

Closed Caption Log, Council Work Session, 05/16/12

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>> Mayor Leffingwell: Good morning.

I'm austin mayor lee leffingwell.

A quorum is present, so I'll call this work session of the austin city council to order on wednesday, may 16th, 2012 at 9:05 a.m.

We're meeting in the council chambers, austin city hall, 301 west second street, austin, texas.

The agenda this morning is fairly general and there's no presentation by austin energy.

Before we go into it, i think I'll briefly review th schedule from here.

We have another work session scheduled for tomorrow, and we have a meeting scheduled for final rate decision on june 7th.

On june 7th we will adopt the necessary ordinances to implement the rate change.

If we can do it on first reading.

First reading will require five votes.

If we don't get five votes we will have to address it in subsequent meetings.

So with that in mind I think I will turn it over to the city manager for any additional comments that he might have about that process going forward.

>> Ott: Mayor, I think that you've captured all of the issues that council needs to be aware of for today's meeting and for tomorrow.

Of course austin energy is prepared to pick up from i believe last week in terms of the forecast.

I think.

I wasn't here, but you were unable to get to that.

They are prepared to start today.

And if you choose to do something other than that, they're prepared to discuss any of the other issues related to austin energy.

>> Mayor Leffingwell: So the first item listed on our agenda is a discussion about the proposed rehabilitative requirements.

-- Revenue requirements.

Unless there's something else we'll open it up for discussions or questions of staff.

Councilmember morrison.

>> Morrison: I noticed that obviously we've been touching on a lot of different pieces and looking at the agenda, especially agenda item three, I did go through and notice some of the topics that we haven't touched on at all.

And I know they need to be touched on.

And in the interest of really adhering to our schedule, I wanted to throw out the idea of at least getting some of these topics in front of us for discussion.

Hopefully they will be topics that we will be able to discuss without a presentation because I think they're things that have been rummaging around, so.

Some examples are disconnection fees.

We haven't specifically talked about different approaches we might have to addressing churches, schools, out of city residents, things like that.

So that's a proposal that i have.

>> Mayor Leffingwell: I think I understand that we're trying to set up a telephone call?

>> Morrison: It is set, i think.

Lee leffingwell if he's on, do you want to go ahead and take that first since he's here?

Is the phone call going to be in place for the entire meeting?

>> Morrison: Yeah.

I think he's here just as a resource.

Lee leffingwell well, if there's no objection, council, I think just open it up for general discussion on any of the items listed on our agenda here today.

If we don't need to specifically talk about the revenue requirement first.

Is there any -- councilmember spelman, do you want to talk about that?

>> Spelman: Sure.

We have a disagreement between our residential rate advocate and austin energy as to what the implications are for two big issues.

One of them is the 60/40 debt issue which we discussed several weeks ago.

And concluded at least provisionally that for the next few years 60 -- funding capital improvements with 60% debt rather than 50% debt made more sense.

The other issue which there seemed to be a disagreement about was -- I'm trying to find it here.

Does anybody have a copy of mr. chernek's memo?

The extent to which off system sales should be included in our rates or whether we include those in the fuel factor.

I'll just leave it at that.

There was more specific stuff I wanted to get at, but I suspect everybody knows what we're getting at.

And one way of going about this would be to have chernek, if he is online, to explain briefly his thinking.

Because it seemed to be different from what we've been hearing from austin energy.

And then perhaps to get a different view, if there is one, from our staff.

>> Mayor Leffingwell: Okay.

So do you want to get comments from personality on the phone first?

>> Spelman: I think that would make more sense.

>> Mayor Leffingwell: We'll go ahead and do that if you can put that on speaker.

And just receive his general comments about the raffy requirement.

Revenue requirement.

Pell pell paul, are you there?

>> I am.

I was waiting for the connection to be announced.

I didn't want to just start talking.

>> Mayor Leffingwell: We're assuming you will be here the whole time, so just go ahead.

>> The two things that i commented on regarding the rate proposal that three of the councilmembers circulated were first that the shift of the debt equity ratio in the short-term, which I assume you meant incremental sources of capital in the next couple of years, the shift of that ratio from 50/50 debt and equity to 60/40 debt and equity has a major effect on the requirement for cash.

And I calculated what that was over the three-year period that phase one would be in effect, and i calculated that would bring the revenue requirement for phase one down to \$72 million down from a proposed -- from a proposed phase one from austin energy.

So it would be a 39-million-dollar reduction that -- from the \$88 million that austin energy requested in phase one to \$49 million.

Which is less than the three councilmembers proposed for a phase one rate increase, even though they were supporting a 60/40 capital structure.

And for phase two, what capital structure is necessary, what funding level is necessary, perhaps it's premature to decide that because it's not clear whether a new power plant will actually be needed out in 2016 or so.

That depends in part on how vigorously you pursue austin energy efficiency and photovoltaics.

So that was the first adjustment just to try and bring the revenue requirements proposal in the three members' proposal to be consistent with the capital structure in the short-term that they were supporting.

The other factor -- and this I'm not as clear as to what the members meant, but they talked about off -- if off-system sales exceed budget, then any excess would flow through the fuel factor.

And I think everybody agrees that's how it would work, but that implies that there is a budget.

And austin energy is setting that budget to zero for setting base rate, and i think that's a mistake for a couple of reasons.

First of all, the number hasn't been zero.

And secondly, there is an issue of equity between customers on special contracts and the customers who would be affected by this rate increase in phase one.

So at least for phase one it seems that you would want to keep some credit for off-system sales and base rate and to therefore increase the fuel charge by taking the credit for off system sales and putting

[09:16:02]

them in base rates.

So customers who continue paying the fuel charge do not get this additional discount on the fuel charge.

So nobody would get the fuel charge, it would be in base rate.

And what that budget for off-system sales should be, the information we've gotten from austin energy has been somewhat inconsistent, but fearly there's a significant number in there.

I think that leaving in 35 million reflecting the fact that it has been high in the past and would have been high at the time that the -- the special contracts were negotiated is a fair number.

You could certainly come up with some other number that you wanted.

Now, it's important to remember that that 35 million or whatever off-system sales adjustment on base rate has little or no effect on the company's financial situation since it will be collected in fuel cost starting in january anyway.

So it's just a matter of whether, say, for the last half of the year you put another \$17 million in base rates or you put that \$17 million into the fuel charge starting in january.

>> Mayor Leffingwell: Could we hold on there and get staff's comment on that point.

>> Should I start at the top?

>> Mayor Leffingwell: Yes.

>> Thank you, mayor, mayor pro tem and councilmembers.

chernek sent these comments in an email over the weekend in response to the proposal from the three councilmembers.

Last night at the request of

[09:18:01]

councilmember spelman I sent you all austin energy's preliminary response to these comments.

And I'll just briefly summarize first on the debt to equity ratio issue, we believe that we've already made that adjustment and presented that to you in the work session on april 30th, and that work session we explained that that adjustment would reduce the revenue requirement by 22 million, and we added an additional one million dollars for debt service.

So our original request of an increase of \$127 million would be reduced by \$21 million down to \$106 million.

We showed you that in april 30th in a chart that had several different options.

Then I would say secondly that we reviewed the numbers chernek and we have some concerns about the underlying methodology for applying the change in debt to equity going forward.

As we've discussed at length, our rate proposal is based on an historic test year.

For a cip we used a three year average of actuals from fiscal 2009 to fiscal 2011 to develop what should represent a typical year.

chernek has then applied the change in debt to equity to forecasted cip spending.

We believe that would be an inconsistent approach, and

[09:20:00]

it's not consistent with our development of an historic test year.

And that a rate-making proceeding that we could have in the future that could be problematic.

We are also unclear on some of the numbers presented by chernek, particularly his projected cip spend of \$180 million in our financial forecast.

We project the three-year cip spent from fy 2012 to fy 2014 to be \$207 million instead of \$280 million.

So the reductions that chernek estimated may have been overstated.

And then finally on this issue, I would say that in our discussion on april 30th, we discussed that there are multiple dimensions to the financial challenge at austin energy.

One is getting the right revenue requirement number, another is the issue of our cash needs, our ongoing cash needs.

And as a result we have recommended that should you adopt a policy that changes to the debt to equity ratio and reduces the revenue requirement, we would recommend that the revenue requirement reduction be on the back end and not in phase one.

And I believe that chernek has made an adjustment in phase one.

So those are our general chernek comments related to debt to equity ratio.

We have discussed this several times over these work sessions, and there have been a number of memos submitted on this issue.

It's important to first point out that this is not a revenue requirement issue, chernek said, this is an issue of how the rates are set and accounted for.

Either way, however you

[09:22:00]

treat off system sales, the initial rates will be the same.

What will change if you adopt a proposal where all off-system sales go through the fuel factor is that we'll be able to adjust the fuel factor on a regul basis to give the benefit of any off-system sales directly to our customers in a more timely fashion.

We have explained the difficulty for us of identifying in the current market design what are off-system sales.

We believe that first what we thought of as traditional off-system sales bilateral sales from our utility to another utility, those are currently very small and going to be small in the future because of the intricacies of the changes in the ercot market.

Those are particularly important starting in 2010 so that in our 2009 test year, we had a different set of facts, which led to a different set of sales.

So the numbers today are very different than the numbers were in our 2009 year.

Most off-system sales, most of what we call in accounting today as off-system sales, are really sales into the ercot market for energy and capacity services that we sell into the ercot centralized market.

And also revenues that we get from ercot for the auction of congestion rights.

Then I guess our next point is a littl esther rick -- he is soter rick

[09:24:00]

rate-making point and that is the suggestion that there is an improper benefit to long-term customers to the shift of off-system sales sales rates to the fuel factor, and we don't really agree that there is such a shift because that presupposes that the current rates, which were set in 1994,

and the contract rates, which were discounted off the 1994 rates in 1996, had as a component of those rates those off-system sales.

And that the off-system sales are already in the base rates.

It is our understanding that the 1994 rates did not have off-system sales revenues baked into the rates, and in fact those rates were set in a compromise, so not based on a cost of service study.

So to say that those rates included off-system sales and it's improper to shift those off-system sales for some customers, but not other customers because of the long-term contracts --

>> Mayor Leffingwell: So would that be a unilateral alteration in the contracts?

Is that what you're saying?

>> No.

I'm saying that the contracts -- when the contracts were first set there was no assumption that there would be a certain amount of off system sales revenues embedded in the contract rate.

So now when we take those revenues, which were just excess revenues received by the utility that we put into reserves, and we shift those revenues into fuel, there's no change in the original terms of the contract or the underlying costs that were embedded in those contracts because those revenues were kind of outside the design and the setting of those contracts.

>> Mayor Leffingwell: What would be the effect on the people who have the

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contracts?

>> What will happen to all customers is that should we make additional off-system sales, that will reduce the fuel charge for all customers.

All customers will benefit, including the long-term contract customers who continue to pay fuel.

Should we not reflect these costs in the fuel factor, then there are could be a reduction in rates for most customers, but not a reduction in rates for long-term contract customers.

So there's a difference in the cost allocation depending on whether these costs were embedded in base rates or in fuel.

And there is a difference.

There's no doubt that there is a difference, but we don't believe that it's an improper difference because the 1994 and 1996 rates did not have these costs -- these revenues reflected in them.

So the change is a change, but it's not taking something out of the rates and shifting it improperly.

Sorry if that was not entirely clear.

>> Mayor Leffingwell: Councilmember tovo.

>> Tovo: You know on that last point, maybe chernek can chime in here too or maybe councilmember morrison, but it seems to me that base rates are -- if base rates are where we pay for production costs and it's the excess production resulting in the ability to sell energy to others, and we have long-term contract customers who are paying a very negotiated, lower base rates, then it does seem appropriate to have those revenues flowing back to reduce the base rates for the customers who are paying.

And those are residential and commercial, not the long-term customers who are paying lower than -- lower than commercial rates.

