

## Austin Energy Utility Oversight Committee Transcript –3/26/2015

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[9:07:46 AM]

>> Looks like we have enough councilmembers here we can get started. I would like to call to order the first Austin energy council committee for 2015, it is my pleasure to be the chair, Ms. Gallo is co-chair. Going over the seating arrangements here. Welcome staff and councilmembers. I follow in the footsteps of two wonderful meeting managers, both the mayor and mayor pro tem and so I will look to their help and assistance as I take on the chair of this committee and run this meeting and -- and I'm sure councilmember Zimmerman when he comes will offer his assistance, also. So if we may begin the meeting and what we -- a couple of notes. We will have a hard stop at 11:30. There's several councilmembers that are in -- attending a very important luncheon today. So we will have a hard stop at 11:30, whatever -- whatever we do not get finished at this meeting, will then fold over to our next meeting. So then the council will go into session after the lunch break is my understanding. So we welcome everyone here. We have decided to do citizens communication at the beginning of our meeting. So I may need some help in -- in I've got a list here. We have five speakers signed up to speak, four have signed up for citizens communication. One has signed up for addressing agenda item no. 3, and Carol, if you would like to speak during citizen communication instead of waiting for item 3, that would be fine with us, just let me know. If the speakers would be ready, you have three minutes. We have Trey Salinas, Jerry Lock, Scott Johnson, Jerry, excuse me I cannot read the last name and Carol.

[9:09:50 AM]

So if you would come down to the front so you are ready to go as soon as the speaker in front of you has finished that would be wonderful and help us with our time. Trey, if you would like to start?

>> Great. Madam chair, mayor, councilmembers, thank you so much for your -- for your attendance this morning. My name is Trey Salinas, I represent the coalition for clean, affordable and reliable energy, otherwise known as C care, we represent small commercial, non-profits, school districts, state facilities. We employ more than 50,000 central texans and our board of directors include some of Austin's largest employers such as Samsung, freescale, spansion and many others. As many of you are aware, the affordability goal passed by the city council in 2011 calls for no greater increase than 2% per year for each customer class, that's all three classes. The other part of the affordability goal is that rates will remain in the lower 50% of benchmark cities for all three customer classes. Unfortunately, for many of our businesses, last December our rates increased by approximately 5%, a violation of the affordability goal. Based on our recent benchmarking data, Austin energy rates for the commercial and industrial classes are no longer in the lower 50% of benchmark cities. For our businesses, one of the most important issues is securing long-term contracts with Austin energy. These contracts are not only beneficial to us, they also provide stable, guaranteed revenue for Austin energy and the city of Austin, as we are base load customers that use energy 24/7, 365 days a year. If Austin energy and the city of Austin decides to move forward with some contracts after these expire in may of 2015, we agree that the contracts should be at cost of service. It's very important and that no other customer class should be subsidizing any contract. With regards to cost of service, we believe there needs to be a long discussion about what cost of service means.

[9:11:56 AM]

Are we talking about the way cost of service is defined to provide electricity? Or are we talking about cost of service defined as a way to provide electricity and pay for all of the many other things that the city of Austin needs the utility to pay for. We believe that is the main reason why rates are out of whack. It's the -- the utility is between a rock and a hard place, quite frankly. They are trying to provide affordable rates, but it's difficult with past council policies that have been passed over and over. Last thing that I want to say is that many members of ccare, many businesses agree with the motion that has been said many times now, there is a premium and we agree to pay a premium by being served by Austin energy. However, we ask that that premium be reasonable. And right now, it is premium we're -- the premium we're being asked to pay is not reasonable. Thank you for your time.

>> Kitchen: Thank you. The next speaker is Jerry Lock.

>> Hi, I'm with the Texas

[indiscernible] Project, I would like to talk a little bit about water in the proposed gas plant. I'm going to send you information in an email that the sources for what I'm going to say. Austin energy and other

people have been saying that the gas plant itself is low in water use, emissions, pollution and that is somewhat true. But not completely. I'll send you some information about the pollutants that come out of their present combined cycle plant at sand hill. It's their own information. First, I want to provide some background. NOAA the national oceanic and atmospheric association in January of 2009 said that the changes in climate that had happened up to then are almost irreversible for 1,000 years after emissions completely stopped.

[9:14:02 AM]

Full 1,000 years, that includes drought is one of the things that they mentioned. So then I want to look at what's happening in the shale, because if you look at just the proposed plant, the picture is much different than looking at what happens in the shale. Let's start with water, everyone knows we're in a drought. NOAA thinks it's a thousand year drought, I think it's a thousand year drought, which -- what's happening there is that they Frack to get the gas out of the shale, they MIX water and sand and three -- 80 to 330-tons of chemicals per every Frack. 80 to 330-tons of chemicals per every Frack. That is just per 2 million-gallons used and most fracks use quite a bit more than 2 million-gallons. The chemicals that they use are somewhere between 300 and 600 chemicals per Frack. The best two scientists on this issue, say 600, a lot of toxins are mixed with this water. So obviously the water is destroyed for human use. But in California, they found these toxins in their aquifers and -- in eight of their aquifers. We're not monitoring our aquifers in that way, but our best guess is that it's in our aquifers at this point. The water that we will use in the future probably isn't going to be these Lakes. It's probably going to lie elsewhere in Texas, two, 300-miles from Texas. But the decision you make on this gas plant will affect our future water. And you really need to take this into account -- [buzzer sounding] -- That's my time. Thank you very much.

[9:16:03 AM]

>> Kitchen: Thank you. Scott Johnson?

>> Good morning, mayor, mayor pro tem, councilmembers. Madam chair. The city of Austin has put on their utility bill a third fund. There had been two funds on there for a long time, since the early '80s. What was form early call would plus one is now the customer assistance to help people pay their utility bill. There was a tree planting fund on there since 1990, that was transform understand 2013 to the parks and libraries fund, I was the creator of the parks and libraries fund that repumped that fund and still collects money for trees, but now collects money for a defined parks need, camps scholarship in the summer and funding for the libraries which is for digital materials, if you could please cue that information. What I would like to make you all aware of, through promotion, through the Austin energy

power plus newsletter and through other means, we are trying to lift all of these funds up, working collaboratively with the communications department of Austin energy. So if you look to the right margin under the customer assistance fund, when we promoted it in December we lifted the revenue or donations up to about \$9,000 monthly. Those Numbers are from the date that the parks and libraries fund started in March of 2013 to the current. What's important about this is because we have opportunities within the community yourselves, your neighbors, when you talk to people in the community such as commercial ratepayers, we definitely need commercial businesses thinking about donating to these funds to help. The city sets aside a significant amount of funding now for the cap. It used to be that this fund would trend 80 or \$90,000 per year. It dipped and now it's coming back. Another opportunity is for y'all -- when you're talking to people -- to promote it in the community. The parks and libraries fund is to the left. That's doing okay. It could do better. We need funding for camp scholarships, we need funding for the library.

[9:18:08 AM]

The -- probably the most important opportunity is is that it's on the bill hopefully new people in

Austin will question: Why is this fund on the bill? Why do we need supplemental funding for the parks and library department. The answer lies in the underfunding of these departments over time and the opportunity is with you all and with the management of the city of Austin to try to properly fund these departments so we don't have to rely on this relatively small amount of money coming in monthly for the parks and libraries fund. Thank you, I'm happy to answer any questions.

>> Kitchen: Council, any questions? Do you have the information that's on the screen available for us?

>> Yes.

>> Kitchen: Okay. We could either have the clerk make copies or if you wanted to email that to us.

>> I will send it to her and to y'all directly.

>> Kitchen: That would be great, thank you.

>> Thank you.

>> Jeremy, I apologize, I cannot read your last name.

>> Jeremy martin. Good morning, madam chair, honorable members, my name is Jeremy martin, I'm here on behalf of the Austin chamber of commerce, thank you for your time this morning. Maintaining affordability for all of Austin energy's rate classes and its ratepayers is a top priority of the chamber. The Austin chamber represents 3,000 business members of all sizes. In fact, more than 80% of our members are small businesses, employing 50 or fewer employees. And the chamber is on record in support of two

key, important city council policies. First, long-term contracts for allowable rates, especially for our manufacturers is very important. These companies employ austinites at many income levels and skill attainment levels and education levels. And competitive costs are very important for the viability of these companies. And, second, the chamber supports the council's affordability goals of keeping rates in the lower half of our competitors across the state and, also, limiting bill increases to no more than 2% per year.

[9:20:11 AM]

Adhering to and maintaining these key council policies is good for local business, good for austinites, around good for maintaining -- and good for maintaining our quality of life and affordability for many years to come. The chamber stands with you in supporting these goals, and we look forward to working with you as you consider this and future Austin energy policies. Thank you for your time today.

>> Kitchen: Thank you, Carol?

>> Good morning, Mr. Mayor, councilmembers. My name is Carol vajeski, executive director of Texas rose, ratepayers -- I happen to be serving on a lot of things right now. I was a member of the -- of the low income advocates task force that talked about the arrearage management program that you're hearing today and the hearings -- in the hearings process. I'm glad to see that they're both included in the presentation. The message that I have for you, is that in talking with some of the other individuals who served on the task force, they feel very strongly about the fact that council should discuss these issues at -- at not just today, but at another time with some of the task force members present because they don't feel as though, I don't think that some of the positions of the task force members who very seriously consider all of these issues is being -- presented in the way that they would like them to be presented. So my message to you is that the task force members would like to speak directly to you, also, when you are discussing these proposals in more detail. My next message is basically from me, after serving on these task forces, now I am chairing the low income, customer advisory task force.

[9:22:13 AM]

And I served on the generation planning task force. There is an issue that keeps coming up everywhere. I went to the -- to the community power meeting that the Sierra club sponsored at saint Julia's a couple of weeks ago. Everywhere we go, we have had panels of individuals, like serving in different capacities, at the low-income advisory task force meeting and everybody brings up issues with building and customer service and it permeates everything. Even though it's not anybody's responsibility, it's not the responsibility of any one of these individual task forces, but it is a problem that we're hearing about like

all the time and so just as a general communication, I am hoping that in the near future you will, like, take some action to try and examine what the issues are and get to the roots of the problems and maybe resolve them. And that concludes my communication.

>> Kitchen: Thank you.

>> You're welcome, bye-bye.

>> Kitchen: That is the last of our citizens communication. And we will now move to agenda item 2. As many of you know already, because we've been a couple of months into this process, we are moving things from council agenda through committee level just to have a little bit of additional discussion and a little bit more vetting of the issues. So the next item was referred to us for committee consideration.

>> Good morning. I'm over here.

>> Kitchen: There you are.

[Laughter].

>> I apologize. I think we -- we thought -- we didn't know which room we were going to be in. I think we actually did, but we didn't provide lead time to have a place in the middle. What we're going to do is sit over here and not be at the podium if that's okay. Some staff will, depending on questions as they come up, will come up there.

[9:24:16 AM]

This item that was put on the agenda for consideration today, we would like to postpone that to a future meeting. It's not a critical business need within, you know -- at least a half year sort of sense. So we can -- if it's okay with you, we would like to put that off to a future committee meeting.

>> Kitchen: Councilmembers, is there any discussion on that?

>> Yes. Chairman Gallo, would it be appropriate for me to make a motion to postpone the item? Then we could have discussion, I guess, after that.

