

The test plan itself in the past was detailed but the -- I think the issue was that it was hard to align the tests with the actual requirements.

I think that was the main issue.

The project team, the resources that I talked about, have spent subsequently -- subsequently, I would say close to 40 hours in project team meetings doing that alignment.

And so now there exists a table where we know exactly which requirement -- which test scenarios support each requirement.

And we do have a way to map those things today.

And that's a lesson learned for us.

We put an interim step between testing and requirements.

Now have we've gone back and really mapped those things to each other.

>> Morrison: And so I guess what I'm trying to get to is are we through with that testing now?

Or is that still going to be our foundation for figuring out whether the system is up to snuff or not?

>> It remains for every item, every deliverable that still has not been accepted by the city.

And so we will continue to -- continue that process until every item has been accepted.

>> That's my main question is how do we get -- so this over here as the system working as it should and I understand it might never be 100% perfect, but 999 in all way, how do we get from there to here.

And -- from here to there, i guess I should say.

>> With -- by finishing up the work that our contractor has to do.

>> Morrison: With regard to -- do we know what work it is because of the test plan?

>> We actually made an assessment to all of the requirements that were defined initially and defined and decided or determined whether those requirements are met or unmet.

So we know exactly which requirements are still unmet and those are the ones that the vendor is still -- or is working to deliver.

And so the test scripts will then be used upon delivery to ensure that the requirements are met.

So that process will continue as we receive their deliverables.

>> Morrison: So that's the measure we will be using are those requirements or there are outstanding test discrepancies on.

So I think it would be helpful -- I appreciate you giving us a regular report if we can see how those are changing.

We have to keep in mind that one, the failure of one requirement could affect 65,000 people.

So it's not necessarily an indication of how many people are affected?

Right?

Okay.

So we do have a plan to get where we need to go.

And I know my other -- my colleagues might have some other questions.

But I would like to have the opportunity to for a brief discussion in executive session, if that's possible.

wive es, because there's a contract issue, there's some issues that we might not be able to discuss here?

>> We can have a very brief conversation.

He's in phoenix.

He couldn't be here.

We can give you a general overview but that's the person that's really helping us to dig through final negotiations with the vendor.

>> Morrison: I would appreciate that.

I'm happy to wait until the others are finished with their questions before we do that.

Thank you, all.

>> Mayor Leffingwell: Mayor pro tem?

>> Cole: I primarily want to thank the city manager and professional staff for working so diligently Sunday morning to get this on the agenda.

In particular, Debra Thomas.

And it came to my attention after opening up the newspaper.

We don't try to govern by the newspaper but we're trying to do a lot of things with Austin Energy.

I thought the public would like to know we were exercising our due diligence in finding out what was going on here.

And I was well aware that it wasn't only Austin Energy and that you had a plan in place.

But I thought sometimes people need to know what we're doing and that we are aware especially if it's alleged that we are not.

So thank you.

>> Mayor Leffingwell: Okay.

I understand there's a request to go in executive session on this briefing item.

So -- the questions, section 071 of the code, we'll now go to closed session and discuss the legal issues related to this briefing item, number four.

Without objection?

We're now in executive session.

>> This meeting adjourned.