I think it is a fundamental

[09:28:01]

difference and I think it's about whether it basically comes down to whether or not we want those sales benefitting the residential customers who are paying their share of production costs.

>> Either way residential customers will benefit.

There may be a por- the shift to fuel benefits all customers.

There may be a portion that goes to contract customers that would be embedded in the base rate for residential customers.

We don't have an estimate of what that number is, whether it's half a million dollars or a million dollars or two million dollars.

I would think it would be in that range, but we -- and we do recognize there's that shift, but we also believe that the uncertainty and the future path of off-system sales makes it somewhat tenuous to embed those revenues in the base rate when we're really not sure we'll have those revenues in the future.

So the total rates will be the same.

Residential customers as well as all customers will get benefit when we have off-system sales, and we won't have an unpredictable value in our base rates that we may not be able to fulfill and may lead to revenue instability.

>> Tovo: Well, I just want to comment that for me the chernek i believe made and others have made is that in effect if it all flows back to fuel, the industrial contracts are benefitting twice from that.

But I'll hear councilmember morrison.

>> Mayor Leffingwell: Councilmember morrison.

>> Morrison: Thank you.

I want to throw out another way of looking at it.

For me those off system sales came from the production of energy obviously, and part of that is production and part of that is fuel.

So for me one of the reasonable ways to go about

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it is to think in terms of dividing part of it to go to fuel and another part to go to base.

And it does make a difference because as you said, if you have \$10 million and it all goes to fuel, then it's split across a larger group of people, including the industrials.

If it all goes to base, the individual customers that aren't special contracts will get a bigger boost from that, a bigger decrease from that.

If you split it, you will split it or you will get that phenomenon.

Your point is well taken, dry fuss, that if -- whatever we put into the fuel in terms of accounting for it in fuel can be done in a timely manner.

Putting part of it into base rates, whether you just book it for the next base rate change or find some other mechanism to sort of account for it in the future, which you're saying you're not comfortable with, or somehow reserving it for a future ameal your ration, I'm not sure what the fair thing is, but I think the logical thing is to split it in some way because that's what the cost of producing those -- that energy that we are able to gain revenue from in off-system sales are the settlement.

In the end that's where it really comes from.

>> Mayor Leffingwell: Mayor pro tem.

>> Morrison: I think staff wanted to respond, perhaps if you don't mind.

>> Cole: I just wanted to say that I think part of the problem is the definition of off-system sales.

We're still calling them off-system sales, but really they don't exist anymore.

We do not capture them that way.

So we can't pull them out.

And we've adjusted the test year to reflect the typical year, which is in the nodal market.

And what we have now is

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benefits from owning our generation and that's included in the net settlement cost.

So really there's no longer a way for us to pull out even a portion and distribute it to industrial customers versus residential.

Everyone is receiving the benefit in the rates through the fuel, and so I think that's the most appropriate and probably the only way we could handle it in the test year.

>> Morrison: So are you saying when we do get that settlement, is that an annual settlement that we get with ERCOT?

>> It's every 15 minutes.

We bid in all of our generation in five minutes and we settle every 15 minutes.

So there's no way to really determine whether that is off-system sales or whether it's to serve our load or how that generation was used.

And even if we can determine which generation produced the sale, we can't find the appropriate costs.

And you can't separate the costs from the sales.

If you're going to split them out and call them off-system sales.

So you have to have both sides, both the profit and -- and in order to calculate the profit, you have to have the sales and the costs.

And we can't match those.

>> Morrison: I know every 15 minutes sounds like a lot of calculations, high frequency.

>> That's not really the issue here, though, because there's no particular need to associate particular transactions with, quote, an off-system sales credit.

We do know that the company makes sales to ercot or ancillary services and gets other credits back.

And those are currently booked as off-system sales.

>> No, they are no longer booked as off-system sales.

>> Well, there were through february anyway.

You may have changed it in the last two months.

But the reports through february show off system

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bilateral sales.

And regardless of what you call them, it really doesn't matter because if you just say our total power bill net of all purchases and sales through ercot or otherwise, minus -- plus the 35 million that we've assumed as an off-system sales credit and base rate, that's the fuel adjustment.

And you don't having to picking at 15 minute intervals and you don't have to figure out what your, quote, actual, unquote, bilaterals are in any particular hour.

You've got a total production cost number with the sales and the purchases, and your own fuel charges.

You work out a total number at the bottom.

You add in the 35 million that was credited to base rates, and that's your fuel charge.

And it's quite straightforward arithmetically.

It does not require any aggregation.

And in three years when the special contracts unwind, you can come back and look at it and see whether it really makes any difference and whether its worth keeping up.

But in the meantime there are no revenue stability problems.

If sales, off-system sales or bilaterals or credits from ercot increase, then the fuel adjustment would decrease, and if the credits decrease, then the fuel adjustment would increase and the company is made whole.

And the only real effect is the effect on those contract customers who are not bearing this rate increase

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for three years.

And whether you want to take a fuel adjustment that did not previously have the off-system sales credited to it and now credit it and reduce their off-system sales and make their contract a little sweeter than it was before, that's a decision that the council can make, but it doesn't seem to be warranted or necessarily increase the base rate.

>> My biggest concern about that process is that the 35-million-dollar credit that would be reflected in the base rate is from a market that doesn't exist anymore.

And the future prospects for these thanks we're calling off-system sales are very different because the design in the ERCOT market has changed and because the market is very dynamic.

And our generation fleet changes over time and we are selling -- not that our generation fleet changes over time, but as we grow we're buying more power from the market rather than selling more power into the market.

And so I just don't believe that we will sustain anything like \$35 million in off system sales, so we'll have an under recovery in our base rates overtime and we will not necessarily resolve.

>> No, you won't have any --

>> Mayor Leffingwell: chernek, you can't interrupt.

>> My apologies.

I think mark misstated.

I think he's trying to say that there would be an understatement in the fuel because obviously the base rates are what the base rates are and there's no

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underrecovery.

Is that what you meant, mark?

>> I think by putting \$35 million in the base rate as a credit, if we do not have \$35 million in off-system sales, then we have a revenue issue.

>> Mayor Leffingwell: Councilmember Spelman.

>> Spelman: I don't know whether this will help or not, but it will help me, so let me try and lay this out differently.

We've really got effectively two utilities.

We've got a generation utility, which produces electricity and sells it to ERCOT.

And then we've got a distribution utility which buys power from ERCOT and distributes it to our customers.

Is that roughly what we're talking about here?

>> I think that's a reasonable way to think about the current market design.

>> Spelman: Okay.

Paul, are you okay with that?

>> Yeah.

That's a reasonable way to think about it.

>> Spelman: So what we've always called off-system sales, now that we've got a nodal market, the right way to think about that might be the profit we take on the generation part of our business.

Is that roughly accurate?

>> Yes.

The net return to our customers for owning our generation.

>> If it costs more to produce it.

So your argument is, mark, that that 35-million-dollar credit we've been talking about is not a net return that we can reasonably expect to have happen in future years because the market has changed.

I wonder if you could tell us more about that.

>> Well, it's what you said that instead of serving -- running our generation to serve our customers, we kind

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of have two companies in a sense, 2001 is a power producer that sells all of its power into ERCOT and one that is a retail supplier that takes its power from ERCOT.

And those are two separate functions.

We do not run our fleet to serve our load.

So in any one of these five-minute intervals, the amount of power we produce and the amount of power that we use is not equal and it moves all around.

And over time we believe -- and this is all kind of dependent on future market conditions, that we'll be taking more power from the ERCOT markets so that the net is unlikely to be sustained at the levels that the net has been sustained in the past.

Now, that's good for our customers because when we take power from ERCOT, we take it because it's at a lower cost than running our own generation fleet.

With the prices in the market today we're backing off our units more, taking more power from ERCOT.

That is revenue -- that is benefit that we give directly to our customers through offsets in the fuel factor.

>> That does reduce our capacity for making a return on the generation portion of our business.

If we're not producing as much power as we're buying, then we don't --

>> I think that's correct.

The net is lower because we're not getting -- the finance people are looking at me.

I'll let them answer that.

>> It's really just a different mixture.

The off-system sales were the wholesale sales.

And in this market you're right that the generation business is now separate from serving our load, but I think the difference is when we make money off of generation it's not -- you can't say that it's all

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wholesale sales.

It's the benefits of owning our own generation.

So we buy everything to serve our load and that's one price.

And then the benefit that we have from owning our generation serves to offset that.

And so the benefit has to go to everyone.

There's no way to segregate it.

>> Spelman: I guess what we're talking about then is what is a reasonable expectation for that benefit going forward.

When did we begin the nodal market?

WAS IT JANUARY 11th?

>> December of 10.

>> Spelman: So we've only had a year's worth of experience with the nodal market.

How much money did we make in the last calendar year?

What was the net return on our generation business in the last 12 months of the year in the nodal market?

>> We don't have it set up -- we're not unbundled that way, so we don't have the separate profit centers set up.

Hopefully in the future we may have that, but right now we can't give you that answer exactly.

>> Spelman: so we don't really have the accounting basis for determining whether it was positive or negative, \$35 million or some other figure?

>> We don't for generation business unit.

We're vertically integrated still so all of our profits and costs are rolled together to get the net margin.

>> Spelman: Absent that I'm not sure -- absent that I'm not sure how we can come up with a sensible means of taking what we used to call off-system sales and what we're now calling net return from the generation business into account in setting our rates.

>> They're really not exactly the same thing any longer.

>> Councilmember spelman?

It's my understanding that

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historically this off-system sales credit was off system sales cash flow to the company, was not a net.

That the company purchased its load to the fuel adjustment charge and its sale, off-system sales, were not in the fuel adjustment charge so that they contributed to building up reserves and allowing the company to stay out of the rate case for a long period of time.

And whether they were explicitly reflected in 1994 and in 1996 contract is of course impossible to tell historically.

But the point is that the purchases were always in the fuel adjustment, and the sales were not.

So it's not a question of what's happened to the net, but whether it's reasonable to continue the fuel adjustment charge at least through the end of the contract on a basis that's comparable to the way that the fuel adjustment charge would be set at the time the contracts were determined, which is that there was a chunk of off-system sales, and that the off-system sales were credited to the company and they did not flow through as a reduction of fuel adjustment.

>> Spelman: When you say that the purchases were always in the fuel factor, are you talking historically or are you talking about the last year?

>> I'm talking about going back to -- into the 90's.

>> Spelman: Of course that is when we were producing the vast majority of our own electricity.

So that wasn't an issue.

[09:46:03]

>> Well, in terms of the way that the plants were actually dispatched, there is a different protocol now, but the reality is that ERCOT was in the business of coordinating the utility and they may be doing it a little more efficiently now than they were before, but if somebody else had a cheaper plant to run, then Austin Energy should have been dialing back one of its plants and buying.

And conversely if one was running a more expensive plant, they could have been buying from Austin Energy.

And I believe that system worked pretty well and there were a lot of energy interchanged among the companies and ERCOT prior to the establishment of the nodal market.

>> Spelman: And I understand that that happened sometimes, but it's also my understanding the vast majority of the electricity that we distributed was produced at home.

This is an empirical question, though --

>> councilmember, if I could clarify on a couple of points.

On the first point about how the fuel costs for off-system sales were booked previously, what -- the revenue that flowed to reserves was revenue net of the fuel expense to generate that revenue so we did not run the costs through fuel and the revenues through base and into reserves.

It was net revenue that filled the reserves.

Secondly on the ercot market, in 1994 when our rates were set, there was extremely limited interchange of power in the ercot market, really only for emergency purposes.

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1996 Was the beginning of partial wholesale deregulation, which created the opportunity to.

>> Change power in bilateral contracts.

That was still somewhat limited and it was strictly bilateral with no ercot intermediary.

The beginning of the ercot MARKET WAS JULY 31st, 2001, Which gave us a centralized way to exchange excess power in what was called the ercot balancing market.