>> Kitchen: That would be wonderful.

>> Kitchen: A motion made and seconded to postpone this item to an indefinite date. Is there any discussion?

>> I guess, you know, in our work sessions, the first question we often ask is what's the urgency of this issue and if we hear that it's not really urgent, we're more inclined to move to committee. So I guess I'm concerned what is -- what is the deadline that this needs to be voted on by the council? Because I'm

wondering when it's going to come back to the committee so we have enough time to discuss it, then refer back to the council.

>> Right. First of all, by the way, I'm Larry Weis, general manager of Austin energy. The issue here is hiring consultants to do a significant amount of work and that work will happen over a period of time. The vice president, Debbie Kimberly is not here today. And I will be consulting with her. When that question came up at the council meeting, it was -- it was -- as I understand it at that time, it really wasn't a critical business issue. But it had enough questions that you would -- you moved it over to the committee to have a -- to have a discussion on it. We felt like the financial issues of Austin energy are far more important right now. We need this time today to go over that with you and so we thought, well, what we could do is move it to the next meeting.

[9:26:20 AM]

So this is pretty simply that.

>> And just for clarification, are you saying that you need to get consultants to brief us on getting these consultants or --

>> No, no.

>> Garza: Okay.

>> That was confusing. Thank you [laughter].

>> Sorry if I confused you.

>> Another question?

>> Zimmerman: Mr. Weis, I'm going to presume what happens when you make your comments, you're going to lay out some of the complex questions that these consultants are intended to answer. Is that --

>> Okay, we can do that, you bet.

>> Kitchen: Okay. Any other questions? All in favor of the motion to postpone this to date uncertain to bring back to the council committee? All in favor? Any opposed? Any abstentions? Passes unanimously. Thank you. She's way over there, she's so tiny, I can't tell. With mayor pro tem off the dais. We'll move to agenda item no. 3, which is staff briefing and before we start that, I just wanted to say something that I think probably would be mirrored by all of the other councilmembers. This is a really important entity within our city. And I think all of us -- feel like we do not want to be rushed into making utility spending decisions until we are educated and can become more thoughtful in considering those issues. You know, we are financially responsible to the city of Austin. And to the citizens of this town. And so we all will look to becoming thoughtful and taking our time in making these decisions to make sure that we have

the expertise and the knowledge to represent the citizens properly and to make those financial decisions.

[9:28:22 AM]

So what you will see in our Austin energy council committee meetings is that we will have a substantial amount of staff briefing on the different policy areas. We are looking for ideas and comments and input from the councilmembers to the areas that they would like staff to brief us on and so those decisions on which items will come before the council committees at what point will be a collaboration of staff. Thank you, and also the councilmembers. So having said that, if we could start with our staff briefing, please.

>> Sure. And if we could put the slides up, please.

>> Thank you. So today, and we have page number reference here, we've -- we really have six sections of presentation to do with you today. To my right is mark

[indiscernible], the cfo, senior haven't of finance for Austin energy. We have some near-term business needs coming up on

-- on some borrowing item no. 2, we want to talk to you about cash and reserves of the policy of the council as to -- these are critical financial policies and then -- as councilmember Gallo talked about, the next issue is a presentation that was requested about you to have on our bad debt payment arrangements and arrearage management and then our customer assistance program and -- I can pretty much talk about the last one now and that is that we are planning to some discussion about our three largest customers and enter into some kind of discussions about contracts for those. We will right now go into our financial overview so I will turn it over to mark.

[9:30:29 AM]

>> Tovo: Chair Gallo, may I ask Mr. Weis a question about the schedule. Mr. Weis, I think that I just heard you mention that you are planning to talk about arrearage management today in response to a council request and I believe that I may have been the one that requested that, but I actually requested that that be done in conjunction with our work group. Because they've been looking at this issue for about a year and have some recommendations that they've provided and I had hoped we could hear both from the utility, but as well the work group. Are they -- it's my understanding that they are not on the agenda to present today; is that correct.

>> That's correct, that's correct. We -- I guess my understanding is that staff is going to present what the facts are about the -- about the plan itself and we have staff that has been working with those work groups, we have the recommendations of those work groups, but we don't have participation by the public inside this meeting. I guess that's a different structure than we've ever had --

>> Tovo: We have presentations from work group, task forces, committees all the time in council meetings. Again, I had specifically requested that we hear not just from Austin energy utility members, but also from the work group that I believe are -- are in a very good position to present their own recommendations and so I think that's -- I'll just register my concern about that, also that I did communicate with your staff my interest in that, in having that be a component of our discussion of arrearage management. Thank you.

>> Good morning, mayor and councilmembers, I'm mark Dombroski, the chief financial officer for Austin energy. I thought that -- like many of you, I am new to my position with the city of Austin. I started as a cfo back in October of 2014.

[9:32:32 AM]

So I thought that I would share a little knowledge that I have gained from the utility that helped me in making decisions and answer any questions that you might have. The first I passed out two handouts to you this morning. You will see that our financial information for Austin energy is presented in two different formats. The single page that you have there is called the fund summary and the stapled package are financial statements. The important thing to notice is that the -- that the financial information is not necessarily -- does not necessarily match in each of these reports. That's because of the top of reports that they are. Our fund summary is your principle tool for managing the budget. Principal tool. It is -- it is relied upon by councilmembers and our staff to -- to ensure that we comply with the adopted budget. We also have the financial statements. We will also refer to these as our gap statements. Probably what most of you are familiar with, income statement, balance statement, cash flows, we produce these in conjunction with the city. These are used by different stakeholders, including our joint projects, credit rating agencies and our bond holders and vendors. And many of our financial policies that we'll cover later in our ratios, things like that, are based upon the Numbers in the financial statements and not the fund summary. We at Austin energy have a multitude of different sources for funding that we use during the course of the year. And as I go over some of those, the first one is at the top there is -- is our ERCOT wholesale power market. And we -- we sell a lot of power that we generate to ERCOT, which is the electric reliability council of Texas.

[9:34:37 AM]

And we receive market price for that power that we sell. This revenue is not usually reported separately but it's included in what's called the fuel budget. You will see that in our fund summary for that power. The fuel budget also includes the cost of the fuel for the plant, cost of the renewable power agreements and the cost we pay ERCOT to purchase electricity to serve our retail customer. So that net cost is usually used in determining what's called the power supply adjustment in our retail rates. The next is our transmission revenue, we own transmission lines and ERCOT pays Austin Energy to move electricity through our transmission lines and those rates are approved by the Texas Public Utility Commission. Third which you are probably most familiar with is our retail revenue. It's based upon the rates that are approved by you, the city council, it includes residential, commercial and industrial customers and the revenue is broken down into customer charge, power supply charge, regulatory, community benefit and energy charge and these rates are based upon the cost of service studies that we conduct. The next revenue is our chilled water plants and we generate revenue from these based upon contract rates that we have with -- with our industrial commercial customers. And it's important as a revenue is the chilled water allows us to shift our electrical demand for air conditioning from the peak hours during the daytime to night hours where it's off-peak, saving us capacity cost. Austin Energy also provides services to retail customers, such as pole attachment, service connections, line extensions, customer-specific jobs that we have an approved fee schedule what we charge those customers. Again, many of those revenues you will not find on the financial statements. They are offset to expense items in the fund statement.

[9:36:39 AM]

Another important source of funding for us in conjunction with the city treasurer, is we issue short-term variable rate debt called commercial paper to fund our capital projects. We will cover commercial paper and long-term debt a little bit later. Last major source of fund comes from our reserves. We have zero dollars there for 2015 but in the event of extraordinary event, but having reserves there, we can call upon that funding as a source of cash. We're going to get into the reserves a little bit later during this presentation. The next slide is something that you will see in the quarterly report. As I mentioned earlier Austin Energy earns revenue through the generation of electricity that is sold to ERCOT. We have a mixture of resources that rely upon that generate that power, including solar, wind, biomass, coal nuclear and natural gas. We report the type by a percentage. The chart we are providing here shows the marginal costs, coal, natural gas and nuclear, that's the cost of the fuel only needed to generate that power. For renewables and bilateral sales, the cost agreed upon for each of the megawatt supplied we have contracts for those, the only additional cost included here is the cost of our hedging program, those costs are included in the costs with natural gas. The reason to report that is because the more efficient the non-renewable generation is, the more it will produce in a market. For renewables we do not own a resource but we have long-term contracts that guarantee is a per megawatt cause. Whatever they are able to produce, we take that power at the agreed upon price and sell it to ERCOT and receive the market price. We will also provide the total number of megawatt hours as a percentage by each

type of generation, the total percentage is driven by the efficiency of the non-renewable resources and the available of the renewable resources.

[9:38:58 AM]

Austin energy's goal is to increase the amount of power relative to the amount of power our retail customers use. For the first quarter of this fiscal year, we reached about 20% of our total load in renewable energy. This can vary greatly hour to hour depending on customer's demand in the amount of wind or solar exposure. Yesterday I checked we are about nearly 50% renewable yesterday afternoon. This morning around 7:30 about 20% renewable, it's going to vary from day-to-day. That information is available on our website, checked on a real-time basis. The 2015 budget is about \$1.44 billion. That's a lot of money. To understand what drives this large budget, it's a little bit easier to break it down into smaller slices as we've done here. Some slices we have little control over in the shorter term while others are a little bit more controllable. So for 2015 budget, we will spend about \$50 million on services from other city departments and allocations from the city. We will spend about \$93 million goes to operations and maintenance at our joint power projects. We own 16% interest in south Texas nuclear power plant and 50% of two coal units at fayette with the lower Colorado river authority. We will transfer 15% of our non-power revenue to the general fund each year. Excuse me, that should be 12%. We transfer about 112 million to fund our capital projects and to our reserves. We pay ercot about 126 million for cost of transmission associated with the power we purchase for our retail customers. Since Austin energy represents about 4% of the ercot market, we pay about 4% of the total transmission costs for ercot.

[9:41:01 AM]

Our debt service is about \$120 million. And we'll cover that a little bit more in a minute here. The largest slice in our budget is the fuel budget or what I refer to as the net cost of electricity. Since the development of the competitive ercot market in 2010, this budget slice has changed considerably. It includes the cost of all of our fuel and renewable resources, includes revenue of our wholesale market, it includes the cost of the power we purchase from ercot to serve our Austin load zone needed for our retail customers. The most controllable slice of the budget is our operations and maintenance piece, which includes three components. Contractuals, which is contracts and other requirements, commodities which is tools, fuel, and personnel which is our labor costs and labor cost is about \$148 million a year. We have about 1673 authorized personnel at Austin energy at this time. The next is our five year capital spend that was in the 2015 budget. Capital assets to provide service to our customers, we are constantly repairing and replacing those assets, in addition to expanding the system for new

customers or incorporating new technology. Our electric service delivery, poles and wires that you will see across the city equates to about almost half of our total budget for capital. This is funded through cash from operations and total program we talked about earlier, we try to achieve about a 35/56 split on debt and equity. Austin insurance puts significant effort in our financial forecasting. Using a team approach across the utility as well as with other city departments and ERCOT we develop both a short-term and a long-term forecast.

