

MINUTES OF THE CITY COUNCIL

CITY OF AUSTIN, TEXAS

Special Meeting

December 12, 1973
4:00 P.M.

ELECTRIC AUDITORIUM, 310 WEST AVENUE

The meeting was called to order with Mayor Butler presiding.

Roll Call:

Present: Councilmen Binder, Friedman, Handcox, Lebermann, Mayor
Butler, Mayor Pro Tem Love
Absent: Councilman Dryden

Mayor Butler announced that this was a Special Meeting called for the purpose of interviewing and exchanging information with a representative from Ebasco, a national firm under contract to examine the City's electric rates and recommend changes.

Mr. Dan Davidson introduced Mr. Thad L. Sharkey of Ebasco, a utility consultant, who was both a lawyer and registered engineer. Mr. Sharkey had been requested by the Council to speak to three basic items:

1. Timetable and methodology of completing the rate study now under way for the City
2. Rate-making devices which could be used to encourage energy conservation
3. Possibility of hiring Ebasco or another firm to help put together a conservation package

Mr. Sharkey made the following points:

1. Analysis of the City's Electric Department financial statements and budgetary forecasts revealed that an immediate rate increase of 17.8% (based on Fiscal 1973 operations) was imperative, effective January 1, 1974.
2. The increase would take effect in three phases:
 - a. An immediate 17.8% increase effective January 1, 1974,

- b. Completion of a rate study and the development of schedules which produce revenues equal to 17.8% increase
 - c. Consideration of elements in the proposal which the Council must determine at a future date.
3. Three different plans were to be considered, each of which would yield the 17.8% increase:
- a. The four schedules would be adjusted as follows so that the effective increase within each schedule would be 17.8%:
(1) residential service - 18.4% (2) commercial space conditioning - 19.2%, (3) general service - 17.2%, (4) other general service - 14.7%
 - b. Apply a 17.8% increase to all schedules
 - c. Add 3 mils per kilowatt hour to every KWH sold after January 1, 1974
4. The 17.8% is necessary to finance the expansion of plant for the future.

5. Transfers to the City's general fund would not include the effect of the proposed 17.8% increase. As growth in use of service took place, there would be an increase in transfers to the general fund, excluding the 17.8% increase.

The type of rate service recommended by Ebasco would place a larger percentage increase on the larger users than on the smaller users. That pattern is generally being followed nationwide. The purpose of that type of rate is to flatten the rate curve, expressed in cents per kilowatt hour, whereby the curve flattens as usage increases. The effect would be to make large users (residential, commercial and industrial) more conscious of energy conservation needs as their costs increase with increased usage. However, if through energy conservation the system is not operating at maximum output, then operating costs will rise as revenues drop due to lower usage because operating costs are fixed.

Mr. Sharkey stated that neither Ebasco nor any other service company which he knew of provided the type of consulting advice requested by the City Manager. He saw no reason, though, why Ebasco could not provide the desired advice.

Councilman Friedman asked if Ebasco could map out a progressive rate structure so that the larger users would start off at a higher rate than presently used, rather than just a percentage increase per kilowatt hour.

Mr. Sharkey stated that form of rate structure was called rate inversion and that it was repugnant to the utility industry. The highly sophisticated Public Service Commission of New York had examined rate inversion in great detail and found that it was impractical, useless and would not accomplish the purpose it was set out to do. He also stated that no commission in the country had ordered

a rate inversion. The problem went back to price elasticity, whereby when the price of a product is raised, the sales volume decreased. He said that that situation did not apply to electric service, and that the desired conservation could not be accomplished through rate inversion.

Mayor Pro Tem Love asked Mr. Sharkey which of the three plans he would recommend, and Mr. Sharkey indicated that he favored No. 1 because it was probably the basis that Ebasco would use to design and develop the rates that would go into effect.

Mayor Pro Tem Love then asked Mr. Norman Barker whether or not he agreed with the recommendation, and Mr. Barker said that in general he did because No. 1 was more in accordance with the rationale of a flattening tendency. He stated that No. 2 and No. 3 were flat rated no matter how many kilowatts were used.

Councilman Friedman asked Mr. Sharkey if it would be easier to cut back residential use through conservation than through large commercial usage. Mr. Sharkey asked if he meant through application of rates. Councilman Friedman responded that through any kind, that it was easier to have someone in the home turning off lights and not using as much electrical appliances. Mr. Sharkey said no, that it was the other way.

Councilman Friedman asked if an increase could be devised and weighted so that the commercial user would carry a heavier weight and thereby save the residential user as much money as possible. He referred to the manner in which the telephone rate increase was weighted two to one in favor of business telephones versus residential. Mr. Sharkey said that it could be done.

Mayor Butler said that such an approach got back to the inverted theory which was not considered feasible from a conservation standpoint. The method would raise revenue but not conserve energy.

Mr. Sharkey agreed with the Mayor and cited an example when he was with Potomac Electric Power Company of how, after a sharp rate increase, there was a temporary drop in usage, but in about six weeks usage returned to the old level.

Councilman Friedman pointed out that the example occurred several years ago and that conservation was a stronger issue now. He thought that the upswing could be delayed, that people might be convinced by the inversion, and that he looked forward to getting more information from Mr. Sharkey in New York about rate inversion.