And we took advantage of that.

And also the new rules /after/of a deregulation in 1999 gave us much better pricing of the transmission system, so we were able to take advantage of much more direct bilateral sales during that period of 2001 to 2010.

Now with 2010 and the changes in the ercot market, the bilateral sales are really drying up for us.

The risk profile of making those sales has changed dramatically.

And even changed in the last month or two with new policies promoted by the public utility commission.

So our sales are mostly centralized in and out of ercot without the bilateral exchange.

>> Spelman: Okay.

So mostly in and out of ercot right now.

Going forward you expect the same thing.

Is there any point in describing the difference between net sales to ercot for purposes of production of electricity, which we're going to be sending outside of the city, and what I'm given to understand are ancillary sales?

>> There's two types of markets in ercot.

There's an energy market which is power to be used, and there's -- we call it ancillary services.

It's reserves.

There are four different types of reserves that ERCOT

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utilizes four second reserve, a 30 second reserve and a day ahead reserve is the way to put it.

And we sell those slices of reserves into ERCOT as well.

>> Spelman: At some previous memo I remember you saying that most of our net return on the generation business is ancillary services, not net energy sales.

>> We are very active in the ancillary services market, but as I mentioned as far as energy, we've been able to take advantage of the low prices.

Currently in ERCOT market to purchase energy in place of running our plants, which in many intervals have been more expensive to operate.

>> Spelman: Cheaper for us to send energy to our customers, but we're getting a negative return on the generation portion of our business.

Is that accurate?

>> I don't know about a negative return, but --

>> it's reduced.

>> A reduced return.

>> Spelman: A reduced return.

I'm trying to figure out how to take Paul's perfectly reasonable argument about taking the returns from the generation portion of our market and folding it in to our revenue requirements in a expense I believe way.

\$35 Million is something to me that we couldn't back up with the current accounting and current nodal market, but there is a number out there someplace and I wonder whether we need to take that into account or not.

If not, why not?

>> If we still had off-system sales and we were still in the same market that we were in in 2009 and we were developing the test year, we would still look at that 35 million and because of the uncertainty we would probably reduce it to zero.

Because you can't leave something in your test year that's a one-time event.

And you have to have a known and a measurable replacement for that.

So it would be reduced to zero probably anyway.

[09:52:00]

>> And I would add one other thing.

And that is we were criticized for funding reserves with off system sales at an earlier time.

That was not particularly transparent, those off-system sales revenues flowing into our reserves, and so in the preparation of this rate proposal, we've unbundled, we've tried to give you more specific numbers for what our reserves funding would look like that are more predictable.

And then give the direct benefit of the off-system sales to our customers.

So we think that we've improved the design and the transparency of our rate program.

>> Spelman: At a minimum since it will be difficult for us to identify what that benefit is going forward, we can measure it from a 15 minute interval, 15 minute interval apparently, but we can't forecast it accurately.

It seems to me that your judgment on putting that into the fuel factor rather than putting it into the rates makes good sense.

If at some future date in a couple, three years, we sort ourselves out and we realize that we're able to generate a particularly type of return or not in the nodal market, then at that point i think it probably would make sense to bring it into the rate and not leave it all to the fuel factor.

Does that strike you as being appropriate or do you still take issue with that?

>> It's reasonable on a policy basis if these returns are predictable to make a policy decision that some of it will be directly of benefit to the customers as an offset to fuel and some of it will be used to

[09:54:03]

fund capital additions of reserves or whatever it is you choose.

>> Mayor Leffingwell: Mayor pro tem cole.

>> Cole: It's my understanding that chernek thinks that we can calculate the amount of settlement or off-system sales, and you are telling us that it is very difficult to calculate.

He is saying that because we can calculate it, it's not as volatile and you're saying it's very volatile and the market has changed.

So let's just put those two fundamental differences in your opinions on the shelf and let's just assume for the sake of argument that both of them are close to right.

My question is the contracts that we have with the industrial customers, do they or do they not contemplate a calculation in the manner that you've been doing?

>> Well, let me first just reiterate that we have a number of customers on these long-term contracts.

All of the contracts expire by may of 2015.

While they are under those contracts, the base rate component of their bill cannot change, so we can't increase their rate until those contracts expire, but they are still subject to fuel cost changes.

So it is true that booking these revenues and applying them to fuel will flow some offset if we have net off-system sales, as we're calling them, will book some offset to contract customers.

And if those revenues were instead applied to base,

[09:56:02]

those customers would not receive an offset.

>> Cole: It sounds like y'all agree on something.

Okay.

Now I'm trying to figure out if we as a policy matter have a choice, assuming that chernek is right and it can be calculated, and we can let him figure out how it can be calculated based on his representations, we do have a choice whether or not we can let this number a part of the fuel charge.

But we don't know what that number would be, and it's volatile.

So could it possibly be calculated, but not used for the contract customers and put -- it's almost like going back to what you were criticized for.

Put in a reserve account.

And if we need to use it when we do a subsequent revenue rate increase, then it's fair.

>> Well, I guess the question is can we instead take the portion that would go to contract customers through a fuel offset and hold that as a reserve so that there's not -- so that there's benefit to residential and commercial customers, but not to contract customers that they wouldn't get if we kept those reserves in base.

>> Cole: Exactly.

That would be in reserve and simply a point of negotiation when we entered into the contract negotiation.

I'm trying to figure out what bill was trying to figure out.

>> I think we might have to think on that one a little bit.

[09:58:00]

>> Cole: Okay.

I don't need an immediate answer.

Do you understand what I'm asking, mr. chernek?

>> I do.

And I don't know whether those contracts would allow you to have a separate fuel adjustment with the credit.

Or lacking the off-system sales credit.

>> Cole: You're proposing that we stop it right now, and that we can do that as a policy matter, which seems to me a very difficult thing from our energy company's perspective, but assuming that you could definitely spell that out and they could definitely agree that that was an approach that we could use, then I'm trying not to change the calculation that we make for the residential customers, and at the same time not take it off the table as a potential advantage for the contract customers, but take it off the table right now while we're considering the rate case.

>> And I think the easiest way to achieve that would be to leave some of the credit for the wholesale sales part of the company's operation in the base rate until the end of those contracts, at the end of phase one.

So I think that's a pretty simple way of doing it.

I don't see any need to have some -- you know, austin energy is arguing that they have to use an historical period for calculating their investment, but they have to use a future period for calculating off system, ancillary, bilateral, ERCOT credit, that whole package.

[One moment, please, for change in captioners] chernick,.

>> Which I think would come out to about \$17 million, but it makes sense to have something in there as a credit to base rate for the equivalent of what the bilateral sales.

>> Cole: Okay.

Thank you.

I will just say that I am concerned about putting volatility into the base rate.

do you want to comment on that?

>> Well, I think it -- what chernick is saying, and proposing is similar to what he was saying with the 60/40 switch from 50/50 on dead equity.

When you develop rates, you cannot mix your test years, so you have to develop -- use a test year to develop a typical year, around that's what we are trying to do.

Really, the only question here, is in that typical year, do you want to try to guess how much off system sales will be the next three to five years whenever you change your base rate?

And that would be in the base rates for that period of time.

Or do you want to look at the market and when these benefits occur, give them back to the customers within that year?

So you are giving them immediate benefits rather than trying to estimate it and build it into the base rates.

That's really all it's about.

We feel like there is so much uncertainty, there is no way we can make a known unmeasurable to put it into the base rates, so it really is a question of uncertainty and whether you want to overestimate that or underestimate that and freeze it into the base rates, and we propose that it's better to look at the actual and give that benefit back to the customer within the year that it occurs.

so the whole concept of the fuel charge is to account for uncertainty, isn't it?

Council member riley.

>> Riley: chernick was suggesting it would be consistent with respect to these two issues before us, the capital spending on one hand and then the off system sales on the other hand.

With respect to the capital spending, the utility made the case we need to use historical test year and for that purpose, we used three year rolling average from fy '09 to fy '11 and I think you said if we look at off system sales -- with the understanding that that label is no longer really accurate, that -- that the regulatory framework has changed so much that we can't use that same approach.

We can't use the three-year average based on fy '09 to fy '11 because of the significant changes that have taken place.

If we were trying to do that in the first place, we couldn't get accurate number at least for the last of the three years because the way we have been keeping our books.

Even if we were able to come up with an accurate number -- some number based on the rolling average then it wouldn't be accurate average of what we would first see in the future?

Is that accurate?

Okay.

>> Mayor.

council member tovo.

>> Tovo: Council member riley, i am not sure if I completely understood what you just said, but I think what is very difficult here and I may be covering the same ground, is that we are looking at -- we are talking about a 2009 test year, where there were off system sales and then saying we aren't going to count them because we think the system -- the situation may change over the next couple of years, but, on the other hand, we know -- chernick has pointed out that there is some differences in capital in cip for cash but you are saying not to consider those because they are not consistent with the 2009, so i just -- it is -- it does seem to me that we are going back and forth a little bit about whether we are going to look at the contemporary situation or whether we are going to look at 2009 and I guess I would propose that we really consider carefully what I believe chernick suggested, which was to put part of that into base rates and part of it into fuel and I think council member morrison talked about that earlier because we -- we otherwise, it sounds like, could set the -- could end upsetting the base rates higher for residential customers because they were not contemplating benefit of that back to base rates and we -- and the contract chernick said, could end up paying even lower rates because they are getting the benefit through the fuel adjustment.

>> Council member, ann and i discussed this exact issue last night as we were preparing this memo and we don't believe that there is an inconsistency in applying the test year.

In the one case, we are applying the adjusted 2009 test year, based on the three-year average of cip.

In the second case, we are saying this is very unpredictable.

We don't know what would go into base rates, so we are going to treat it differently.

We aren't going to do something differently based on future protection which was on the chernick's memo on cip.

We will treat it differently from removing it from the base rate and putting it in the fuel factor and then whatever the outcome is, customers will get a reasonable and fair offset to their fuel costs, so I don't think we are mixing and matching the test year issue.

We are just treating those costs somewhat differently.

>> The test year -- the known and measurables, the rule that was used is that any known and measurable items from 2009 through december of 2011 were included, and that's within requirements of the public utility commission.

That's typical of -- in rate making, so if it's not known and measurable, then we wouldn't include it, so that's not -- that is consistent with the three-year average and that also is consistent with the public utility commission rate filings, which we have been trying to follow as closely as possible, and another thing, too.

It's more consistent with public utility commission rules to include off system sales in your fuel charge, and so we would have done that anyway if 2009 generation market was the same -- if the nodal market didn't occur in the middle of this, so we would have moved the off system sales to the fuel at that point anyway, or at least a portion of it.

>> Tovo: So we have a cip plan that carries over the next couple of years that's adopted by council?

I am under the same logic, i don't know why they wouldn't be a known and measurable change if it is adopted by council and we have a set of plans for what kind of cip projects we are going to undertake?

I thought the distinction was, again, it didn't happen in the 2009 test year.

>> Well, again, it's the -- the cip, you want to develop a typical test year, and our cip has typically been over 200 million since, I think, 2006, and even in the future, there is ups and downs because we might have a generation plan or something, but it's pretty stable over the 200 million-dollar mark.

So that's been pretty stable since, I believe, 2006.

>> And I would just say, council member, that in the financial forecast document that we circulated last week, there is a forecast of the cip spend for several years on slide -- on slide 14, but it is still a forecast.

It's -- and so were we to incorporate that into our revenue requirement, we would be mixing forecasted numbers with historic numbers.

>> Tovo: To some extent, I keep getting back to the place where it sounds like we are thinking about forecasting with regard to off system sales but not with other issues.

It still seems like we are treating this differently but i think we may be as far as we can get on that issue.

at some point I would like to ask a question.

I don't know if we have somebody here that can answer that or not.