[9:43:07 AM]

As you would expect, our short-term forecast is used for our annual budget and rates. We forecast revenue and expenses for the items I previously discussed. Most expenses are fairly predictable if not controllable. Debt service, joint projects, city services, general fund, transfer, labor costs are more or less variable and less risky in terms of the forecast. The greatest risk is found in the fuel budget with a net cost of electricity because of the many variables we must forecast. The long-term forecast from five years out to 30 years is really an extension of the assumptions we're using in our short-term forecast. The greatest risk here is relative to the large capital projects that require cash and debt funding over a long period. The other risk relates to the power supply contracts we enter into because it requires us to make certain assumptions about future energy prices which can be quite volatile. I stated earlier the greatest risk in the forecasting is the rule budget and we must consider many different variables including fuel prices, availability of generators, wind and solar exposure, expected temperatures and how much the electricity customer may need. There's uncertainty even in the short term, we forecast based on a probability. If we're too conservative we risk driving the power supply rates up too high. If we're too optimistic we risk not generating enough cash to pay ERCOT and depleting our cash reserves. This is the importance of the rate stabilization reserve which we would get into a little bit longer

[sic]. In order to establish our retail rates, Austin Energy uses a cost of service study. The last study was conducted in 2012 and by policy is directed to complete a rate adequacy review every five years at a minimum to the performance of a cost of service study. We use those quality embedded cost methodology, which is historic average rates, we will be conducting other cost of service here in 2016 with rates effective in 2017.

[9:45:22 AM]

>> I wanted to go over a bill. And fundamentally, this was a question that --

>> May I stop you before. I think this was all so complicated and detailed that perhaps the council has questions over what we just were presented with. Would you like to ask questions as we move through

this process? Council? Okay. So if you don't mind, let's -- let's have questions on that and then we'll continue.

>> Okay.

>> Thank you.

>> Sure.

>> Zimmerman: Thank you, chairman Gallo. Mr. Weis, well, anybody can answer this, so I would like to go back to page 5 of the presentation. And in the upper left corner, was the power supply cost. And I would like for you to explain why the -- why the nuclear cost is so -- it's dramatically, dramatically lower than the other sources, could you go over that for a few minutes and explain why the nuclear is so -- so cost efficient.

>> Sure. Well, nuclear is a lot like a hydro-electric project and that is it's very capital intensive. The fuel is not very expensive. So it has a lot of debt and when you first operate the project and you have all of that debt, depending on the structure of debt, as it goes away, the project becomes very, very cheap and that's where we are today. So -- so obviously a long-term strategy is to try to -- if you're going to have generation and resources, you want to -- as you pay down debt on one project, maybe you want to start another and, you know, you try to dollar average cost that, through your portfolio. But the quick answer is that the debt is very low and almost down to the point of non-existent south Texas nuclear project, so its cost is less than a cent a kilowatt hour.

>> Zimmerman: And a follow-up question if I could on that quickly. What would stop Austin energy from giving consumers a choice?

[9:47:26 AM]

You're going to talk about the bill here in a minute. But I think there's some interest in people that say ", you know, I understand there's a political push for renewables, but we have people that are very cost sensitive to their electric bills. What would stop Austin energy from having a survey and allowing people to choose their energy source? So if they want the lowest possible energy rate, they could choose nuclear, for instance. What would be the objection to that?

>> Um ... Well, frankly, that's a policy discussion. That's -- that's really an entirely different way of thinking about which customers gets which resources. Right now we offer choices to be more expensive and that is our green choice program. We can be all 100% renewable, but if all sources of energy supply were equal, then that would be a pretty easy business to go forward with. But since they're not, and we have a portfolio mixture of resources, what would happen is you would be shifting costs between customers that -- that choose and customers that don't and so within particularly a public power

environment, you are our regulators. You are our policy makers versus if you too -- if you took that type of approach to a state commission that regulates private utilities, you're not going to be very successful with that. The only choice that's out there that's different than what we do today if you or the voters or however it has to happen were to choose to be deregulated, the utility, the city would have to opt in, in other words the city would have to choose to allow its customers to choose its power supply. That's the only two options.

>> Zimmerman: That's terrific. I want point out for my %-@colleagues on the council, a very, very, very important point of what we just heard. In other words, there's a choice to pay more for so-called renewable energy, that I think is unaffordable and unsustainable. But there's no choice to pay less for a more cost efficient energy production, which is nuclear.

[9:49:29 AM]

I need to drive that point home. If there's a choice to pay more for unaffordable and unsustainable green energy, there should be a choice to pay less for nuclear energy, which is our least expensive way to produce power. As a policy point.

>> Thank you, councilmember kitchen?

>> I have a -- I have a -- I have a question on page 5. I just wants to make sure that I'm understanding. So this is the cost of the fuel, correct? It's not the entire cost? Of the -- of the source because --

>> It's the total cost of the power supply, it is, yes.

>> But you just -- I thought that you just said that the -- that the -- that the nuclear power is capital intensive.

>> It is.

>> Kitchen: You don't reflect the debt in this, is that correct?

>> Yes, it's embedded in the cost of the power, yes. The debt is -- what's happened is that the debt on the nuclear project has -- has gone significantly down to a way so the only cost that we have there is the operating costs and the costs for fueling the -- the power plant. So --

>> Kitchen: So there's no debt left is what you are telling me.

>> Very little.

>> Kitchen: But is the amount of debt reflected in these Numbers?

>> Yes.

>> Kitchen: Past debt. So you are saying that the cost -- the capital costs for building the -- the nuclear power plant are reflected in the costs, in this graph.

>> I was just corrected. The debt is embedded in the base rates.

>> Kitchen: So it's not on

-- on page 5 you have got percentages and your percentages, if I'm understanding correctly, are comparing the costs across these different types. I'm just wanting to make sure that I'm understanding what it's telling me. So it's -- I understand it's comparing the costs of the -- you know, of the power supply. But my question is does it have embedded in this comparison capital costs?

[9:51:29 AM]

>> No, it does not.

>> Kitchen: Okay, thank you.

>> Gallo: Councilmembers? Any other -- councilmember troxclair?

>> Troxclair: So for -- for renewables, am I reading this correctly that we -- 52% of our power supply costs are -- is being spent on renewables, but -- but the amount of power that we're getting from that cost is only 25%?

>> That's correct.

>> So digging into that question a little bit further, Mr. Weis or whomever, you said previously that the reason nuclear, for example, is so cheap is because the plant has been there for some time and so the capital costs of building that plant have been advertised and so the debt load is lighter. We have the opposite situation with the building of our renewables and distributed renewable energy plants. Frankly, would you -- would you agree that we're actually with those plants the way we were building nuclear power plants back in the '70s and '80s, as in it's a new source and we have to create the infrastructure and pay for it.

>> Yeah, there's -- there's some truth to that. When -- I'll talk about my experience with wind projects because I've -- my previous job we actually built, operated and owned a significant amount of wind and there -- they are essentially like a hydro-electric project. So once the debt is paid for and you have the machines, it's very cheap, it's very cheap because the energy to drive the turbines or the fuel source is free. And so -- so it's the same thing for solar, for example. A large solar project. Once you have paid for the capital costs, then the debt, and so I think the point that you are trying to drive at is that when you first initially have these renewable projects up here, you're going to have a higher cost.

[9:53:35 AM]

It might as well -- it might as well be a new hydro-electric project up here on the slide to show that you have a significant amount of debt, the energy, the water to drive the turbines is essentially free, and so - - so what happens over time is that the debt goes away, the project is very, very cheap.

>> Pool: So if we were going to compare costs and then adjust for inflation and the real cost of money, we would maybe want to look at a pie chart that shows the cost for building a new power plant, hydro-electric dam, a new nuclear facility and then line that up with the real costs of our distributed energy, new infrastructure. Would that be a more fair comparison?

>> It is. It gets complicated because you have the capacity, the load carrying capability of capacities and different types of generation have different values. So you have the capacity ability. So the dispatching of a generating unit has a lot more intrinsic value than one that just provides energy, for example. So it gets rather complicated. But it is a portfolio and managing a generation portfolio is what we're trying to do. Whether it's the last generation plan or the one that was approved last fall, every time that we analyze that, it really needs to be looked at as in total. It really does. Because as you enter into new generation projects with debt, you are going to rely on the ones that you have already invested in, that have been paid down like step, to carry you through the financial times of paying for the newer, more expensive one. So it's -- so it's -- that's the way that you manage it going forward.

>> Pool: And then if we wanted to compare actual rates for the production or distribution of the energy, we can separate out any old or new debt and look purely at the kilowatt hour or the megawatt cost?

>> You can.

>> Pool: Okay.

[9:55:35 AM]

That might help us, as we're all finding our sea legs with the more -- with the complexities of Austin energy, which I can guarantee you we all will --

[laughter] -- That's one reason why we will ask so many questions and I realize that these are topics that you all are well-versed in and live and breathe them. But as you pointed out, we are the policy makers for Austin energy and how the city manages its utility. And that's why we want to share as much as we can with the -- with the information and -- and the insights. That you are bringing to us. And I thank you for that. Will.

>> Yeah. I might point out, too, that all of the renewable energy that we are acquiring, aside from some of our local community solar projects and what's inside of our service territory, those are all purchase power agreements. We have no equity ownership in any of the machines, in any of the solar panels, any of it. We are just simply buying the power.

>> Pool: What you are saying is those Numbers are stripped down to the actual energy costs.

>> It's because we can't take advantage of tax credits, because we are a not for profit organization and we don't pay I.R.S. Taxes, we -- we need somebody else that can take advantage of those tax credits and that's why we use purchase power agreements. However, in most of our deals that we've done on wind, in particular, we have the option at the end of the period of time with those tax credits that we can actually purchase the project and own it. And there have been situations where we've -- not here, but public power across the country would like to level the playing field and like to be able to be in a position to own these projects. For example, one of our long-term strategies is that we own a significant piece of land, the city does, Austin energy, in west Texas to develop our own solar project and to own it and operate it.

[9:57:36 AM]

And operate it like that. But as long as tax credits are around, we would be foolish to not take advantage of lowering some rates for our customers. So that's been the stream so far. But I want to be clear that owning and operating our own renewable projects is -- is not out of the question. It is something that probably strategically down the road we will be looking at. So ...

>> Pool: And I'm very interested in pursuing that piece. I would just mention to my colleagues on the dais, we've had some conversations about lowering the cost of utilities across the city. And one way we've talked about it is through the consumer assistance program and weatherization on homes, which I think will be -- we'll be hearing about here in a little bit. I'm also interested in distributed energy that would be located in neighborhoods where -- on those homes that can have solar panels on their roof, not everybody can, but where the light is right. Those homes can share in providing energy to their neighbors and in feedback into the grid and lower the cost for everyone. That's -- that's maybe something the public utility committee might look at as well as this one.

>> Also affordability task force that might be an element for the affordability task force.

>> Gallo: Some of that comment, to ask councilmember pool, some of the questions that you had were accounting questions, how the Numbers were shown from an accounting basis. Is there another format that you would like to see the department present us this information in?

>> Pool: I would be happy to work with you on what that might be and others on the dais may have some specific ways that they would like to see the information presented. I think it's a great idea.

>> I would just echo that. It would be helpful for us to see --

>> Mic.

>> It would be helpful for us to see all of the assumptions behind the Numbers and what goes into the Numbers in detail that would be helpful. The question that I had, actually, I think you already handled which was just that the type of comparison that councilmember pool asked for, I assume that -- I assume that you'll be providing that for us.