Councilman Friedman asked Mr. Sharkey if Ebasco had studied the need to do something about the City's all-electric rate. Mr. Sharkey said that some preliminary consideration had been given to it and that he thought that they would recommend one rate for residential service and design it to take care, to the extent practical, electric heating service. Councilman Friedman asked if the same thing applied to commercial, and Mr. Sharkey said that that was the trend around the country.

Mayor Butler asked if the rate would be retroactive, and Mr. Sharkey said no, but that the all-electric rate would be merged with the residential rate and the rate schedule designed so that the all-electric user would not be penalized.

Councilman Binder asked Mr. Sharkey if he meant that the City needed to flatten its rates somewhat. Mr. Sharkey replied yes, and that that was the trend nationwide among the electric utility industry. Councilman Binder then added that he thought it was an important way to look at it, but wondered if one step beyond flattening were taken so that the rate would be slightly inverted or progressive if that action wouldn't accomplish the same purpose, but just a little more so. Mr. Sharkey said he didn't think it would. Flattening would tend to make the customer more prudent in usage, but penalizing him would not work.

Councilman Friedman said that the rate could be based on cost of usage and not have too great an increase. He felt that a slight rise would show, but that the user would still be forced to go back.

Mr. Sharkey added that a rate schedule was designed to accomplish revenue requirements, but that in the design and development of those schedules, great care should be exercised not to give an inordinate increase to one group of customers versus another group being served under the same schedule. He felt that any form of inversion would be unfair and discriminatory because people had been urged for years to use cheap electricity freely.

Councilman Binder stated that having the different categories was discriminatory now. Mayor Butler said No, that it was based on cost of service to different categories.

Mayor Butler wanted to know why it would not be better to make the increase 22% instead of 17.8% and divert 20% of the revenue to general government. Mr. Sharkey had recommended that the 17.8% not be diverted to general government and stated if it were done, then the 22% increase would be needed. Mayor Butler was concerned that departing from the 20% diversion to general government would make it difficult to return to it in the future.

Mr. Norman Barker stated that the natural growth of the system had increased transfers to general government by a compound rate of about 10% per year. A rate increase (with the 20% general government transfer added to the rate base) would eventually, as growth occurred in the utility system, raise the compound rate to perhaps 14% or 15%.

Mayor Butler felt that adding the 20% general government transfer to the rate base might be a painless way to get the money for future services to the community. Mr. Barker stated that that was the Council's option, but in designing the rate schedule Mr. Sharkey was concerned with money needs of the utility system only and not general government.

Councilman Binder asked Mr. Sharkey that within Phase I, since he (Mr. Sharkey) preferred Plan 1, if he would have any problems with the other two plans. Mr. Sharkey stated that he would not. Councilman Binder then wanted to know what was the net difference between Plans 1 and 2.

Mayor Butler responded that with No. 2, everyone's bill goes up 17.8%, assuming they still have the same usage. Under No. 1, with the same usage, general service usage would escalate dollar-wise much greater than residential, but not percentage-wise.

Mr. Sharkey agreed with Mayor Butler and pointed out that Phase 2 would accomplish dollar-wise, the same thing as Phase 1, but that there might be some variation as to the effect on individual customers.

Mayor Butler felt that a vote should be taken on the matter the next day at the regular council meeting and asked if anyone objected to the 17.8% increase across the board for Phase 1 until Mr. Sharkey returned with the more detailed study.

Councilman Friedman felt that no great damage would be done if the decision were a week late, but Mayor Butler referred to a memo from Standard & Poor's to the effect that a delay would hurt and that action should be taken before January 1, 1974.

Councilman Binder asked Mr. Sharkey that regarding inversion, was he talking about whether a rate declined or not and whether the relationship was between a residential and large user. Mr. Sharkey stated that he was talking within a single schedule. Councilman Binder wanted to know if the relationship had a name, since he had noticed that on the charts being used showing a general flatness of the different power companies, each chart said residential service. Mr. Sharkey said that the example used was typical. Councilman Binder then asked if the same application could be made to other categories as well, except that they might call them by different names. Mr. Sharkey explained that where the schedule was a non-demand schedule, it was based entirely on the pricing of kilowatt hours, not kilowatts included. He would recommend that in the schedules having a demand charge that the bulk of the increase go to the demand charge, rather than the kilowatt hour charge, because the demand represented fixed costs which have been increasing.

An unidentified man wanted to know how Mr. Sharkey arrived at the 14.7% increase for large general services versus 18.4% for residential. Mr. Sharkey explained that he did so by taking the revenues from the four schedules, subtracting the costs of fuel, and using the net revenues to develop the percentages. Mayor Butler elaborated by saying that 14.7% in large general service would produce a 17.8% increase and an 18.4% increase in residential service would produce a 17.8% increase because there is a smaller load on the residential than the large general service.

Mayor Butler asked if the courts had ruled on the unduly discriminatory aspects of rate setting, to the effect that rates must be based on cost of service. Mr. Sharkey stated that mainly the courts had let the regulatory bodies decide whether or not undue discrimination existed in the rate structure.

Councilman Binder indicated that he was leaning toward Plan 2, over Plan 1. Mayor Butler stated that he didn't see much difference between Plan 2 and Plan 3, and Councilman Binder said that he did, that different percentage increases were involved. Mr. Harrison agreed with Councilman Binder. He stated that the low user would benefit more from Plan 3 and that the high user would benefit more from Plan 2.

The Council recessed until 7:00 P.M., December 13, 1973.

December 12, 1973

1.86

APPROVED:

Ray Butler
Mayor

ATTEST:

Grace Monson
City Clerk