But one of the things we need to be concerned with is bond ratings from the utility and it seems like if you are introducing more uncertainty in the rate structure, that would be a negative factor.

Can you comment on that or would you rather bring in bond counsel to talk about that.

>> Bond counsel would probably know more about it, but having the pass through charges is definitely desirable for the rating agencies, because it -- it gives immediate recovery of those charges and if there are benefits in there, then it gives immediate benefit to the customers, so that's more in line with what they like to see.

but the uncertainty element, too, would be --

>> Tovo: Definitely.

>> Mayor leffingwell: they.

>> Definitely.

they don't like uncertainty.

>> And there would be no change in the uncertainty or the flow-through.

It's just under my proposal, \$35 million would be reduction in the base rate and it would be increase in the fuel adjustment, and it should not make any difference in terms of both, the company plus recovery at all.

I think there may be disagreement about that.

Council member morrison.

>> Morrison: One of the things i want to ask is you are talking about the fact that we don't know exactly how the market is going to work and concerns about our net might go down if our -- what was for the sales -- on the other hand, one thing that occurs to me is with the nodal market,

we are dispatching our generation to some degree and are able to optimize our costs because we are able to, you know, go for the cheap energy that's out there on the grid without having to generate more expensive energy, necessarily and I know there is a generate and sale back, if it's complicated.

It is not as simple as that but it seems to me there is an actual net benefit to us and to austin energy's bottom line because we are able to do a bit of optimization of costs at this point, and so you are talking -- you had mentioned that you are concerned that our net from -- might go down, net which we used to get as offset with sales but it seems that there is another force at work in that there is optimization we are able to do at this point.

Would you say that is a phenomenon that is a part of this?

>> I think that's exactly right.

One of the things we always struggle with as a utility is sometimes things that benefit customers don't benefit the utility's finances and vice and the current performance in the nodal market with very low prices means that our customers are benefiting directly through lower fuel costs but we are not necessarily generating return on our production units, which are, at times, sitting idle and not producing power at a profit when we are taking power from the market.

>> Morrison: And then the other question I wanted to ask.

On the one hand, I hear, you say, let's allow the customers to recoup any benefit, any profit through fuel, but, on the other hand, I heard you say we can't compute it with our current set-up.

So how are we going to give that return in the fuel cost if we can't compute what it is?

Did I mishear you when you said that we don't know what the net is?

>> We don't know what the off system sales portion of that net settlement would be because of the timing of all of the transactions, so you can tell maybe at the end of the month whether you sold more than you needed but you can't tell what the costs would be because we don't know exactly where it came from, because the timing is -- is different on each one of those.

Each transaction.

>> Morrison: Okay.

But we can tell if we sold more than we needed and so that would be a net return and we don't know how much it cost us to generate that -- or how exactly we generated -- there is no way to track exactly how we generated that excess.

>> By transaction.

>> Morrison: Right.

But we still know the overall number?

>> That's correct.

And that's why we are proposing to give all of that benefit back to the customer at that time.

>> Through the fuel?

>> Yes.

>> Morrison: So it seems like the question at this point is, are we as a council, going to adopt a policy of crediting some of what would be off system sales, whether it's 35 million or less, in the base rates credit being assuming we are going to get it ahead of time so it's in the base rates, or are we going to wait and have it all come out -- come back through the fuel charge?

And the bottom line is that if we do the former, there is some uncertainty that you are concerned about, although I see certain sources at work that would actually help us improve our net.

And it's to the benefit -- to the greater benefit of the residents, to do it that way, and so for me, that's what it comes down to, and maybe we are not all going to agree on, what approach we take.

But those are the decisions we have to make.

council member spelman.

>> Spelman: We seem to have taken these two issues from back to front.

I have one last question on the last second of the two issues we took up on revenue requirements.

That is, could we actually get a number for the amount of off system sales for 1994?

Say from 1994 to '96?

You were saying earlier, mark, i think that it was a very small percentage in total production, but very small is not a number.

If we can actually get a number, we would be in a position, i think, to verify that whatever off system sales money we made in 1994 was a very small portion of the total bill on which the long-term contract is based.

I think that -- that would go a long ways for us to worry less about the double counting issue.

>> We will see if we can get a flum for that.

>> Spelman: Okay.

I have one more question on the first issue and then as far as i am concerned, we can move on.

I understand why we would want to use historical numbers whenever they are available and I understand that our capital improvement program is historically been more than \$200 million per year, but is it not true that -- well, this is our capital improvement program on an annual basis subject to our control?

Do we have total control over it or do events dictate we have to at some point put more or less money into the capital improvement plan?

>> It's definitely under our control to some extent, but in order to maintain the reliability of service that we need to, some things are mandatory.

We have to build substations when we need to.

We have to add generation when we need to.

So those type of things are more or less out of our control.

Sometimes we can defer those for a year or so, but you run the risk of hurting your reliability.

So there are some things that we can control and some that we cannot in cip.

>> Spelman: Where do the 180 billion-dollar figure come from?

Million dollars.

>> We don't know where the 180 million-dollar came from.

>> What is your best guess of the money we will spend on cip in the next year?

I don't have that in front of me.

>> It is around the 200 million, and we are still developing the budget right now.

We may try to defer more projects because of cash constraints, but we have been deferring projects now for the last four years and it's getting to the point to where if growth does start increasing, then we may be in trouble.

So we are looking to try to defer as many things as we can but we haven't decided on that yet, so I am not sure what the cip for 2013 will be right now.

>> Spelman: Okay, but \$220 million is what it looks like in this forecast?

>> Yes.

That's what we are estimating.

>> Do we have that under current control?

If we decided to do 112, we could send that to puc, we will send 112 because it is under our control but probably that will be a prudent number because there are a lot of things we have been deferring maintenance, capital improvements on?

>> That's correct.

>> Spelman: Okay.

I think that answers my question.

If we were to use \$180 million as the basis for cip, that is not based on our forecast, it is not based on previous activity.

It east just a number.

-- It's just a number.

>> \$180 Million.

>> Spelman: Where did that number come from?

>> That's the average of the 2011-12, '12-'13 and '13-'14 total capital spending plan numbers in page 21 of the -- actually it is labeled page 21 but it is not physically page 21, of a memo from larry weis, who had made it to the mayor and council members on march 6 and i haven't seen an updated cip rejection since then, so I was using that as the average for the next three years.

The historical period, of course, included the scrubbers on fayette and a couple of combustion turbines will not be in the next three years, and the -- the three annual values for the next three years projected march was 220 for fiscal 2012.

This is in million.

177 Million for 2013, and 143, 2014.

And then rising after that with the assumption that some new plant would be necessary >>

>> Spelman: This is a little bit scratchy transmission so let me read that back to you shortly if I could.

Averaging over '12, '13 '14 numbers from a memo from larry weis to council on the fifth of march, you have \$180 million per year for cip.

Is that right?

>> Yes.

>> Spelman: Okay.

And that includes fayette scrubbers and turbines for sand little?

>> No, it's.

>> For sand hill.

>> The historic saul three year average.

>> The historical three year average included those things which we spent.

>> If you were to do known and measurable adjustment, you take off scrubbers.

You've nothing you can do environmentally that is on the horizon that is anywhere near that magnitude and there is no expectations that it's going to hit generation the next three years.

>> We don't need any turbines until we buy ourselves another plant.

All right.

I understand you.

Could any of you describe that?

Talk about that?

let me just say, I don't think it is necessarily true that we don't have anything environmental on the horizon that could figure into that.

>> I am sorry, I didn't mean to say anything, but that something of the magnitude of the scrubbers, there is nothing of that magnitude.

I am talking about that magnitude.

>> Spelman: Are you talking about the bag houses?

I think the mayor is referring to the bag houses, at least a possibility of doing that.

Ann.

>> The forecast that chernick is talking about was last year's forecast, and just as I've said before, we have deferred a lot of projects in previous forecasts.

Those forecasts you have in front of you is different f the one that he talked about and as I said, if you look back at our history and our current forecast, our cip averages over 200 million every year, and so what you are wanting to do, again, in your test year is to try to develop a typical year and you want your construction average to be something that would represent your typical year and that's been our target because we know that's approximately how much cash we can afford for cip.

So when we have things that fill in like the scrubbers or some big project, we do often try to time order other things because -- or defer other things because we know unless we finance those things with 100% debt which we have been, we know we have to defer projects or stay within the parameters of 200, \$250 million a year.

>> That's a typical year.

If we were making a rate which is going to be in place another 18 years, we want definitely a typical year.

But if we are talking about rate which we know in advance we will be adjusting in phase two which we would expect happen in two years, then we don't have to worry about the next 10 or 18 years' worth of typical cip.

We can really focus our attention on what we will need for the next two years of cip, can't we?

>> If you look at the forecast, it does -- in fact, on page 298 of the forecast, you can see our cip plan and 13 is \$220 million.

'14 Is \$212 million.

Fifteen is \$207 million, and then we have implemented in the forecast, the 60/40 ratio, and so I think it's consistent with our test year.

>> Okay.

Well, I guess what I am doing is taking issue with whether the test year is really dispositive in this case.

If we were talking about a longer term rate, I would be inclined to agree with you but a short-term rate, I think the forecast is something that would be easier for us to develop a case for puc and certainly easier for me to understand.

On the other hand, there is not a very big difference between that three-year average for the test year and the numbers you have here, and I guess the question, then, is do we need to spend this kind of money in the next two years on our capital improvement program, or could we sensibly

back off to a number like \$180 million, without doing damage to our capacity to generate and distribute electricity?

>> I think it may have an impact on reliability because we have been deferring large items like substations for several years in the past.

>> And substations are included in the cip -- is distributed -- okay, \$10 million for distribution substation, \$56 million for distribution generally?

I am sorry.

>> About 53% of the cip is electric service delivery related, and then most of the remainder is generation related.

>> Spelman: Okay.

I feel uncomfortable because we are not able -- I do not feel like I am able to make a judgment and say here is what i think right now but the key issue from my point of view, i believe, is how much money do we need to spend in the next 2 or 3 years on a capital improvement program and I don't feel comfortable asking questions necessary to get closure on that point right now, given the other issues we've got in front of us, but I think it is a whole lot more productive discussion for us to be having rather than it makes sense for us to use a three-year average test year, versus some forecast.

I think we should forecast what we need and make that decision and use that as our basis.

anything else?

We will move on to another t.

>> Mayor leffingwell: love to.

all right.

Council member spelman.

>> Spelman: I love to move on to another subject.

I am not proposing a particular subject.

well, we have a whole list here on the agenda of things to discuss.

We don't have any hard set format.

We can sort of take them on in any order that you might like.

Council member tovo.

>> Tovo: Sure.

Well, I would propose that we tackle schools, churches or disconnection fees.

Disconnection fees, I am inclined to because it is a smaller subject but why don't we jump into schools, unless somebody has a preference for one of the others.

dryfus or others main you maybeyou can give us your ideas for shift for schools and then we can talk about other things addressing that?

>> As you know today we have rate classes that are specific to school districts.

Fundamental part of our proposal is to collapse all of the various rate classes that we have into the nine more common rate classes that are in the proposal, so the school buildings, from independent school districts would -- would fall into whatever is the appropriate rate class based on their sizing and usage, and then within each of those rate classes, we are proposing a 10% discount for the bill for each -- for each school bill, essentially.

That discount, would, then be recovered from the other customers that fall into that grade class.

>> Tovo: Is that a 10% discount on the total bill or --

>> total bill.

>> Tovo: So it was a discount done on fuel as well as the base rates?

>> Total bill.

>> Tovo: Okay.

Is that what the eec recommended as well?

>> That's my recollection.

Let me double check.

>> Tovo: I didn't remember that the eec recommendation included fuel?

>> It would be an effective rate so it might be applied to the nonfuel items, but it would be equivalent to 10% of the total bill.

>> I guess, for our accounting purposes, it is a little difficult for us to put a 10% discount on the entire bill so we may calculate an equivalent number and put a larger discount on the base revenue.