[9:59:43 AM]

>> Right, right. It's -- it's -- there's a lot of rules of thumb. You are right. We're industry

[indiscernible] The questions the way you posed them, the answers that you have is really important that tile log. We're here to educate. That dialogue. High efficiency natural gas plant, for example, 80% of the gas cost is the fuel. It's very mean to build it -- cheap to build it, expensive to run it. Hydro and nuclear are the opposite, very capital intensive. These generating resources are very difficult to compare with each other. It's like when you say our large 150-megawatt project, solar project which we're very proud of in west Texas, going to come online in a year, less than right around 5 cents a kilowatt hour, that's all energy, so it's all energy at 5 cents a kilowatt hour, we really don't want to assign any capacity value so it really gets kind of complicated and we'll do our best to provide those comparisons.

>> Kitchen: Well, I think we understand the complications. I'm not concerned about the complications. We're just asking for the full picture.

>> Sure.

>> Kitchen: And I think this council is perfectly capable of understanding the complications, we just need you to give us the full picture.

>> Thank you. Are there any other questions? Would anyone like to ask a question that hasn't asked a question first? Okay.

>> Tovo: Thank you, chair. I want to also make sure that I say publicly I stepped off the dais when you were explaining how you arranged today's meeting, so I want to be sure that my comments earlier were not construed as -- as not in support of that. I think you've arranged it in a way that's very effective for today. That was really about that particular issue and how we handle it. My comment, question regarding this chart is whether in looking at the power supply cost it appears, and I just want to verify that the costs associated with nuclear power, do not include the capital costs, the repair costs, which are considerable.

[10:01:53 AM]

And have been over the last few years. The chart before us does not include those costs, is that correct?

>> That's correct.

>> Tovo: Okay. I think that would also be a useful piece of information as we assess the different costs of energy types, again because of the repairs that have been necessary at our nuclear plant, I think it's very important that we have a full understanding of what those look like compared to our other energy sources.

>> Chair? One last thing. When you're making notes for how to provide the information to us, it's also the -- I think it the levelized costs, be sure that they include any costs for hedge. So the levelized costs should include the hedging costs. And that maybe -- I'm learning the terms.

>> That's in the gas. That is in the gas.

>> Okay. So when you provide us with that information, break those out as well.

>> Kitchen: Councilmember Zimmerman, thank you for being patient.

>> Zimmerman: One other slide that definitely needs to be added, and it's a difficult concept to get through, that's the idea of something that's dispatchable on demand and non-dispatchable. I don't think our council really grasps the importance of that technical concept. That something like a gas plant or nuclear plant you can control that. You can have a controller that says more power, less power. When it comes to the wind and solar, you have absolutely no control over the wind speed or over the cloud cover. They're simple concepts, but I don't think these slides grasp the technical and economic importance of that. So I'd like to you take a shot at putting that in there.

>> We could do that. That goes into a discussion about market operation and in the ERCOT market I'm not going to say that doesn't matter, but it's pretty close to it because what happens is all the energy is sold into the market.

[10:03:57 AM]

It's ERCOT's responsibility to make the system reliable, however many years ago at Austin Energy that was a different case. That dispatchability of that generation was a significant part because we operated our own, if you will, electric island control area. So we're taking notes and continue to provide information on all these things that you suggest in the future.

>> Any other questions with what we've been presented with so far? Okay. If we could move on, please. And thank you for being patient. I think it easier to address the question as we move along through this process. Thank you.

>> So say previous meeting somebody asked how about showing us what a bill looks like and go through it a little bit. I'm not sure whose bill this is, but it's a typical residential customer. And on the bill we have your customer charge is basic, residential bill, \$10 per month. And then we have tiers and you only go into the tiers when you have the energy to trigger into the next tier. The first 500-kilowatt hours is at the lowest price and then it goes up in price a little bit each tier. The purpose of that is to encourage energy efficiency, but it also addresses the capacity that a house puts on our system. A home has a 30% capacity factor. That means the instantaneous demand a home puts on a system. If you had a home with three air conditioners and a pool and all that pool equipment and everything, that home will put a lot more demand on the system than a home with a system air conditioner and a small home.

[10:06:00 AM]

Instead of having demand meters on everyone's home, which some utilities frankly are moving to, I -- there's another way to do it and that's to have tiering. Our regulatory charge that's up there, that is a pass-through of charges that we have no control over. Those are charges from ERCOT, for example. The community benefits charges, those are charges that are associated with our energy efficiency programs, our low income programs and some other elements which we could go into. Then the power supply adjustment is the purchase power agreement, the fuel that we purchase for our power plants. It has the two donuts that has the debt service and the actual operating cost for a power plant are held over there. The power supply adjustment is strictly what we take off the market and not associated with the generation that we own except for the gas, the fuel for it and everything else. So it can go up and down. And we will -- at budget time we will have a thorough review of our power supply adjustment, that was done in the rate process before you approve the budget each year. We bring to you the power supply adjustment charge and we thoroughly explain all the details of that. And then of course we've got taxes and current bill. So I don't know if there's any questions on that. I'll turn it back over to Mark. He has two more slides on the financial slide, but that's what it looks like.

>> Gallo: Councilmembers, are there any questions on the bill?

>> I have a question. So I see at the very top it says 913 so the tier 1 says 500. Is the tier 2 just the additional 413?

>> Correct.

>> Okay, thanks.

>> Gallo: Any other questions? Okay, thank you.

[10:08:00 AM]

I'm sorry.

>> Troxclair: What kind of house is this typical for? Did you answer that question?

>> It's an inside city account. And I'm going to -- I've got to look at this slide. I can't read the kilowatt hour consumption over there. What's the high one? Our average customer uses around 12,000 a year, a thousand kilowatt hours a month. I don't know if this is -- we have a lot of different ones that we could pull, but I can't say whether this is a typical residential bill or if this is -- is that what you're asking?

>> Troxclair: I'm trying to understand is this a one bedroom condo or is this a 4,000 square foot home? Or is it a typical 1500 square foot, three-bedroom, two bath?

>> We use 913. We got the 2013 data from the survey that's done. The average inside Austin residential customer, and we don't know what the average size of the house is includes multi-family houses and 5,000 square foot homes, on average uses 918-kilowatt hours per month over the course of a year. So your winter months will be a little less and your summer months will be higher.

>> Troxclair: Okay.

>> Gallo: There are any other questions?

>> Zimmerman: Just a quick question. The community benefit charges, is that 607 cents. Is that the amount broken out that's about 100 million plus about maybe 46 million more that are going to the city? Is that what that's from?

>> The community benefit charges comprised of three elements. One is the energy efficiency cost. I believe that's about \$45 million a year. We have the area street lighting included in that and the third component is the customer assistance program.

[10:10:05 AM]

So those are the three elements that are found in the community benefits charge. Our allocations from the city and the city services that we acquire are found in those base rates or that tiered structure.

>> Zimmerman: Would it make some sense to break that out so that people can see how much of the bill really doesn't have anything to do with energy and energy production, just to break that out as a line item? The 140 million in diversions, just break that out?

>> Well, we had a pretty thorough discussion with council about that when we approved the new rates about what should be in there or not in there all I can say is after that long discussion and that process, this is where we ended up. So there was some thought about that that we should have more itemized breakout of the bill. Frankly most consumers, we hope they look at their bills, but there isn't a lot of purpose to breaking it out too far because it confuses folks a lot. But we do get questions from customers and inform them to make them understand it better. This is what was really developed out of the policy approving our new rights.

>> Zimmerman: I appreciate that because I'm an engineer, a technical guy and I got confused by something that said community benefit charges. First thing I think is people complain about these big transfers. Oh, it's only \$6 and seven cents. That's confusing because it's a lot more than six dollars. I'd like to see it broken out, but it's a new council and we can decide that.

>> Gallo: It sounds like the time to have that discussion is when we're discussing rates.

>> It is. Help us remember to do that. Thank you.

>> On the community benefit you mentioned street lighting, is that right?

>> Yes.

>> So that's a shared use of energy from Austin energy that does all of the signaling on our traffic lights and the neighborhood elimination at night.

[10:12:17 AM]

And so -- and also for the citizens assistance program to help people weatherize their home so that their draw down of our energy is less, right? Because the homes are better insulated. And they maybe couldn't afford to do that themselves so this is the community's way of safetying them to -- assisting them to save on the payments they make on electric utilities.

>> On the energy efficiency side that's correct. On the roadway lighting, which is by the way all led and the most state-of-the-art out there, we've completed that project, and that's the street lighting. The signaling systems, that's a different issue. And then individual yard lights that people have, we have a program for that. I think this utility calls them the night watchman lights or something like that. And so somebody can order that. And that's something people pay for directly on their bill.

>> Gallo: But againly at night when we're taking walks on the sidewalks and there are street lights, that cost, because it does cost the city something, so this portion of the community benefit charge is the community benefit of having street lighting at night.

>> Right, right. And I think what you're hitting on, that's a real policy decision, right? And that's the council decided, that's the way it should be done.

>> Gallo: And I know in the past there have been conversations about light pollution at night. So we have gone to shrouding the lights so that the light only goes downward facing and I think even nationally that is beginning to be the case. And there are some neighborhoods who would like more street lighting and some that may want less. So I guess that does become a budget question then if during deliberations on how that program is implemented?

>> Right. There's a whole -- there's a whole engineering society around lighting. There's a whole science of engineering and street lighting.

[10:14:18 AM]

We wanted to employ cutoff human nears that are flat on the bottom. In the natural preserves around the city there's a need to have them dark to protect wildlife and habitat and all that. All of that has been incorporated in the lighting plan of Austin energy within the city.

>> Gallo: Thank you.

>> Any other questions?

>> Troxclair: When you say energy efficiency and the community benefit charges, what does that mean?

>> That means the funds that are collected from the rates for the budget that we operate annually for our energy efficiency programs, this is where the revenue is derived from to support those programs. >>

>> Troxclair: My those programs you're talking about --

>> New air conditioners, duct sealing, insulation, window some shading. A variety of things that we do in our programs. And it's a big list. And so.

>> Troxclair: Does that include rebates that we provide?

>> Yes.

>> Troxclair: And I was going to tell councilmember Zimmerman that I did request a breakdown of that information recently and I think -- I don't have it in front of me, but if my memory serves me correctly, of that pool of money we spend about nine million on street lighting. We spend about nine million on the customer assistance program and we spend about 36 million on the energy efficiency part, but I just heard you say 45 million. I do think that that -- the allocation is worthy of a topic of discussion which I mentioned at I think our last council meeting.

>> We have a budget item for energy efficiency. It's about 45 million. The majority of the funding for that comes from the community benefits charge. There's some other funding that comes through there. That's the budget program versus what we collect in revenue from this amount.

[10:16:20 AM]

>> Troxclair: And councilmember Zimmerman, I'm happy to share that information with you so you can see how that allocation -- how that money is being allocated.

>> Did you have a question.

>> The 607 community benefit charge is that a flat rate for everyone or a percentage?

>> It's a charge per kilowatt hour so it depends on how much you use. The larger amount you use the more you will pay.

>> Any other questions?

>> Kitchen: I think I heard correctly, but the breakout is going to be provided to all of us, right?

>> Yes. What we try to do, when one councilmember asks for a question on that, we try to give it to everybody, assuming that everybody would want to know.

>> Kitchen: I think that's a good assumption. It works.

>> Any other questions?