That helps us in our accounting practices but it would still be overall a 10% discount on the total bill.

>> Tovo: Is that something that our current billing system can do?

>> We have been working with them on all of those proposals and they feel comfortable with what we have proposed so far.

>> Tovo: So what would be the effect of leaving schools, continuing them in a rate class of their own?

Would there be any impact on the revenue -- on the overall revenue requirement if we just let them where they are in terms of their rate class?

>> Well, we -- they don't have the -- we don't have -- we don't see a distinction between the way we developed the cost for schools and other commercial classes, and by giving them a discount, we already have them identified and it is basically the same as having them in a separate class.

Their cost of service would not change, even if we pulled them out and called them a separate class, because there is no distinction between them and other commercial customers.

It costs the same to hook up a school as it does a retail business and to serve them.

So there is no distinction in the cost, but by giving them a discount, we are basically putting them in a separate class of their own, anyway.

They will be flagged.

We know what the schools are, and they would be receiving the discount.

>> Tovo: And as you said, the discount would be borne by others, in this case, commercial entities?

>> That's correct.

>> Tovo: So AISD has also asked for some -- for Austin Energy to address the issue of meters and I know we have talked about it in previous council work sessions and they have requested it be dealt with administratively, rather than -- because they would lose any benefit of the discount if they tried to put everything on one meter.

I understand that it would be determined based on -- I mean what they would save is going to, of course, relate to the fixed fees that we end up adopting, but are there any challenges to Austin Energy of aggregating those accounts so that, for example, if you've got one building on a campus, you know, one main building and four portable buildings, just treating those all as if they are one account rather than how many portable buildings did I say?

Four.

Treating them all as if they are one account rather than five?

Do you see any challenges on austin energy's part?

>> We -- we have explored this issue with our metering and the accounts group, and they have a significant concern of high costs on the part of the utility to carry out that function, and -- and it's not an automated function, and so, for instance, I had these numbers in my head -- I had these numbers in my head two weeks ago.

I think AISD has 750-meters.

>> Tovo: Yes, 764-metered electrical accounts.

>> So we would have to do the aggregation by hand.

It is not an automated process and that would be quite difficult for us and require staffing resources that we don't have available today.

We do carry out this function for a couple of industrial and commercial customers based on the agreement that we have with them and we charge them \$110 a meter a month in order to carry out that function.

>> Tovo: Help me understand what function you are talking about?

Making sure they are all aggregated into one account?

>> To tell you the truth, I don't really understand the nuance of what it is that the metering accounting staff do when they are carrying out that -- when they are doing the aggregation, but I know that it is a hand process of pulling these bills together.

>> Tovo: Do you think it is -- is it a hand process every month or kind of a one time hand process?

>> Every month.

>> Tovo: So could it be dealt with instead by just applying a discount to the -- to labeled accounts, a discount in the amount of whatever the fixed fee charge ends up being?

Fixed fee charges?

>> That is a policy issue that is available to --

>> Tovo: I understand the policy issue aspect of it.

I am asking you about logistical.

Would that make it logistically possible in the way the other methods have --

>> from the top of my head, it sounds like something that can be more done through automated fashion through the billing system.

>> Tovo: Sorry, through the billing system?

>> Yes.

Without having to do the by-hand account.

>> Tovo: So it sound like one way or getting around the realtime intensive handwork necessary process of aggregating those accounts on a monthly basis would be just to say if you are this kind of customer and you have five accounts at the same physical address, if you are a school district customer and you have five accounts at the same address, you will receive -- you will receive four fixed fee discounts on your bill?

>> That is a -- as I said, a policy issue that you could determine.

I think we could probably come up with a way of automating that but I want to go back and check on that but I have to point out to you that schools are not the only customers that have this issue.

Think ability every shopping mall.

Every strip center, office building, and we get requests to totalize bills all of the time and we do not carry out that function except in a few individual cases where we are being compensated.

So I think if you -- if you offer this benefit to schools, you will have a number of different parties approaching us, approaching you to get an equivalent benefit.

>> Tovo: That's an interesting point, but I guess, you know, we probably have had different customers approaching us for a discount as well, and we are contemplating treating school districts differently by providing them with a discount and we certainly have the option of saying no to the shopping mall that comes and says they want to aggregate their account and want waivers on their fixed fees and I think schools are different because of the way the campus may develop in adding portable buildings.

And I guess the rationale for me would be that there probably are not -- you are not -- if you have one main building and four portable buildings, you still really are dealing with one customer and so the drain on our resources and with regard to customer care and whatnot are equivalent to dealing with one customer, not five, probably.

But, again, I think it's -- we are contemplating treating school districts differently and this would just be another element of that.

so do you have some idea of what the savings to the school district would be in consolidating, say, five bills into one for a single campus?

Doesn't seem to me like it would be much, but maybe I am not understanding it.

>> I think it is 3 or \$400,000.

for the total system?

>> That's for all of the isds, i think.

all of the isds.

>> Tovo: Pretty significant.

If I may just jump in.

Aisd -- aisd sent us a letter in november and then again in february asking for us to consider this, because the savings to aisd alone is significant and it's -- somewhere I think it was based on their estimates -- their estimates were based on the proposed fix fees and their estimate was they would save between 120 to \$180,000, which, you know, is -- depending on how you look at it, either a lot of money or not a lot of money but at a time of really scarce resources, the 180,000 dollars is several teaching positions at least or a few after school programs so I think it's important.

would it be simpler to adjust the size of discount to account for that, maybe, council member morrison.

>> Morrison: I want to make sure I what an you are talking about.

When you say fixed fees, are you talking about demand charges.

>> Tovo: At that point it was proposed --

>> the customer charge, not the demand charges.

>> Now, what may happen to some facilities, you can have a school that has three small buildings.

We totalize -- were we to totalize those buildings and they may fall into a different rate class and pay a demand charge.

When they didn't pay a demand charge before, fall in a different rate, but that issue would not occur if you were just to give a discount representing the fixed charge.

>> Morrison: I am trying to get clear.

So some of the -- some of the smaller users in the school district are falling under residential that has the proposed 22?

>> Small commercial.

>> Morrison: Small commercial.

>> You can imagine a campus that has a number of out buildings that are all relatively small that are on the small commercial under 10-kilowatt rate.

Aggregate those together, totalizing their bills and then suddenly they are in a different rate class, where in the first case, there is no demand charge on those customers and less than 10-kilowatt category and their aggregated rate class they may pay a demand charge.

>> Because we may have to pleasure the demand across all of the buildings all at once.

>> That is part of why this is a complicated process to do the bill totalization.

>> Do we have any estimates?

One of the suggestions that came out of the eec was to set it at 20-kilowatts as opposed to 10, to kick into that class.

Do we have any estimates from the school district about whether that would make a significant difference?

>> I think the estimates for 4 milli the total savings on 10% discount.

>> Morrison: And that was if we were to set that -- the class that is kicking in at 20 as opposed to 10.

>> We have not looked at that.

so when they ask for the bundling aggregating the meters on single campuses, they weren't contemplating getting a discount at that point?

Is that correct?

They weren't asking for the 10% discount plus -- plus --

>> I believe that the request is in addition to the discount -- in addition.

>> To do the bill totalization or the equivalent.

>> Tovo: In fact, mayor, they were asking for 80% cost of service rate, so, in effect, they were asking -- they were requesting a 20% discount plus aggregation of meters and I am not certain about this but i don't think that the issue of change in rate class factored into the calculationsi just read.

I think they were doing 120-180 based simply on the increase of fixed customer charges.

what is their discount of cost of service now?

>> Well, it depends because different buildings are in different rate classes, and so never really looked at it as schools together.

We have only have looked at the cost of service differentials for rate classes.

>> I will add something.

all right.

>> When I had the discussions with the school district, and it was not only aisd, it was in several of the other out of city service areas that we provide service for, they had been working with austin energy over, not just in connection with this rate case, but over a longer period of time and my primary issue before actually just championing the discount that we were offering is that I know a lot of the schoolst in the city and in the outlying areas have serious challenges with energy efficiency.

So it wasn't a situation where i wanted to go in with their demand for just a discount and save, 10, 15, 20% or the aggregate meters knowing that austin energy is having trouble calculating that without saying what more can we do on energy efficiency, and of course I will support more for the schools.

I am all about the schools.

But at the same time, they were all very open to that and pleased with the efforts that austin energy had made to help them receive grants for energy efficiency, and they talked about mccallum high school and some of the newer schools that were being built and they really wanted our partnership with energy efficiency and for that to continue and to be encouraged, as opposed to actually the demands that were in that letter.

I am not against the demands of that letter.

I just knew the energy company had difficulty with those.

And, also, I mean, the truth is we really have a challenge with the industry of these schools and the age of these schools and what they are losing and what they cost the city, just like we do in many other areas that we are doing that.

And so I am not opposed to exploring this.

I want to put it on the table for everybody's consideration.

>> Tovo: Mayor.

council member tove.

>> Tovo: I am sorry, I didn't grasp completely what you were putting on the table.

>> Say it all over again.

>> If you are suggesting there would be inefficiency.

>> Cole: When it came to aid in particular and about some of the other school districts, they knew the difficulty that austin energy would have with aggregate meters and when I brought up the issue of energy efficiency, they knew that were significantly challenged with that and austin energy had provided lots of help over a long period of time in grants and proposals to help them with that.

And so it was kind of the situation in good conscious, i can't ask you to go push for us for 15, 20% aggregate, and you are right, the older schools have windows that are still cranking.

We have doors that haven't been replaced.

We haven't put any significant capital improvements.

The newer schools that are so wonderful, like the fine arts academy, y'all really -- that was worse, millions of dollars of what we did for the school district.

So they are much more interested in their relationship with us and austin energy than this particular metering program, if austin energy is saying it's tough and we can do other things for them without complicating our rate case in that manner.

And we would just ask them to tell us that.

>> Tovo: Yeah.

Yeah.

That's an interesting point.

Thanks for bringing that up.

I wonder if we can ask you to report back to be the logistics and whether our billing system would handle what I suggested provide a discount -- aggregate them in the form of providing a discount to the -- to the secondary accounts on a particular address and just in looking back to the position, they suggested a discount off the cost of service as well as providing relief to public school locations with multiple meters but it was smaller discount, 95% of allocated costs and we are contemplating -- we may be in a position of contemplating a larger difference but --

>> yes.

>> That's where they are.

>> At the conclusion of the euc p the euc recommended essentially 5% discount in bill totalization.

Following that, we revised our recommendation that we submitted to council for a 10% discount, thinking that that covered the 5% discount as well as the bill totalization.

>> Tovo: I see.

And in terms of the demand charge, there is some discussion from the minority positions that starting demand charges at 20-kilowatt hours to get back to the point you raised, council member, morrison, could also assist some of those schools.

council member riley.

>> Riley: I just want to make sure I understand the concept that this thing suggested.

If we are talking about bill totalization and relieving schools of paying a lot of the fixed customer charges, so i guess I am not understanding exactly how you would state that savings in terms of a percentage of the total bill, because, of course, that would vary from one campus to another.

We are talking about the fixed charges as opposed to the percentage off the total -- percentage off the total bill which would have widely variations compared to the fixed charges so I don't understand how a percentage discount would work.

well, it's not only that, but as was just mentioned, pushing people in different rate classes, it seems to me that there are a lot of unknowns and it's going to be very difficult to hand do bills every month for a number of organizations.

>> Riley: I agree with that, it is complicated and so I am not sure what we are asking austin energy to craft.

It is complicated in two different ways.

>> Mayor leffingwell: right.

>> Council member, I think i have heard three different approaches.

One bill totalization, the other is raise the discount a little bit to account for it from 10% to another number and the third is to come up with a way through the billing system that you can provide a waiver of the fixed charge and equivalent discount with what the savings would be if we were to do bill totalization.

I think that third issue is the one we have to go back and see if we could accommodate to the billing system.

well, i guess I suggested that we adjust the percentage discount as the simplest way and it doesn't make any difference to the customer at the end of the day, if we can come up with some kind of analysis that shows equivalency there, it would be a lot easier to do and you don't have to go through the process which i think has a lot of potential form mistakes and errors, of trying to hand figure everybody's bill every month.

>> Spelman: Mayor, that's what we have done, if I understand it, we started with 5% and we did 5% plus another 5%, more more less equivalent in monetary value.

I totally agree with that concept.

I am saying I don't know if 10% is the right number.

>> Tovo: To be very clear, I am not suggesting it is a great idea to hand total bills every month but I am suggesting that austin energy come back and tell us whether it is possible through our new billing system to give a waiver on the secondary account on the school sites that would -- that would have the effect of totalizing those bills and it would be automatic, as our staff have said, it would be automatic at justment through the bills but certainly there is the option of we will provide a bigger discount and not worry about the aggregation of those accounts.

or as council member spelman said, he already tried to take that into account in his proposal, the new proposal?

>> Tovo: Right.

It is one alternative but i think we have several in front of us.

We have austin energy's proposal of 10%, our colleague's proposal of 10%.

We have aisd's initial request for 20%.

We could also consider 10% plus the aggregation of meters or we could consider a 10% plus -- we have many options here and i think we should -- we have a lot of options and we also have to

consider the effect on other customers because that's going to have to be absorbed to increased residential rates.

>> Tovo: I think it would be absorbed by the other commercial -- I don't know about my colleagues' proposal but austin energy was that that -- that the discount in effect be absorbed by other commercial customers.

It would be within the same rate class, not residential.

>> That's correct.

>> Morrison: Can I ask something.

council member morrison and then mayor pro tem.

>> Morrison: We do need to think about that because we are talking small businesses, all of that, some of whom will be the ones who absorb this if we put it in the same rate class which I think we should.

So it is a trade-off.

>> In some instances, schools are a substantial portion of some of the rate classes.

In some instances schools are a substantial portion of the rate classes so there is not an enormous amount of customers to reallocate costs to through the rate class.

so a lot more where effect.

>> Morrison: Excuse me, which rate classes are those?

>> I would have to check, but i would think it's in kind of the larger secondary customer classes.

>> Morrison: And to get a handle on these numbers, we got an estimate, I think from aisd that council member tovo mentioned in terms of what the savings would be if they did aggregate.

Did you say they estimated it was 180,000?

>> The fist letter said 180.

The second letter said 120-180 but I think they are trying to address where the fixed fees might land and I think until we know that we can't --

>> Morrison: I wonder if there would be any way for us to get a sense for -- instead of doing the more complicated things, what percent discount that would be equivalent to.

So that we are actually doing the rational translation there.

>> We will try and estimate that.

>> Morrison: Thank you.

>> Riley: That's what was confusing me.

I understand the percentage of having meaning across whole classes but not -- you will have different percentage discounts from one campus to another because of the difference -- we are talking about waiving fixed charges and the whole size of the bill is going to have a different relation to the fixed charges.

So percentage discount isn't going to tell you how much any particular campus would benefit but it would tell you about the class as a whole.

>> Morrison: I was thinking in terms of -- excuse me, aisd, for instance, being holistically of what is the difference in their bill, so holistically, if it is actually 3 and a half percent of those fixed charges, then we would say, let's do 13 instead of 10 or whatever.

So in the end, it would all wash out.

When they paid their bills.

>> Cole: Do you know if it is possible for us to put -- to actually issue capital pursuant to a bond initiative for schools to help with the capital costs of energy efficiency?

I mean, I know we did jay pickle.

And that's what I am thinking about.

If we had some number, 3 million, 5 million, or whatever that we sent to the voters, that the city of Austin was going to contribute for capital efficiency at the schools.

Could we bond that?

>> I don't know.

We can research that.

>> Was that question, could we bond on their behalf?

>> Cole: Well, I know we did jay pickle together, but I don't know the details of how that worked.

It is considered a joint use school and so I would think that we could bond capital costs for -- but I don't know with the question of the calculation -- it is just a question of percent --

>> we will find out.

>> Morrison: Pro tem, if it's a multi-use facility and a joined facility, it is one more reason to try to have a drive towards joint facilities there.

>> Cole: Absolutely.

>> Tovo: Pro tem, just one last request, I think the discussion -- the brief discussion about what the impact of other customers on that class is an important one and i wondered if you might run a few scenarios for us on that as well, if we contemplated a discount of this sort for schools, what the impact would be on some other typical customers on those classes.

>> We can only give it to you in total dollar amount until we have a little more direction on rate design; it would be hard to determine, you know.

We don't have rates to rerun at this point.

>> We are trying.

Several us are trying.

[Laughter]

>> we are.

I think we all are.

>> I think what we could estimate is, say, for a rate class the total allocated costs to that rate class, the value of the discount within the rate class and then what increments would be.

>> Tovo: That sounds useful, thanks.

>> So it wouldn't be increase in a customer's bill and the rate class.

It would be in total dollars.

>> Tovo: Thank you.

>> Cole: Mayor, I forgot to ask something.

The original 20% discount that the schools were asking for, that was when we had the \$126 million original number from austin energy.

So we are no longer talking about the same level of revenue requirement or rates.

any suggestions for the next topic that you want to take up?

Churches.

All right, council member tovo, do you want to ask questions about that.

>> Tovo: I will let somebody else start off since I talked about the last issue.

>> Mayor leffingwell: okay.

On churches, I assume we are talking about the -- the portion of the church that's devoted to worship services of some kind and not -- not the out buildings?

Is there a way to separate that out?

>> Our current policy is that the meter that is on the portion of the building that has -- that encompasses a sanctuary is on the worship rate.

So if a facility has a number of different buildings, an office buildings, a parking garage, et cetera, and each has a separate meter, then those facilities today and under our proposal would be in the regular rate for a facility of that type, but the -- the sanctuary building behind meter is the one that is on the current worship rate and that we -- that has been under this discussion.

so early on there was a lot of discussion about what rate class they would be in, or -- has that changed, or where do we stand now?

>> It remains our recommendation that each one of these facilities be put in the rate class that they would normally fall into based on their size and usage characteristics.

so based on that, I think I heard the number, that the increase under the latest proposal by -- through council members would be 18%.

Is that right?

>> We -- I don't know that we have calculated that number.

I am not sure where that number came from.

>> Spelman: I could explain that, mayor, if you like.

That came from josh huitt at texas impact -- josh hew to be who has a database of several churches and mosques that are members of -- subscribe to texas impact.

He was able to run by hand through a spreadsheet the effect 5 cents limit on kilowatt hour charges for each of the churches and other houses of worship he had data on.

That's where the 18% came from.

It is also where -- I believe it's where the 70% increase came from in the first place was the same database of houses of worship.

so apples to apples comparison?

[One moment, please, for change in captioners]

>> well, I guess some -- if you just think of a facility that is subject to a demand charge that has a very peaky usage as some of these facilities have been shown to be, then a demand rate -- I'm sorry, a non-demand rate may provide a lower bill for those customers.

>> Mayor Leffingwell: Councilmember morrison.

>> Morrison: Just to follow up on that.

That's the crux of the issue for the churches and that is the sanctuaries where they're getting charged for peak, which is expensive, when everybody is using power, but in fact if they're peak, it occurs on a saturday or sunday, that's where it becomes sort of illogical.

>> And we have proposed that we would bill those facilities only on weekday peak and not on weekend peak.

And I believe we've discussed that with most of the representatives from that community and everybody is in community that that's a reasonable policy.

But the issue of the peak is still difficult for many of these facilities because they -- there are certainly some that have low average usage, but a single peak that is coincident with our peaks.

So that what we think of as the wednesday night peaking facility is really a weekend afternoon peaking facility that is coincident with our regular wednesday afternoon peak.

And so the demand is what the demand is.

>> Morrison: And we have the same issue with houses of worship as with schools in that the point being that if the discount revenue delta from the discount stays within the class, which is what I assume everybody is thinking, that is going to impact the other customers in that class.

And if you all -- I guess you wouldn't have had any cause to actually do any calculation of what that impact would be, although perhaps some of my colleagues have looked at that, looking at a 10% discount.

Would that be --

>> I don't believe that we have done that.

>> Morrison: Right.

Would that be correct?

>> Spelman: I have not done that.

houston has done that.

>> Morrison: We just need to keep that in mind at the same time.

And then one other specific question.

The suggestion of giving the discount, but at the same time setting a cap for kilowatt hours that came out of our colleagues, is that something that would require change from our billing system?

>> Well, it will have to be entered into the billing system, but we believe from our discussions that we can identify these facilities, calculate their bill according to the rate, then calculate the bill at 12 and a half cents, make a comparison and bill the facility on the lower charge.

>> Morrison: But my point is we don't have that functionality in our billing system at this point, I presume.

>> We don't have the functionality for any of these changes in the billing system, so that will be one of the things that we'll be developing over the next several months.

>> Morrison: We do have a lot of functionality in our billing system already.

Some that will translate.

>> Of course.

I hope.

>> Mayor Leffingwell: Councilmember Spelman.

>> Spelman: I feel I need to mention at this point 5 cents kilowatt hour maximum was not developed by three councilmembers.

It was developed actually only after extensive conversations with the churches themselves.

We had several dozen churches represented around a room for several hours of discussion with Austin Energy, trying to hammer out some means of limiting the bill so that damage would be reduced from about 70% to a 5 cents kilowatt hour charge seemed to work for the vast, vast majority of churches and also seemed to be something which was not difficult for Austin Energy to implement.

That's where it came from.

>> Morrison: I appreciate your work with the churches and doing that.

And just one burning question.

Is there any reason that it ended up the same as the value of the dollar?

>> Spelman: Synchronicity, I think.

>> Morrison: (Indiscernible).

>> Spelman: There you go.

>> Mayor Leffingwell: Yeah.

I appreciate that analysis that you did and the proposal that you've made because it has the virtue of addressing the primary problem and it's also simple.

>> Spelman: Yeah, yeah.

I'll take all the thanks you want, but I would like to pass most of them on back to the ae staff, who were instrumental in coming up with a proposal that everyone could live with.

>> Mayor Leffingwell: Right.

>> Morrison: So this is a proposal that austin energy supports?

>> Spelman: You could ask them.

>> Morrison: Do you support this proposal?

>> We have looked at the 12 and a half cent cap and we think that it provides generally the same level of benefit as some of the other iterations of proposals, and we're comfortable with it, yes.

>> Morrison: So are you then, councilmember spelman, carrying over the measuring peak only on weekdays?

As part of this idea?

>> We're comfortable with that.

>> Spelman: I wanted to be sure that as I was as firm ground as believing that was true, yes.

>> Morrison: I would think that was a critical piece of it.

>> Keep the sanctuaries in the commercial class, only charge for weekday demand charges, not for saturday and sunday demand charges, and cap the kilowatt hour charges at 12 and a half.

>> Mayor Leffingwell: Okay.

Did you have something else?

>> Tovo: I had a question about the last topic in the discussion of the schools, and this is probably for one of my colleagues who put together this proposal.

I want to be clear that it sounds like at least one of our school districts supports a 10% -- that aisd supports a 10% cost of service discount rather than the 20 they asked for initially.

>> Cole: Yes, they are supportive.

What they really want, as I've said again, is an increased partnership on energy efficiency.

And they're doing a bang-up job as fast as they can, but they know that will help their bills more than almost anything we can sit here and contemplate doing.

And because of that they want a very good relationship with us and austin energy.

So yes, they are supportive and they were very aware of the proposal.

>> Tovo: Okay.

I want to be sure because as I was talking about the different options we could consider, I did mention the 20, but it sounds like they've reduced their request to 10.