>> Tovo: Am I right in remembering that the street lighting charge is only allocated to residential customers? In the rate case?

>> No, just inside the city.

>> Tovo: So out of the city customers do not pay toward street lighting, but commercial customers within the city do?

>> Yes.

>> Any other questions? No? One of the things that's been a topic of telephone calls into our office is the utility bill and the confusion and not really understanding not just the utility, but all of the other charges from all of the other departments too. So I would hope that we could work together to perhaps come up with a utility bill format that explains maybe just briefly the charges so that people could understand that from reading their bill versus calling you or calling our office for an explanation. So perhaps that's something that several of the committees, the utility, council committee and also this committee can work on as far as not -- but a description of the charges.

[10:18:21 AM]

I think it's important for the customers to have that on their bill. I'm sure the rest of the councilmembers have gotten similar calls into their office. Thank you.

>> I know it's difficult, councilmember Gallo, to have -- to do this with customers who have those questions. But our website has all of those answers in there. We produce over seven million bills a year, so it's pretty challenging. And the more that we print, the more we put on the bill, the more complicated we make is another project to do. It's real tough. But we can do a better job and we can provide more information if that's what we need.

>> Gallo: Thank you. I was expecting a question from you based on that.

>> Houston: Thank you so much for being here today and for your information. I want to remind everybody that everybody does not have a computer. So when you say cavalierly people can go online and do that, it diminishes the fact that people don't have computers or don't know how to use it to get on the website. So I just wanted to remind you.

>> Thank you.

>> Gallo: So thank you for the discussion on that. And moving on to the next topic.

>> The last thing I wanted to cover is our financial policies. And they are two elements. The first element is we have a set of adopted financial policies that are done through the budget process and there's about 21 financial policies. And I believe on Tuesday we sent out a memo to all the councilmembers on our cash reserves and we attached those 21 financial policies on there. And they cover mostly debt issues, some of the ratios that we're required to maintain, and our rate setting. But we have a lot of different other things that we consider policy or instructions.

[10:20:23 AM]

That includes information from our credit agencies, generally accepted accounting principles, the city budgeting process. We look to minutes and resolutions and ordinances from the city council. We also have to have adherence to the public utility commission, certain elements as well as federal energy regulatory commission and the ERCOT protocol. When we talk about policy, it's a very broad picture of what we're looking at when it comes to policy.

>> Gallo: Any questions, councilmembers? No? Okay.

>> Good morning. I'm Dennis Whaley with public financial management. We act as the financial advisor to the city. I'm going to spend a few minutes in the next four pages talking about debt funding for Austin energy. So I guess a question you would have is how does Austin energy fund its capital program? How do we pay for all of the projects that need to be done? As was mentioned earlier, we issue commercial paper. Commercial paper is a short-term borrowing instrument. It can be borrowed from one to 270 days, and Austin energy uses this to reimburse itself for spending on projects. After the commercial paper has built up to a certain level, Austin energy turns around and issues long-term debt. Why do they do this? Well, we can borrow money much more inexpensively short-term than we can long-term. If Austin energy went out and borrowed \$200 million today for 30 years, it would borrow money at about four percent interest rate. If you borrow commercial paper in the tax exempt market right now you're borrowing at five to seven basis points, which is next to nothing.

[10:22:29 AM]

So we save what is -- what would be known as the negative arbitrage. The difference between the four percent that they would be spending on money sitting in the bank earning next to nothing right now until it was all spent or we can borrow as needed for projects and then when it builds up to a certain level, take it long and finance it over long-term. This program has worked very well for Austin energy as also it has worked well for the Austin water utility. Austin energy has -- Austin energy and Austin water together have a 400-million-dollar commercial paper program on a tax exempt basis that they utilize for projects. It's been done for about 15 years. And then in addition Austin energy has a \$50 million taxable commercial paper program which they use to finance projects that would involve private use such as chillers. So the second column and the third column together we -- when the program builds up we roll the debt long so here in the near future Austin energy is going to take about \$200 million of commercial paper and roll it long. In addition, just like you would refinance a mortgage when rates go down, Austin energy takes advantage of the market when it refinances debt and gets a borrowing cost. That's something we will bring with you to another month to a council meeting. At the bottom of the page there's three rating agencies, Fitch, standard and poor's. Across the bottom you will see what the various rating scales are for each rating agency. Baa or moody's baaa three and above or everything to the right of baa is investment grade. These are highly rated entities, good expectation that your money will be paid back.

[10:24:36 AM]

Entities that are rated bb and lower to the left of bb are more speculative grade. You would be more concerned about whether your money would be paid back. Austin energy has a double a mines rating

from Fitch. Double a minus rating from standard and poor's. The city's G.O. Rating is triple a, which is the highest rating you can receive by any of the rating agencies and it enjoys that from all three rating agencies. So as far as ratings go, Austin energy is in a very good place. On page 15 we have a breakdown of what does Austin energy owe. How much debt do we have outstanding? Austin energy has about 1.2 billion in debt outstanding, long-term debt. Short-term debt we have about 200 million in commercial paper. The two pieces of the pie at the top, first prior lien and first subordinate lien are the old debt that was issued when Austin energy and Austin water combined issued debt on a combined basis. That was before 2000. In 2000 we separated Austin energy and Austin water to where they each issued debt based on their own revenue streams so that first prior lien debt slowly paying a I think it's final payment is in 2019 and the prior subordinate lien is in 2024 and that will be those two liens are closed, we'll never issue debt on those two liens again. Both Austin energy and Austin water issue on their own separate liens. This page is debt service outstanding on a fiscal year basis. It's typical of what you would expect, reverse ladder, over time less and less money is owed.

[10:26:37 AM]

And then you just ladder in any new debt that you need to issue on top of what's existing. Last page, refunding schedule. We're in the process, as I mentioned earlier, of refunding 200 million in commercial paper as well as doing a bond refunding. The bond refunding portion because rates have come down, should save Austin energy as of today, would save about \$26 million over time. It's about 8.6% of the bonds being refunded. So the schedule is at the bottom. We're working through the document process. We will go to the rating agencies the week of April 6th. Come to council on April 23rd with a parameters ordinance. A parameters ordinance is when council gives us the authority to go out and sell the debt as long as we meet certain parameters, ae's financial policies say a refunding needs to save four and a quarter percent. This saves about eight and a half so we certainly meet that policy. We only issue within the time constraint that's in the ordinance as well as the maximum amount of bonds that we are able to borrow and is limited by the ordinance. Sell bonds to the 12th and close on June 2nd. I'd be happy to answer any questions.

>> Gallo: Any questions, councilmembers? I do have a question on the ordinance that you said would be presented to the council on the 23rd. That I'm not looking at my calendar, but that would be before our next Austin energy council committee meeting.

>> I think it's on the same day.

>> Gallo: Is it on the same day?

>> If I recall.

>> Gallo: Well, the council committee meeting would be the last Thursday of the month unless we've hank changed that. Somebody help me if we need a discussion on that if we won't have ability to discuss it before it comes to full council.

[10:28:43 AM]

Somebody have a calendar handy? Same day? So another combined meeting? So we will want to make sure we put that on the council committee agenda to discuss prior to the council meeting agenda in the afternoon to see if there's any questions.

>> This is a standard business action and we thought it would be important to bring it forward and critical to the operations. With that I can move us along to our reserves policy if you don't mind me doing that. This is a chart that shows our reserves and one of the reasons why we needed a rate change. In September of 2010 we saw the path of reserves dwindling, our working capital, and I'll talk about what those policies are in a minute. You can see the basis level of funding which was their working capital and a minimum requirement. There's a minimum requirement for your emergency and then a contingency reserve and a rate stabilization reserve, which is zero, and what those balances are? I wasn't intending to go through each one of these in detail, but the target for all of these cash reserves is at the very bottom and the total the next line above it. You can see that we are behind still, but that has been part of the rate increase that we'll continue to be moving reserves to these funds, so prior to the end of a fiscal year as we look at our performance, what we will be doing is making a -- requesting your action to move money from one fund, in particular from a working capital operating cash, into one of our reserve funds.

[10:30:50 AM]

We've heard some comments from the public even today, particularly on the large industrial customer representative, discussing rates and keeping those stable. One of the tools that we would like to see funded long-term is the rate stabilization fund. That is a tool to enable us to weather through an event that might raise the power supply adjustment charge in any one year and provide a stabilization to customer rates so that we have -- because as you know the Summers in Austin can be hot and they can be wet and they can be variable and there's a history of that. And that changes things a lot. I have some more slides on this. Oops. We have another slide we'll probably show you later that has a real history of the different reserve out there, but it's in your policies. We sent that out by memo this week. You can see what those balances are supposed to be. But in 2007 we were in really good shape. Since 2007 we really started to work into our reserves and so we're now on the way back up and we can talk about it more as we get into the budget process. The recommendation we have is that we complete our

independent reserve study currently underway and expect to be final in June of this year. And we'll do some benchmarking review of the decommissioning costs and some other estimates. So we'll be prepared to talk about our reserves more as we get into the budget cycle for this year. I want to move into overview of our bad debt payment arrangements and some of the area acknowledge management.

[10:32:52 AM]

I thought what we would do now is kind of do a financial overview of it. I understand that we may want to talk about policy issues and some others later, bring some of the taskforce committee members in here and we'll figure out how to do that. I thought I'd have staff come up right now and talk about this.

>> Gallo: I'm sorry, before we start on the next topic, could I ask if there are any questions on the reserve policies from councilmembers? Anyone have councilmembers? Have questions?

>> Tovo: I have a couple. The reserves policy as you know was a source of considerable discussion during the rate case and part of the decision was to I think at the time the emergency and the contingency reserve funds were at their policy level and there was a discussion about creating -- about whether the rate should be set at a rate to replenish some of the additional reserves. And the discussion among council and the decision eventually was to keep the policies in place that funded the emergency and contingency reserves, but not to set the rates at such a level that it would be funding additional reserve fund. And we had a lot of discussion about that and there's a lot of information and discussion from every angle of that. I want to ask a couple of quick questions about it. In looking back at some of those materials and in particular I'm looking at January 31st, 2012, the rate stabilization reserve fund that was proposed at the time of the rate case was -- we have a document that says it was previously named a competitive reserve fund. So I'm wondering I see both of them here on -- I see both of them here on the sheet that you gave us today and I'm just wondering about that.

[10:34:54 AM]

If the rate stabilization reserve was proposed to replace the competitive reserve, I'm not clear on why they're both on our sheet today.

>> Because we have a history of going back to 2010. So for 10 and 11 you will see a dollar amount in that competitive reserve. And then in 2012 when the policy was adopted, we removed that and go to the rate stabilization reserve and you will see Numbers for that at zero from the years out.

>> Tovo: I see. You're just capturing the history of when it was called the competitive reserve, it was then renamed the rate stabilization.

>> That's correct. That was a crossover period.

>> Tovo: Okay. Thank you for that clarification. The way it looked there, it looks as if we have two reserve funds rather than one that was renamed. And so again the rate stabilization reserve was one that there was a considerable discussion and a decision not to set the rates, to replenish that. And the argument was that we have a mechanism at the utility for recovering. If the fuel costs go up, you have the option, you have the ability to exercise it and recover those through the power supply adjustment. You come back and ask customers to pay that increase. And so the argument was that, well, if you're collecting rates now, if the rates are set at such a rate that it will put money into a rate stabilization fund guard is against a future rate increase you're charging customers now for a potential increase later when you have the ability to do it through the power supply adjustment. So I just want to point that out that there was considerable discussion about that and considerable concern about that. I hope as we move forward in discussing this, we'll talk about that as well.