>> Mayor Leffingwell: And the collaboration in whatever form that takes on energy efficiency, that would not be a part of this.

>> Cole: No.

I think that is something we can direct the different effort.

And I'd like to talk to you about that because they have some very specific schools that are online, will be coming online and their bond proposal, our bond proposals, we need to work on that.

But that wouldn't be part of the rate case.

>> Mayor Leffingwell: Next subject?

You may have discussed this extensively as a part of the work session structure that I missed, but I would like to briefly touch on the tiered rate structure for residential because I guess I would like to find out -- it's my understanding that other utilities in the state of texas don't do this?

Is that correct?

But that other utilities around the country do?

I'd like to know how we compare, how our proposal fits in with our utilities that do it and what the commonalities might be.

And I would also like to see a reiteration of what the net effect might have on residential ratepayers in various tiers.

You know, my feeling is that that has the potential to have perhaps more effect than anything else.

>> We can certainly develop something on the first point in comparing this proposal to other utilities, particularly in the western that have tiered rate structures.

As far as the second item that's a little more difficult because we don't have a set of rates developed today beyond those you've already seen that incorporate these decisions and we'll be doing that presumably over the next few weeks, but in that process we will develop impacts that will share the impact of the tiered structure.

>> Mayor Leffingwell: I think even though you haven't done it, others have.

Or I've seen these numbers talked about by consumer groups.

So I think we need to address that issue.

And we talked about the impacts on various parts of the community, but we have not talked that much about the impact on the great mass of our customers.

>> Okay.

>> Mayor Leffingwell: That may effect us in the rate case and potential legislative action.

Is there anything else anybody wants to discuss?

Councilmember tovo, who is first?

>> Spelman: I can clear some decks and then I'll hand it off to you.

It sounds like at least a preliminary -- I'm always uncomfortable using the word consensus in austin, texas, but okay, I think we have --

>> Mayor Leffingwell: 86%.

>> Spelman: 86, Is that what it takes?

I was thinking it took exactly 58%.

[Laughter] I don't know where I pulled that number.

For churches and schools.

And at least preliminarily we still needed to hold off the issue on what's the equivalent percentage discount associated with the totalization value, but i think we have a meeting of the minds of 10% as a good starting point at least for schools.

And since what we've been doing to if not codify our agreements, at least to keep track of them, is to make formal motions.

I was wondering whether a formal motion would be in order with respect to schools since we haven't got one on the table, I would move that our proposal going forward would include a 10% discount for schools on the total bill.

>> Mayor Leffingwell: You're making that motion.

That's my councilmember spelman.

By councilmember spelman and seconded by councilmember morrison.

Is there any more discussion on that?

All in favor?

Opposed say no?

It passes on a vote of six to zero with mayor pro tem cole off the dais.

>> Spelman: I have one more motion and then I'll hand off to somebody else.

That would be with respect to churches, that our agreement on churches be that we move sanctuaries from their own class to the commercial class.

That we only make demand charges on weekdays, and that the cap on kilowatt hour charges be 12.5 cents.

>> Mayor Leffingwell: Motion by councilmember spelman, and I'll second that motion.

And I'm not going to reiterate the entire motion.

I think everybody understands it.

Is there any discussion?

All in favor say aye?

Opposed say no.

It passes on a vote of seven to zero.

These are recommendations going forward that will be presented to us on June seventh.

>> Tovo: Thanks, councilmember Spelman for that.

I notice you didn't have in your motion anything for the totalization.

Are we at a point, do you think, where we've got a consensus that that's a worthy option to pursue?

>> Spelman: As part of the preamble of the motion I was suggesting that we would still revisit the issue of totalization and come up with an equivalent adjustment.

>> Tovo: Okay.

Good.

Maybe we should jump into disconnection fees, connection fees, if that's all right.

>> Mayor Leffingwell: Go ahead.

>> Tovo: So this has been on our agenda a lot of times.

I don't think we've actually talked about it as a group before.

But right now the connection and disconnection fees -- I'll get to that document in a minute -- I believe \$55 to reconnect, is that correct?

>> I think that's correct.

There's different types of connects and disconnect.

I didn't bring those with me.

Those are fees and not rates.

And that's why they were deferred until we could do a fee study in the next year.

>> Tovo: Okay.

Well, what do you think -- it seems to me, and we've certainly heard feedback from the community on this issue that the cost of -- the cost of reconnecting at this point because of the

technology, the technological advances, the real cost that austin energy bears of reconnecting somebody's account is much lower than 55 degrees -- \$55.

Would you agree?

>> Not necessarily.

Not all of our meters are capable of that right now.

They can do a lot of things, there are smart meters, but I think only about 25,000 out of the 400,000 are capable of doing that right now.

>> Tovo: So you said 25,000 out of how many?

>> 400 And some-odd thousand.

>> Tovo: So for those other 375,000, what is necessary to reconnect somebody's account?

Does somebody have to actually go out to the street and reconnect?

>> Yes, that's correct.

>> Tovo: Somebody goes out, disconnects their service for nonpayment and has to go back out and reconnect?

>> That's my understanding.

>> Mayor Leffingwell: But again, as I understand it, this is not part of the rate case.

This would be a separate administrative action.

>> That's correct.

>> Tovo: Right, but while we're talking about utility rates and working through the issues, I think it's appropriate to consider this, especially if it has -- if the impact of reducing disconnection fees has some significant impact on the utility in terms of their revenues.

So while we're talking about your revenue needs, austin energy's revenue needs, i would like to know if i bring forward a resolution to decrease the disconnection fee, whether that will have a significant financial impact.

It seemed to make sense to talk about it in this context.

>> Mayor Leffingwell: Councilmember martinez.

>> Martinez: I think the other point that in this conversation that needs to be brought forward is in many cases we hear from those folks who have had a previous history with a disconnect, two, three, four years ago, now all of a sudden they get introduced to a program like caritas and permanent supportive housing and they can't get their utility bill turned on because they have something from three or four years ago.

So we're not helping our situation, we're investing in these other programs to assist folks, but yet they can't get on their feet because they have a 50-dollar bill from four years ago or two years ago.

And I hear that a lot.

That's a lot of the phone calls that we get is that someone can find a situation, potentially improve their living status, but yet they can't get connection, they can't get a utility because of a previous bill that in a different point in their life they weren't able to pay.

So blending that with our customer assistance program and understanding I guess the full impact of these fees is part of the discussion that I'd like to have as well.

>> Tovo: Yeah.

That is actually not an issue that I've dealt with in my office, so i appreciate you raising that.

I am under the impression that customer assistance participants also pay disconnection fees.

Is that accurate?

So if they've got -- if they are having some difficulty paying their bills, they would be also subject --

>> as part of our plus-one program we have a one-time bill payment assistance component of that program.

That's also a priority of many of our community partners that we work with, like caritas and others.

When trying to provide a combined assistance to customers of the utility and the organizations that they can focus on the one-time bill payment and then we can provide the cap funding.

But I do have to tell you that we're probably not the best staff at austin energy to have a really comprehensive discussion of this topic.

And we will be doing a study of the disconnection, reconnect fee costs over the next year.

So that component will be under study and we'll report back to you on that and we can have the appropriate staff discuss the larger issues.

>> Tovo: I'm sorry, i didn't understand what were talking about with regard to the plus-one program.

So does that mean that customer assistance program participants, if they have their account disconnected, are liable for that 55-dollar reconnection fee?

>> Customers are liable for the reconnection fee, but i think councilmember martinez was talking about a more global issue, and that is customers getting reconnected who have some kind of past due payment, whatever that is, and i believe that as part of our plus-one program we work with customers to try and resolve that, though it's a difficult issue.

>> Tovo: You were answering his question -- you were responding to his question rather than mine.

And I did submit -- a couple of these questions through the q and a process, so maybe the staff who work on this can get the answers.

>> We got them yesterday and sent them out to the appropriate folks for responses.

>> Tovo: Thanks.

>> Morrison: A follow-up question and make sure i heard you right.

In terms of our new meters, you said that only 25,000 out of 400 something --

>> as far as I know.

As mark said I'm not an expert on that, but I know that we still run trucks to connect and disconnect on most of the meters.

>> Morrison: I guess I'm surprised that our meters don't -- our smart meters -- we did a whole -- we changed them all out, if I'm correct, right?

We finished the whole service area?

>> Yes, that's correct.

But there's various kinds.

>> Morrison: So it foreseen that more of them will be able to do automatic -- is it just a capability we're trying to take advantage of on a -- you don't know the answer to this.

I guess I'm just surprised that automatic connect and disconnect wouldn't be part of a baseline of smart meters.

And so maybe it is and we're rolling it out.

So maybe if you could get back to us on that.

And just -- I don't know if you know the answer to this right off the top of your head but I'm curious about the order of magnitude of revenue we get from disconnect and connection fees.

>> I don't know the exact number.

I think it's around two million dollars a year.

>> Morrison: But you said that we'll be doing a cost of service study for the disconnect.

>> Yes.

>> Morrison: And connection fee.

At one point I presume we did it and it came out at \$55 is what it cost?

>> Yes.

Those have changed over the years.

I don't know when the last change was made.

>> Morrison: I look forward to getting those answers on the meters because that would make a big difference in the future.

>> Martinez: Mayor, I want to add that when we do this study of the connection fees, I assume it's a different connection fee for a construction loop, and does it vary depending on the construction project, the potential demand during construction, does all that vary into the connect fee?

>> We will look at the cost of all of that when we research this.

So it may change.

I think now we only have one charge for that.

>> Martinez: Because i would want to look into that and make sure we line it up with at least the cost of service that we're providing, and then contemplate an additional revenue source if at all possible.

>> Mayor Leffingwell: Okay.

I think we can come back to a general discussion, but i think we ought to address item number 4 before we begin to lose quorum.

I don't know that we need to take action.

It's just there so that we could take action if necessary, but we have another work session tomorrow, and as was discussed at the beginning of the meeting, we're set to begin to address the issue at the June 7th council meeting.

And so that's the way we're set right now unless somebody wants to propose a change to that.

>> Morrison: It would be a shame not to propose a change since we've done it I think every single work session so far.

[Laughter] hate to break our pattern.

>> Mayor Leffingwell: Well, sometimes change is a good thing.

Sometimes it's not.

>> Morrison: Yes, and sometimes it's not.

Personally, I'm hoping that we'll be able to really zero in and settle things -- feel quite comfortable at the end of tomorrow.

>> Mayor Leffingwell: I think we've made a lot of progress today and I've asked that we have bond counsel come in tomorrow to talk about potential effects of what we're asking for, what we're not asking for, and the timetable effects as well.

Do you have another subject?

>> Morrison: One of the things that I don't recall that we've had a chance to talk about is [inaudible].

I thought it might be good to share things about that.

>> Mayor Leffingwell: Yeah.

I don't know what format it's in right now, but my understanding is the latest proposal is that agrso would be -- funding would be allocated based on benefits derived between the electric utility and the water utility and maybe others.

>> Morrison: Is that Austin Energy's latest proposal?

>> We have no proposal from Austin Energy staff on agrso.

>> Mayor Leffingwell: City manager?

I don't know.

>> Elaine hart, city cfo.

A couple of months ago the budget officer and I did a work session presentation on the general fund transfer and economic development and some of the support services costs that are allocated to the enterprise fund.

The direction that we're taking in our budget development this year, which is not finalized yet, is to remove egrso from austin energy, create it as a separate department in a fund that includes both our economic incentives as well as egrso so that we have one place that we account for all of our economic development activities so that you can then see the cost of all those activities as well as the revenue stream from the general fund, austin energy and the other enterprise funds.

We are looking at the possibility of changing the allocation of some of the funding sources, but that's not been determined at this point.

We're still working on that proposal internally as staff to bring that back to council.

>> Mayor Leffingwell: And along the same lines, I know the question has been raised about the sustainability, the sustainability section or whatever division or whatever you call it being under the same kind of arrangement, separate and funding allocated from the various enterprises that derive benefit or use sustainability.