>> Right. We can. And also I know if you recall that the previous council wanted to go back and really take a look at the whole reserves policy, and we did tee it up I think probably in September or October.

[10:36:55 AM]

And then just ran out of time. So when the time is right I think that probably this is a subject in and of itself that we should probably address. But your perspective on that is correct.

>> Tovo: I agree, it is really complicated and subject to a future discussion. I just want to -- I wanted to make it clear that the repair and replacement, the rate stabilization, they don't have any money in them because it was a very conscious and deliberate decision not to set the rates at a level that would put money into those reserve funds. And another piece of relevant information I think too would be to look at some of the other utilities. We as I remember, and I may not be remembering correctly, but I believe Austin energy has more reserve funds than some other --

>> Actually, we're worse off than some of our peers.

>> Tovo: In terms of the number or the amount?

>> Yeah, at that time. So our peer group is public power. That means not only those necessarily owned by a city. So it's really difficult to compare -- when you really have to look at it, you look at the bottom line. You say how much cash do you have. And that's really your total reserves. And so since we use city fund accounting we've got to really allocate those into individual funds. Other public utilities that are not owned by a city don't do that. They basically -- they may have rate stabilization fund and then they will have cash. So that's what makes this a little bit more challenging.

>> Gallo: Councilmember pool?

>> Pool: Mr. Weis, what we're still on page 19 if you will drop down a wee bit to the non-unique collar decommissioning reserve, I see those Numbers are going down and so I'm wondering is that because we are retiring fayette and decker and -- or are you also targeting those to increase them?

[10:38:57 AM]

>> That was the decommissioning of the holly power plant. We had a fairly -- a large amount of money in there and so that non-nuclear decommissioning reserve was run down with the holly decommissioning, and we contemplate that we're going to decommission probably decker some day and all of that, so we will have to take a strategy of keeping money in there and start building it back up.

>> So you have time lines related to the decommissioning of decker and I presume fayette?

>> Well, the decommissioning of fayette is a more complicated issue because it's really joint owned with Icra and all that.

>> Pool: Completely understand.

>> But with respect to the decker power plant we do need to incorporate a decommissioning of that. And that really gets into a whole discussion about our generation plan and what we're going to do with it. But -- so right now the non-nuclear decommissioning reserve is there and we need to have a strategy around it. And as of yet we do not.

>> Pool: And one additional question. Do you have a figure for what it will cost to decommission fayette?

>> I do not. I can get somebody up here to answer that.

>> Pool: And decker? What's your target for decker?

>> We can provide that to you, if you don't mind. I can ask staff to prepare a memo or something, some information on that.

>> Pool: Because you need to bile all the different aspects of it. That would be great. Provide it to the whole council. Thank you. Appreciate that.

>> You bet.

>> Pool: Any other questions? Anyone?

--

>> Gallo: Any other questions? I do have a question for since we are all new at this and only one of us involved in the budget discussion 14-15 -- I know you sent this information to us, but for the benefit for those watching on TV or in the audience, could you talk about the reserve policy?

[10:40:57 AM]

So is our reserve policy based on the policy that was adopted with the budget cycle or is there another policy that supersedes that or is laid over that?

>> It's not adopted -- it's acted upon during the budget cycle, but it is not defined during the budget cycle. It is a policy that's been around for years. It has a lot of history. And it's been modified from time to time. And it's a discussion in and of itself outside of the budget cycle.

>> So could you share with us what that policy is? And then my second question to that was during the budget cycle discussion was that policy complied with?

>> In the handout or the memo that was sent to you on Tuesday, there was a document here that says financial policies, 2014 and '15. This can actually be found in volume 2 of the city's budget. And it has the 21 policies in there. And within this document you'll find each of these reserves with a little more detail, but not much more than you will find on this slide here. And so it outlines basically how the funds should be used and how it should be funded. And we note on that document when budget is adopted whether we're in compliance with that policy at that time.

>> So the answer to the question of was the 14-15 budget in compliance with the reserve policy.

>> Yes. It says that all of them except for the strategic reserve it says in compliance by the end of '14-'15. I believe that -- because I wasn't here when the budget was adopted, there was an intent to transfer money from that operating -- the working capital over to the reserve. I don't think that was done. The cash is still in that working capital number there.

[10:43:00 AM]

>> So I think the answer to your question is we have \$30 million that we were going to move from the working capital operating cash into reserves. We ran out of time, frankly, with the council and everything that was going on in the fall and we went to the budget process and we made the request of council and council said we would like to have a more thorough discussion on the reserves before we do that and that's where we never got to. So the cash is there, it's just not in the right bucket. So that's what Mark just described.

>> So help me here. We have a policy, we have a reserve policy. And if that had been transferred into the correct reserve funds we would be in compliance. At this point we are in the in compliance.

>> Technically correct.

>> Okay. Is that something I'm hearing that this council needs to address quickly.

>> We can address it. I would prefer to address it during -- I would like to see the financial performance of the utility over the summer and we can address it before we close this fiscal year is what I would prefer to see.

>> Gallo: Council committee, councilmembers, if we could speak to that and get the preference of the committee.

>> I personally have some level of concern about operating outside of a policy for that long.

>> We can certainly bring it forward. It wouldn't be in a committee. It would be to actual council meeting.

>> Gallo: I think it would probably come to the council committee first and then to the -- any other comments? Discussion suggestions, recommendations?

>> Houston: Thank you. I've got a couple of questions. One about the fayette power plant. And it's part owned with lcra. Is that correct?

>> That's correct. We are 50% owner of unit 1 and 2.

[10:45:03 AM]

They own unit number 3 and they are the -- they're the operator of the plant.

>> Houston: Okay. So are we in conversation with the lcra regarding the decommissioning of the fayette plant?

>> There is no planned decommissioning date set by anyone at this point in time.

>> Houston: Okay. Second question is are we in conversation with the people in fayette county about the -- the desire to decommission the fayette plant?

>> We are not in any discussion with the people of fayette county about that.

>> Houston: Thank you.

>> To my knowledge.

>> Gallo: Are there any other questions or any other comments? It sounds like that we would like the information for the reserve policy discussion to come before the council committee next -- at our next meeting.

>> Sure.

>> Gallo: To do that.

>> Yes, we can do that.

>> Gallo: I think if we have a policy that's in place, we feel like we need to proceed in the direction of making sure we comply with that and if there's a reason that we shunned do that, then perhaps the policy change needs to be addressed. So okay, thank you. Moving on.

>> [ Off mic]

>> Elaine, vice president of customer account management with Austin energy. Sorry. And here this morning to give you a review this morning of collection practices and bad debt.

[10:47:05 AM]

As a reminder Austin energy bills and collects for all city of Austin utilities. Over the last few years city of Austin utilities have seen bad debt levels increase. I wanted to lay a little bit of ground work with regard to several events that happened from 2011 through today and then turn the presentation over to Joanna to speak about the payment arrangement policy and some of the work done with the low income advisory group so for the high levels of bad debt expense that the city utilities have been experiencing we had five pretty much consecutive drivers. I'll go through these in more detail in the next slide, but we had several weather moratoriums, city manager conversion and preparation of the transfer and conversion of our utility billing city manager and then we had a change in policy that led to some of the drivers in bad debt. So back in 2011, Austin energy and the city of Austin transferred our utility billing city manager from customer information city manager, which is called cis, to customer care in billing and ccnb. Previous to any utility billing city manager conversion you typically stop certain activities, including collection activities in preparation for getting ready for the city citymanager conversion. We began that city manager system conversion in September of 2011, and if you'll remember the summer of 2011 was one of the hottest on record with regard to heat and days and periods of heat. So Austin energy observes weather moratoriums whenever we have extreme hot or cold weather and do not disconnect for nonpay for their health and safety during those time periods. So leading up to the system conversion our last disconnection for nonpay was in July of 2011.

[10:49:08 AM]

We converted over to the new billing system in September of 2011, and it took a full 12 months after that time to stabilize the system, make sure everything was implemented correctly, verify bills and make sure we had good ground work for adding on the collections module, which was the next step. In July 12, almost a year later we started implementing the collections modules. We did these over time utilizing a customer centric based approach. We had done proactive calling throughout the collections module implementation, contacted customers with high balances, we had several letter campaigns and media campaign to remind customers they needed to continue to pay even though we were not actively disconnecting customers. In September of 2012, we turned on late penalties and then delinquent notices, 24 hour notices known as door hangers and instituted our first cut for nonpayment after the billing system conversion in may of 2013, full 22 months later after the last disconnection. Standard collection practices are now fully in place. They've been in place for about a year. That includes sending customers who no longer have active service in our territory to collection agencies when they leave our service territory. We also had a change in policy in September of 2013. We allow payment arrangements on customers' bills if they're having a difficult time in paying, in addition to you're assistance programs and other things available. In 2013 the payment arrangement and reconnection policies did change. This included no longer requiring a down payment to enter into a payment agreement on bills. We allowed longer terms and smaller installments and there were multiple opportunities for the customers to enter into multiple payment arrangements over time on the same debt.

[10:51:22 AM]

Council also directed to us re-establish service first without the customers having to pay off old debt. We saw some of the debt conversion -- the debt growing from the system conversion into the payment arrangement policy had a negative effect on our bad debt levels. And this next slide you can see the impact of the payment arrangement policy over time. Although we did offer more relaxed payment arrangements and the ability to enter into those arrangements, we aren't necessarily seeing success in the full completion of those payment arrangements and paying off of the old debt. At the last Numbers I think we were up to \$32 million in payment arrangements, about 25,000 customers, which is almost three times over what we saw prior to system conversion back in, say, 2010 or 2011. But it was a payment arrangement policy coupled over time because of the weather and because of the system conversion. Payment arrangements can also have a direct correlation to an increase in bad debt, which is what we're seeing now. So customers if they enter into multiple payment arrangements if they're not able to successfully pay off those payment arrangements and eventually break the debt reages reages into old debt. In collection policy you'll learn that the longer a debt is outstanding the more difficult it is for -- to get paid on that debt, as well as the higher the balance is, the harder it is for the consumer to repay. In addition we had several customers who broke payment arrangements or inactivated their accounts with us, leaving the service territory, and increase the levels of bad debt. So you'll see that the

customer debt owed to city utilities combined has grown from 24 million to 117 million in the last three years.

[10:53:28 AM]

This excludes the bad debt that has been expensed on the financial statements. This is a graph to show across all the utilities the bad debt expense history. You'll see we hit a peak in 2014. That includes a portion of inactive accounts from 2011 to 2013. We had to -- it took until 2014 to get the appropriate reports and things into place to quantify that amount. But, again, the bad debt has grown 57% since 2012. So we've hit a peak and we're starting to go down. Again, we've instituted full standard collection processes. We're back on track with that. And based on previous experience from other system conversions, we assume and forecast that the bad debt and the debt accrued by customers across utilities will decline over time and that's projected out here through 2020. We should see those debt levels restore to historical levels but we have concerns if changes are not paid pot payment arrangement policy those bad debt levels will not drop to this extent. Questions before I turn over?

>> Zimmerman: The first obvious question, going back to page 26, the 117 million and the 57% growth in debt is kind of scary, but how much has been expensed as nonrecoverable or bad debt? How much has been expensed?

>> The total is almost 118 million expensed at the end of 2014. I'll let mark speak to the bad debt.

>> Zimmerman: I would like to hear about that. This is very concerning.

>> I don't have the exact number with me today but I can find out for you. This goes back to entire history. We cannot -- we don't write off like a commercial business writes off bad debt.

[10:55:31 AM]

We expense it, but that money never goes away. That would be a gift of public funds. So we carry that almost for unless it's paid off. I don't have that exact number for you but I can find that for you and get you back. This is what we currently have on the books for Austin energy, the Numbers you're seeing on the page here.

>> Zimmerman: Okay. I would like to know that number. Is it 100 million? It may be as much or more as what you're carrying. I'd like to know. It's pretty important. And to see how that percentage has changed in the last few years documented here, since 2011. We're looking for trends, right? Obviously

there have been bad debits and expenses billed over decades of time, right? What we're looking for is what is the trend right now and expensing those bad debits?

>> That's correct. I can find out and get a trend for you.

>> Zimmerman: Thank you.

>> As far as our records go.

>> Gallo: I have a question that follows that. So on page 27, I just wanted to make sure that the decline that we're showing, certainly headed in the right direction, that doesn't include any debits -- and I think you may have answered this but I just wanted to make sure. That doesn't include any debits that have been written off or expensed? I mean so the decline is truly an indication of the increase in collection, not that the money that is owed is -- has disappeared off the chart?

>> Yes correct. That's correct. What you're seeing, that decline, most from 15 to 15, in 14 we had to go back and reach back to 2011, because we had a change in our billing system, computer all those aged reports more than a year old and we expensed those all in '14 rather than doing a little bit in '12, '13, 2014. We did it all in 2014, that's why you see that big spike.

[10:57:32 AM]

That trend from '12 to '15 that's the aging of the bad debt in his Normal trend. '14 is abnormal in this graph.

>> Gallo: Once again, the reduction in the debt is because of collections, not that the debt has been written off? I'm just trying to get a sense if the movement in the right direction is because we're truly moving in the right direction with collections or is it an accounting --

>> This has more to do with accounting. Our bad debt is levelized now around \$15 million a year over the last two or three carriers. Unless we have a change in policy we're going to hold it at that level. So we continue to have collections but that's not really what you're seeing in that graph. That is not a result of better collections, although we are collecting.

>> Gallo: Okay. Thank you. Any questions? Questions?

>> Tovo: I look forward to having a fuller discussion about this. I won't ask questions leading us in that direction now because I know we're at usual time. Quick one. I see on your slide 24 it talks about the down payment requirement, that there isn't one. I'm looking at the ordinance in front of me, and it does require, except as provided by section 159112d, which I think refers to customer assistance program members, it does require that the first equal installment under deferred payment agreement shall be due as a down payment. So there is a down payment required for those entering into a payment plan,

and it's their first equal installment. Now, this was a considerable change. I'll just as a one line of context say we had a period of 22 months, as you saw, where the utility was not collecting on past debt. We had a billing city manager which our newspaper reported had -- well, I'll give that you number in a minute when I can find my article.

[10:59:35 AM]

But it was -- there were thousands of errors in bills and frankly I know our offices are still hearing about them. Every week I get a call from a customer who says they've been assessed or not every week but we're all hearing calls from people who say, you know, I thought I had paid this and now I'm being asked to document that I paid it. So we have a billing system that had considerable issues and we had an ordinance that was requiring people, if you had -- if you contacted the utility before your utility bills were cut off you could get a payment plan. If you had your -- if you had your utilities cut off, you then were responsible to get a payment plan you had to pay 50% of your bill. And then the other -- within two weeks. The other 50% -- excuse me, to enact the payment plan and then the rest of it within a month. Am I remembering that right? It was 50% in two --

>> 50% down and then you can pay the -- the balance was then spread out on the payment plan, usually across three months.

>> Tovo: You can imagine for people whose utilities paying 50% of that debt to get on a payment plan was really insurmountable and so trying to come up with the ordinance change was an attempt to come up with a plan that allowed people to get their utilities back on while they worked to pay off that debt, which is in the utilities best interests as well because we don't want customers then going without utilities, and we had some people who were calling our office, recording that they were working with people who hadn't had utilities for up to a year. And, you know, we want Austin energy to collect on its debt. So there certainly are some changes that I think we can consider and should in a fuller discussion. We have some recommendations from the work groups that been looking on it, but I just want to make the point there is a down payment requirement.

>> We'll double-check on that in our -- that was the policy. It was our understanding that during the rework of the policy in 2013 it was asked that no down payment be provided.

[11:01:39 AM]

So I just need to clarify.

>> Tovo: Thanks. I'm reading from the ordinance. I think that may be true for customer assistance program participants, but I read the language from the ordinance for the others. Thanks.

>> Gallo: Any other questions? Questions? Okay. If you could continue. Thank you.

>> Good morning, council, mayor. My name is Joanna, vice president of customer care services and I will share with you as a part of the low-income working committee that worked on the payment arrangement and arrearage program some of the recommendations from that committee. We'll provide a high level overview and answer your questions in preparation for a deeper dive at a future meeting. On the first slide you'll see a recap of the current policy, the one that is -- that councilmember tovo spoke reward to the current ordinance. The current payment arrangement policy requires that our customer service participants receive a length of term that is defined by the amount of debt that he owed divided by the amount of the federal poverty income level, which is about 5% of that level. So today there is no length of term stipulation for our customer assistance program members. That length of term is divided by the amount of debt in the federal -- and the federal poverty income level. For our regular residential customers or all other residential customers who are non-cap participants, we require a 36 month maximum payment term for the payment arrangement. We also have a policy regarding the number of payment arrangements that a customer can enter into.

[11:03:46 AM]

Currently, both our cap, customer assistance program, participants and our regular residential customers may enter into three payment arrangements, three separate payment arrangements, and a fourth as they identify or if they can identify a bona fide reason. Finally, if there is a fourth payment arrangement that is broken, the customer will be disconnected. And we, again, indicated that we are not requiring a down payment at this time and we will have to double-check our policy on that. We spoke about the low-income consumer working committee --

>> Sorry, so it used to be 50% down to re-establish service. Now it's that you make the first installment payment as --

>> Tovo: Thank you.

>> On this slide you see the members of the low-income working group. That committee worked for about six months. It was comprised of 21 agencies, community advocates, and the utility departments. Each representative was -- represented one vote towards our policy. On this slide we show the recommendation from the working committee. The working committee in essence created two recommendations for payment arrangements. The first recommendation has to do with our customer assistance program participants. You see that in the second column. The third column --

>> Excuse me, ma'am. I have a quick question for you. When you say eligible cap discount customers do you mean those eligible for cap whether they've been enrolled or not.

[11:05:50 AM]

>> Correct.

>> That would include those on a waiting list?

>> You.

>> If there are any customers on the waiting list for the cap discount, they are also eligible for this policy. Glock thank you. Policy.

>> Kitchen: Thank you.

>> You'll see for the cap participants the length of term and number of allowed payment arrangements and down payment process will remain as the current policy. The working committee did recommend a change for the regular residential customers, and that is to require up to 24 months of length of term and could go as high as 36 months with the authorization from a supervisor. The number of payment arrangements allowed remain the same, and in this case the working committee decided to require a down payment which is equal to the first month of installment prior to implementing the payment arrangement. City staff has done quite a bit of research regarding the current policy and its impact on customer debt in the successfulness of payment arrangements. As a result of that research, we find that city staff is recommending a slight change in what the working committee has recommended. What you'll see on this slide is the recommendation from staff as it relates to the policy recommended by the working committee. The changes that you'll see from the staff recommendation are in the third row, length of term. We're requesting that we have a 36 month maximum for our cap discount customers, and we're reducing the length of term for the residential customers to eight up to a maximum of 12 months.

[11:07:53 AM]

We're also reducing the number of allowed P.A.S, payment arrangements, from four to a maximum of three for our customer discount customers and a maximum of two for our regular residential. All of this has -- all of the changes that are recommended by staff are a result of a study that finds that Austin energy's current policy is one of the most flexible payment arrangement policies among public power and among Texas utilities. However we find that that flexibility has not increased the successful

completion of these payment arrangements. Therefore, we are recommended a slight change to the current policy. I want to switch subjects to arrearage management that allow you to ask any payment arrangement questions you may have at this time.

>> Gallo: I do think we have some questions.

>> Kitchen: Quick question to clarify. I apologize I'm not familiar with this detail, but the time period where you say go to a maximum of two and a maximum of three, over what time period? Is that on an annual basis or is that forever?

>> It's a rolling time period.

>> Kitchen: Okay.

>> So if they've had three payment arrangements or two payment arrangements in a time period -- so right now we're using annual.

>> Kitchen: Okay.

>> But it's a rolling annual.

>> Kitchen: Okay.

>> So we look in the last 12 months.

>> Kitchen: Okay. Thank you.

>> Gallo: Any other questions? I do want to mention that we have asked mayor pro tem tovo to -- we definitely want to include the working group presentation at an upcoming meeting and we'll ask her to help put that group together to provide that information. So in addition to that, it sounds like the staff recommendations was based on a study.

[11:09:55 AM]

Could we have that study provided to us prior to that meeting also?

>> Most definitely.

>> Gallo: Okay, thank you. Any other questions?

>> Casar: Yes, question. One quick comment because I think that we may not get to cap enrollment before 11:00 and just to let my colleagues now I do have some concerns that the existing way that we do cap enrollment may leave out a large number of Austin residents or some number of Austin prison I'm going to be submitting a question to Austin energy about folks that may qualify by income but may

not qualify for the existing federal programs that we do automatic enrollment for. Current federal law, for example, if you're a legal permanent resident may not qualify for any of the benefits listed within five years, and that's not even taking into account undocumented populations within Ur city that I remind folks are only undocumented because of congress' inability to vote on bills or even just hear bills. And so I am particularly -- if we're going to have a cap and non-cap arrearment system or payment policy, I'm interested in hearing from the utility any estimates we may have on folks that would qualify based on income but don't qualify based on our current enrollment programs. Not to through a wrench into all of this, but it is a concern of mine.

>> Gallo: Thank you.

>> Zimmerman: I have a question. I'm really very concerned about what's happening here because this looks like an citizen an ex tenconversation of an unintended policy, that we're again segregating the city economically, people who are subsidized, people who are not subsidized. There's got to be a policy answer to this because this is unsustainable. I think you've already shown with the data here that the plans to try to get people caught up on their bills, it's not working. There's more, more, more debt being amassed, \$15 million a year.

[11:12:01 AM]

So energy is not affordable, people can't afford to pay their bills, they can't afford to pay their bills. The answer is not a permanent implementation of yet another subsidy that divides our city between those that are subsidized on their energy bills and those that are not. I had this argument with the council on subsidized housing. People who are subsidized in their housing, people who are not. It's economic segregation and my argument is it's not sustainable. So I'm going to be pushing for a way to get the energy bills lower where people can afford to pay so we don't have this problem.

>> Gallo: Thank you, councilmember. Any other questions on this particular information? And as it's pointed out since we're going to have a hard stop at 11:30, about 15 minutes from now, my guess is that we will get finished with this section and then move the customer assistant program enrollment and discussion of the three largest customer contracts to the beginning of our next meeting. Is there any discussion on that?