>> We are looking at sustainability as well.

Questions have been raised about that.

There are several enterprise funds that do pay in one percent of their revenues to that for the housing program and workforce development programs that are in there.

We will look at that as well, but we don't have a firm proposal yet.

>> Mayor Leffingwell: Yeah.

And it doesn't necessarily have to be the same enterprises that are contributing.

It's going to be a result of the benefit that they get.

For example, I would envision solid waste as being a part of sustainability too because they incur a lot of expenses along those lines.

>> And mayor, are you talking about -- I had heard some discussion peripherally about the sustainability office.

>> Mayor Leffingwell: That's what I'm talking about.

>> Morrison: Okay.

Because I think I heard you, Elaine, talking about the sustainability fund.

>> There are two things.

>> Mayor Leffingwell: Sorry.

I'm glad you caught that because I didn't.

I'm talking about a similar treatment for the sustainability office.

>> Morrison: Like how it's funded?

>> Mayor Leffingwell: Yes.

>> Morrison: Are you looking at it as a possibility?

>> We are.

>> Morrison: And currently how is that office funded?

>> My recollection, and I've just been in the city-wide role a few months, but I believe it's allocate through our cost allocation of support services, but I can follow up and give you the answers.

>> Morrison: So that's all departments including enterprise fund contribute to that right now.

>> Yes, that's my recollection.

>> Morrison: And then the idea of the sustainability fund is that Austin Energy and other enterprise funds would all chip in to help fund everything through the sustainability fund.

Is that what you're sort of talking about?

>> No.

The sustainability fund is a separate fund all on its own and it pays for housing programs and workforce development.

We currently have an economic incentive fund and we are proposing that we will move the economic services development office cost account into that fund, still account for it separately, but roll all of our economic development activities into that one fund.

You will still have sustainability that accounts for these equity issues and other programs, but we'll centralize the economic development in one fund.

It is typical for electric utilities to support economic development activities, so we would like to keep their funding sources isolated to the economic development programs.

>> Morrison: Is it typical for other utilities, I mean like water for instance, to support economic development activities?

>> In many cases they're a government function and a water utility certainly gets a benefit from economic activities within a city.

I haven't done a city and maybe ed can elaborate on that.

Some of the other limits we will have is with faa funding at the airport, there may not be the opportunity to have the airport participate in some of the funding.

We have some limitations on how we can use our tourism dollars from the convention center.

So we haven't developed exactly how we'll package this. issues.

>> If I might, and I think ed will supplement my comments, but with respect to egrso it's generally been any experience that those are [inaudible].

It doesn't necessarily have to be that way, but it's been in my experience.

With respect to the sustainability function, ie, with the operation, some of that is a function of the cost allocation, but some of it also is a function of personnel and the associated funding from austin energy being -- supporting part of that operation as well.

>> Morrison: Did I hear you say egrso or economic development, would be general fund funded?

>> Generally speaking that's been a pry perry source.

-- Primary source.

>> Morrison: But we know that utilities generally, electric utilities generally support it too.

Is that inconsistent with what I'm hearing from two of you?

I'm just talking about my range of experience.

And it's important to note that egrso here isn't entirely supported by austin energy.

The general fund also contributes to our overall economic development programs.

>> I apologize for stepping out at the wrong time.

I want to clarify in with regards to the sustainability fund there.

The sustainability office was created I believe two budget cycles ago and there had already been some sustainability programs offered by austin energy and so with the creation of a sustainability office it made sense to put that all under one umbrella.

Those programs that were brought forward and established as part of austin energy's program continued to be funded by austin energy, although they now report through lucia athens in the sustainability office, but the other aspects of the sustainability office are allocated out through a cost allocation plan.

>> Morrison: I think a little bit of confusion that we've experienced today has to do with fact that we have something called a sustainability fund, which deals with equity and sustainability and affordability and workforce development.

One approach and one very critical element of sustainability of our community.

>> Which has been around a long time.

>> Morrison: Which has been around a long time and that we have that.

The second is the sustainability office which we think of more as sort of environmental.

And I think that certainly imagine austin looks at sustainability as the full comprehensive set of issues knowing that those are all critical to the sustainability of our future.

And I just -- I think that's accurate, I think we all understand that.

I think we got off on a little bit of confusion.

>> Mayor?

>> Mayor Leffingwell: I think the general point is and this is really not for this rate discussion, but it's for a longer term discussion.

I think we have to take a close look over the years our enterprises have become responsible for a lot of -- for funding a lot of functions that may not be appropriate and I think that's something we have to take a close look at.

I will bring that issue forward in the next few months.

>> I think that's entirely appropriate and that certainly has had our attention.

But that practice over the years has relieved what would otherwise have been a cost to the general fund and we're talking about a substantial amount of money.

So whatever the solution is we're going to have to pursue it on an incremental basis because obviously the general fund couldn't withstand resolving that in the relative short-term.

>> That's why I'm not bringing it forward right now because I don't have the answers either but I think that's something we need to look at closely.

Councilmember martinez.

>> Martinez: Getting a little bit more specific since we're talking about sustainability and the sustainability fund, in the proposal that our colleagues have made, you guys have requested that we shift workforce development funding from austin energy into -- back into the general fund and back into more specifically health and human services, which is exactly where we took it out of because we didn't view it as a social service contracting item, we saw it as economic development work force development.

So certainly I'm not rejecting that as an idea.

I want to lay on the table, though, if we do that, again, it's coming out of the general fund.

So we're going to have to 3, 4 million to continue , still point alliance, workforce solutions.

So what else are we going to cut or are we going to raise taxes?

Those are decisions we make all around the board, but that was one I specifically noticed because we took it out of health and human services contracting a few years ago because we didn't feel like they needed to compete with social service agencies because they were providing a direct economic benefit to the city by putting people to work.

>> Spelman: It needing to the same place as economic development, of wherever that is, because it's an economic development function.

I think the only way we will get there, as the manager was suggesting a few minutes ago, is over a slow transition because it's way too big, both the workforce development training stuff and the economic development stuff are lumps way too big for the general fund to absorb all in one gulp.

>> Whatever we do, it will have to be done over time.

We just want us to be aware that I really don't -- what I'm concerned about is i don't want to push them back into having to compete through social service contracting.

If we fund it through health and human services, that's fine, but I would like to have its own separate line item and not make them compete with all the other nonprofits because I think it's holistically different.

>> Mayor Leffingwell: The idea was we didn't move it into the electric utility, we moved it into economic growth.

And economic growth would still be funded partially by the electric utility, but also by other enterprises, not just the electric utility.

But I totally support the idea that that kind of activity is -- belongs in the economic growth department.

Okay.

Well, in that case --

>> Spelman: Mayor, one real short one.

39 if I didn't think we could be done in five minutes.

Three of us who delivered a proposal a couple of days ago did not have a lot to say about the issue of out of city customers, but we first that out of city customers would under this proposal be paid the same price that in-city customers would, but the representation issue is something we need to work on.

And rather than presuppose any particular solution to that problem, only that three of us were intending on june seventh to offer a resolution for the rest of the council to consider, which would direct the ae staff to examine means of representation for out of city customers used by municipally owned utilities elsewhere in the united states.

Focusing on texas, but there is a limited number of mou's in texas, so we would look elsewhere just to see what options are available for us to choose among.

With a relatively short timeline we would ask for a report back by the end of the customer, about 60 days later.

And that would give sufficient time for us to choose among or flesh out the options that are available and come up with a form of representation for out of city customers which we would -- which we could reasonably expect to settle implemented by the end of the year or at least be well on the way towards it by the end of the year.

We're not making any recommendations tuesday what that formal recommendation would take or necessarily whether the council would choose some form of representation at all, but we wanted to keep that option open.

>> Mayor Leffingwell: Yeah.

And would the options include the option to move to a separate governance for austin energy similar to the form of government that cps has?

>> Spelman: That is why an mou in texas is done and therefore it would be on the table.

>> I will anticipate receiving that resolution from council and we'll work with austin energy to bring the council back up.

>> Spelman: All we'd be asking for is a list of options available and without necessarily recommendation.

If you want to make one, obviously you would be entitled.

>> Morrison: I think one of the -- people have different opinions about the different kinds of government structure, and it might be helpful if you -- if you bring that resolution forward to also incorporate some mechanism for accumulating the -- what are perceived as the pros and cons based on different people's opinions on each of the government structures.

I think maybe the eec could help us do that.

That would get us a little farther on down the road because I think that there will be probably a lot of strong opinions one way or the other about each of those.

>> Cole: I would just like to add as a part of that exercise we may consider a briefing consistent with what councilmember morrison has said, because it's not just follow cps, but what cps has done within the last three years versus what they did eight or 10 years ago is very, very different.

So I don't think that that model has always been very successful.

And so we need to know that as we contemplate what's available.

And I do want to ask if we were contemplating a separate government structure, I believe this would be a charter amendment.

Is that correct?

>> I don't know the answer to that.

In the course of our evaluation we will certainly look at that relative to all of the options that we explore.

I would add that at the end of the day you can expect that the city manager and staff will have an opinion in regards to this matter as well.

>> The legislature might as well for that matter.

[Laughter]

>> Mayor Leffingwell: So in the event it does require a charter amendment, we're looking at two and a half years, giving us plenty of time to fully explore that.

>> Morrison: Assuming a charter amendment passes in november.

>> Mayor Leffingwell: Well, out of the whole bunch, I think that's pretty safe assumption that one might.

Anything else?

Councilmember tovo.

>> Tovo: I have a question about this.

I assume that you're talking about exploring structures beyond the electric utility commission, which already has out of city ratepayers on it.

>> Spelman: Yes.

>> Tovo: Okay.

So this would be some --

>> Spelman: Everything would be on the table.

And the resolution itself would only be asking -- the way I'm thinking about it is it would be the first column in the spreadsheet.

Subsequent columns on the spreadsheet would be pros and cons associated with each row, but this is what other options are available for us to consider, some of which would certainly require a charter amendment, some of which probably would not require a charter amendment.

And one of the decisions we might reasonably make is to phase some stuff we could do immediately that does not require a change in the charter with something which we could only do after changing the charter in two and a half years.

>> Tovo: So I think depending on how this moves forward, we could have potentially plenty of time to discuss it.

Do you have a sense of whether cps -- I know a little bit about their governance structure, but that board reports to the council still.

>> It does.

>> Tovo: It doesn't make independent decisions that are able to.

And do they have something equivalent to the electric utility commission in addition?

>> Spelman: I believe the cps board functions more or less as our electric utility commission does.

And whether or not the cps board makes final decisions or not I think is a judgment call we could call that one either way.

But ultimately all decisions on the financing have to be made by the council.

>> Mayor Leffingwell: I think they make a lot of final decisions, but ones like rate structure and so forth the council has to approve.

>> The city council for san antonio approves the rates and the bonds issued by the cps energy.

>> Spelman: That's a requirement of the state constitution, is it not?

>> I'm not sure what the requirement is, but I know that they do have to approve their rates and their bond issuances.

>> Tovo: I think the discussion also needs to include the electric utility commission and whether other municipal utilities have something like that.

And if so how they function together.

Because again, we do have that group and they do provide representation for out of city ratepayers as well.

>> Spelman: Right.

>> Mayor Leffingwell: I think you're probably right on that.

That it's a constitutional issue because they're a subsidiary body of the city council.

Similar to the relationship between travis county and central health.

All right.

And just one more comment.

If it does require something extensive like charter amendments, and we decide to go that direction and both those things, there's also the opportunity for an interim solution.

And we've done that before.

We've had out of city ratepayers on the electric utility commission before.

I don't think we do currently.

>> Tovo: We have three, i believe.

>> Mayor Leffingwell: We do?

So I guess you could say they're well represented now to some extent.

Anything else?

All right.

Without objection, we're ,,,,,,