>> Renteria: I just have one quick comment. You know, this is the problem that we're having. As we increase our utility fees, we're increasing our fee constantly, and it has nothing to do with the electric department. They manage the whole account. But as we continue to increase, like, drainage fees, you know, people are going to get into this situation where we're financing our capital funding -- projects through our fee process through the electric. And everybody calls it electric bill. That's why we all criticize, the electric bill, which it's really not. We have drainage fees, water fees, we have wastewater fees. So -- but, you know, as we continue to increase these fees, then you're going to have people and

they're -- that are not going to be able to afford to make those kind of payments so we really immediate to look at that policy about what are we really doing to our citizens here.

[11:14:02 AM]

>> Gallo: Any other questions? Councilmember pool, did you have a question?

>> Pool: I'm going to have a couple of questions at the wrap up. I want to make sure we have some time at the end.

>> Gallo: All right. Let's continue, thank you.

>> I'll continue with the next slide on arrearage management. Arrearage management is a program we currently do not offer for our city of Austin utility bills but it is a program that provides incentives for our customers to be diligent and be consistent with their payment. The program considerations, design considerations, are that you allow a longer term process for customer debt management, that you -- that both the customer and the city make monthly payments towards outstanding debt, and that we -- as a working committee discussed, that we limit this program to the segment of denominators were most impacted during the system stability period. I'll describe the program as it was recommended by the working committee. And then what you see on this slide here is a slight slight change recommended by the staff. The working committee recommended that an arrearage management program be put in place for both our cap discount customers and our residential customers who fell within that period of time that the city manager was being stabilized. For the cap, the recommendation you see on the screen is a recommendation that the working committee also defined. The only difference between staff and working committee is that the length of program remains the same. The down payment is non-rimmed, but the customer payment amount -- this is a program where the customer pays a percentage of their outstanding debt and the city pays a percentage as well.

[11:16:09 AM]

Those percentages were of great discussion during the committee members. The committee recommended that in the first trimester of this payment plan, payment program, that the customers pay 20% of their outstanding debt, where the city is recommending that the customer pays 40%. You can see how that affects -- or that changes the policy. In the second trimester, we both had a 30% payment percentage for our customers in the third trimester the customer would pay 40% from the working committee's perspective and 20%er from the staff recommendation. So I'm focusing on the customer payment amount. That's where the biggest change between staff and working committee.

Staff generally supports the arrearage management program for our cap customer. However, staff did not support arrearage management program for our residential customer. The concern with staff and this program is the cost of the program, as well as the ability to maintain this program. You'll see that instead of a arrearage management program for those customers, those residential customers that fall within the stability period, we are recommending a special payment arrangement that extends the length of term to 60 months. The last slide that I have from the working committee's recommendations has to do with the administrative hearings process. Again, I want to pause and allow you to ask any questions regarding the arrearage management program.

>> Gallo: Councilmembers, any questions on that specifically? Okay.

[11:18:10 AM]

Continue. Thank you.

>> So in addition to payment arrangement arrearage management, the working committee also reviewed the current policy and practices regarding the hearings administrative -- administrative hearings process. This process is a process offered to our customers who have a dispute with their utility bill. This process allows the customer to enter into a third-party hearing officer's proceeding where the hearing officer will listen to both the customer's dispute and Austin or city of Austin's response and make a binding decision about that dispute. The working committee recommended seven improvements to the process. I'm not going to read all of them to you, but indicate that with the majority of those recommendations, the staff -- city of Austin staff concurs. The one -- the two recommendations where staff partially concurs has to do with the amount of -- the amount of workload that is required to support the recommendation. Recommendation one provide results of administrative review to customers in writing. Currently we provide those results via telephone. And if the customer is accepting of the results, they most likely do not pursue a dispute hearing. If they are not accepting of the results, then they proceed with scheduling a hearing. In the case where the customer will schedule a hearing, Austin energy and the staff recommends that we then provide that result of review in writing. On the second recommendation where we partially concur, the hearing officer -- the recommendation is that the hearing officer manages the entire hearings process.

[11:20:17 AM]

Again we concur, however we have a current contract that does not allow that process and so we'd have to increase the scope of the contract, which would increase the cost. Are there any questions regarding the hearings process recommendations?

>> Madam chair?

>> Gallo: Yes.

>> Pool: I know we have a terrific stakeholder process that came up with those findings. I'd like to program sometime in the future, maybe at our next opportunity, to have the task force members who created this document and who came up with the good ideas to be the presenters it would be great. We could ask them specific questions. They could be a restores to us. I thank you staff for the presentation.

>> Casar: I did have a question on the previous slide. I didn't want to cut you off. I believe there was a recommendation from some of the stakeholders about one time arrearage system for those impacted by the billing system debacle, what was staff's analysis or recommendation about that?

>> So when we say the stabilization period, that's exactly what we mean. There was a time in which we were not disconnecting for nonpayment and the customer -- some customers' bills debt rose higher than usual. And during that time, stabilization, the debt was allowed to increase, therefore, we're offering a program for those customers for -- that were impacted by that period of time.

>> Casar: Sorry. When you mean there was -- so those that were impacted by that billing system issue, if they were non-cap, currently the utilities aren't recommending an arrearage management for those folks, if they're non-cap but they were impacted by the billing system issue?

>> Yes, we are not recommending aye arrearage management for the non-cap.

[11:22:19 AM]

In lieu of that, we're recommending a 60 month payment arrangement process.

>> Casar: Okay, thank you.

>> Gallo: Councilmember Houston.

>> Houston: Yes, please. Can you tell me if the hearings officer, is that a person in Austin energy?

>> Hearings officer is an independent third-party contractor so they remain outside of Austin energy and they're actually outside the city of Austin. However, their contract is managed by the city staff.

>> Houston: Thank you.

>> Gallo: Any other questions?

>> Tovo: Thank you, chair. Quick one. For our next meeting and full discussion of this issue could we please get a number for the amount of the -- the percent and amount of debt accrued during that 22 month period? I think that would be helpful in moving forward? And I promise to get that number. I

think the newspaper claimed that it was something like 100,000 bills were incorrect during the billing system so we had some issues with our billing system so I think it's -- that's an important part of the equation. Thank you.

>> Gallo: Any other questions? Questions? Okay. Thank you very much. As I mentioned earlier, we are at a time point that we will conclude this meeting, and before we take a motion to adjourn, I want to thank staff --

>> Madam chair?

>> Gallo: Yes, I'm sorry.

>> Pool: I did have two questions. Would now be a good time?

>> Gallo: Perfect.

>> Pool: I would like to get some information separately on the ecad ordinance from Austin energy. I've got some specific questions about that. So maybe we can make time. And then I wanted to check with my colleagues here on the solar rfp and get some updates on the issue answer from Mr. Weis.

[11:24:24 AM]

I understand Austin energy will be issuing that. I'd like to get some time citizens, I'm thinking April, mid April, with responses due back mid-may if, possible.

>> Yes, I don't know the exact date, and -- but my plan is that we will mobilize and issue an rfp in the month of April for our solar rfp. This is a utility scale project.

>> Pool: Right.

>> We're talking about.

>> Pool: So April 15, right about in the middle of the month, any chance could you aim for April 15.

>> Sounds like a good target.

>> Pool: All right, great. Colleagues? Those of us who were interested in having this issue soon.

>> I have a question.

>> Gallo: Okay.

>> Do you have any details you can share with us right now about the turnaround time on the rfp?

>> Well, the turnaround time, interestingly enough, is really dependent on the parties. Let me put it to you this way. I would say that the fastest I've seen a turn around is probably a week or two, and then we have to bring it back to council twice.

>> Kitchen: Here's what I'm asking. You know, typically, as you know -- I'm not sure we're talking about the same thing. As you know when we issue an rfp you provide a deadline for a response. So then there's a whole time line for the rfp process, you know, response, selection, bringing it to council, et cetera. Just curious. I don't know if you have the details right now but if you do I would be interested in understanding the time line.

>> I'm going to let call answer the question.

>> I'm vice president of energy market operations and resource planning. My department issues the rfps traditionally for renewal projects. So the last solar rfp that we had, the turnaround time within the rfp was about six weeks.

[11:26:32 AM]

That includes Thanksgiving so it could be a little bit shorter but we would need at least four to five weeks to give the developer some time to respond adequately and get good pricing.

>> Kitchen: Okay. Thank you very much.

>> Madam chair?

>> Gallo: Yes.

>> Just real quick when you issue the rfp, can you issue an rfp that doesn't necessarily just have the 600 number but has 150, 300, 450, just in case there are different breaks with different quantities?

>> In the gem plan when we discuss the gem plan, we had a time line to procure all the solar, the 600 megawatts so the intent was to start in discreet projects over a ten-year period. Contracting for 600 megawatts of solar would be a very large dollar amount if you discount, you know, the debt back to present value. So but what we do traditionally, we say up to 600, within a certain amount of increment, sometimes we say 50 megawatts, sometimes 100 megawatts. That's how we issue these rfps.

>> Mayor Adler: Thank you.

>> Gallo: Does that process answer your concern about the dimp Numbers being on there or would you prefer it to be more specific?

>> Mayor Adler: I think that's fine because it sounds like it's going to go that way and people can respond that way.

>> Gallo: Any other questions? No?

>> Pool: I would just say thank you. That addresses concerns that I and a number of my colleagues have had about the time line for this and the expiration of solar credits at the federal level so that people who may want to take advantage of those -- I think it's dropping from 30% down to 10% at the end of next year, it will give everyone a chance to make decisions based on having access to the solar rebate.

>> Right. Just to expand on that a little bit, you're correct that itc will expire by next year and that goes from 30% down to 20% but the general economics of the whole gen plan doesn't depend on the itc expiring.

[11:28:44 AM]

We envisioned only procuring of 150 megawatts of solar that would take advantage of the rfps. I know there's discussion of ppas versus owning assets, the rest of the gen plan envisioned us owning the asset and taking planning of our low cost of capital and getting a return equity on these solar projects over time. It's not the end of the world if we don't take advantage.

>> Pool: Was there direction a year ago on the first solar rfp that said this additional request for proposals would be issued at about this time of year?

>> So I wrote this resolution which we discussed with last council. So it has to be looked at holistically, and it's in two parts. It says act immediately on and it's five things. The first thing is build a gas plant, from which we get revenues, reduce loads on costs and that allows us to procure additional renewables, 5050% renewables, really a very large number. It also provides revenues for the decommissioning fund for fpp, doing storage over the length of time. So a package, right? Then there's another set of actions, they're dependent on things happening in the future.

>> Pool: Great we want to keep that package moving together at an equal pace across the board.

>> Right.

>> Pool: Thank you.

>> Gallo: Thank you for answering questions. Once again before we adjourn, thank you to staff. I know that the process and questions and level of interest is probably a little different than what you've experienced in the past. So thank you for being patient and certainly our questions are directed for gaining information and not intended to be any other interpretation. So do I hear a motion to adjourn.

>> Zimmerman: Motion to adjourn.

>> Gallo: Do I hear a second?

[11:30:45 AM]

Okay. All in favor? Any opposed? Motion passes. Unanimously. Thank you very much.

>> Mayor Adler: Citizen communication at noon?

[Meeting adjourned]