Austin Energy Utility Oversight Committee Meeting Transcript – 02/26/2020

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[1:35:49 PM]

>> Tovo: We are going to wait until about 20 of, maybe a quarter till and if we don't yet have a quorum I'm afraid we'll have to council the meeting, but thank you all for being here. Sorry for the delay.

[1:41:31 PM]

>> Tovo: Okay. We don't yet have a quorum. We'll give it a couple of minute and then call the meeting for the day.

>> Kitchen: Chair? We could perhaps hear reports if we don't have any action to take. I did that at the last mobility committee meeting.

>> Tovo: So we have -- I have gotten some input on that and I think the preference is that we not hold meetings when we don't have a quorum. And I think because we've had this happen -- we have started our meetings multiple times without a quorum, but I think at this point I'm going to follow that advice. I did receive word that mayor Adler is out on city business so he won't be able to attend today. But we had several colleagues, mayor pro tem Garza and councilmember Renteria, that let me know this morning that they would not be able to attend. Councilmember Flannigan had indicated that last week

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that he's unable to attend today. And so I've not heard from councilmember Casar so I'm not sure if it's his intent to come today. And I believe that councilmember Ellis intended to come today, but is running late. I think without knowing when she is going that we are going do have to call the meeting. So we'll give it a couple more minutes and see if councilmembers Ellis orca czar arrive in time.

[1:46:15 PM]

>> Tovo: Okay, thank you, councilmember Ellis is here so we can go ahead and I will call this meeting to order at 1:45. Thanks all of you for being here. Our first item of business is to approve the minutes from last month. Vice-chair pool moves approval. Any second? Councilmember alter seconds it. All those in favor? And that's unanimous on the dais. As I indicated before we started, mayor Adler is out on city business. I do not believe any of the rest of our colleagues are planning to attend today so they'll be off the dais for any other votes that we have as well as the one that we just took. So our second item of action is to revise the committee schedule. As we talked about in our work session, in our council work session, we're moving to an every other month schedule so those dates are in the backup for today. These are the same universe of dates more or less that we had last time, just fewer of them.

[1:47:16 PM]

I would say that I believe there may be another committee that has now scheduled on August 19th, and I would ask that committee to consider -- I think it's the water utility committee. This is a date that we've had on our agenda for awhile. So I'm not sure if the council water commission would like to adjust theirs, but the four dates that are being proposed are April 15th, June 17th, August 19th and October 21st. So if I have a motion for those dates? Vice-chair pool moves approval. Second?

>> [Off mic].

>> Tovo: Sorry, we have an update to that one. April 15th, June 1st, thanks for asking for that, August 19th, and October 21st. We moved the June 17th one back a bit because it was getting close to when the council break is.

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And the times vary. Most of them are 1:30 to 3:30 with the exception of June 1st, that one is 10:00 to 12:00.

>> Pool: I will second the motion, but as I've already communicated with you, I will be absent on the 15th.

>> Tovo: Yes, thanks for the head's up. And I would ask any other colleagues if you know you will be out on April 15th, just let me know so that we can plan around -- we can make a different decision if it appears we won't va quorum on that date. Any other comments before we vote?

>> Ellis: I need to look at August 19th. I'm trying to move forward with passing that. We've had to move a couple of other meetings for water.

>> Tovo: Thank you. I appreciate it. Okay. All in favor? Okay. And that is unanimous with the councilmembers on the dais. And that brings us to the general manager's report.

>> Harper-madison: I'm sorry, I do have one quick question. It looks likes audit and finance meets that day also. 9:30 to 11:30 is what I have

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on my calendar for the 15th. But it would be this time?

>> Alter: It would be the afternoon for this one.

>> Tovo: Welcome.

>> Thank you. I just want to offer clarifying notes. I was realizing that we didn't have the times. The times are expected to be 1:30 if I recall for the 15th, the 19th and the 21st. But if I recall the June 1st meeting is going to be in the morning, 10 to 12. I was just wanting to make sure that everybody knew that. Thank you.

>> Tovo: Thanks very much.

>> Good afternoon. Mark due dobros ski. I am filling in for Jackie Sargent. We will have on financial report this afternoon.

[1:50:17 PM]

Good news is the general manager report is nice and short today. So first couple of things in keeping with your tradition of bringing to you upcoming recommendations for council action, we have two that would be coming before you on March 12th. The first item is a professional services agreement for engineering and technical services. This is a rotation list for engineering services for our district cooling plants. As you know, we operate a number of district cooling plants, including downtown, Mueller development, the domain area, and we also have two plants that are under construction at the crescent as well as out at the ACC highland campus. So this is to provide engineering, technical services, planning analysis, management improvement, additions for our . Chilled water plants that serve 68 customers here in Austin. So its four recommended firms are hrh, Dr

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engineering, Jacobs engineering group, Stanley consultants and Stan tech consulting services. And they're all located here in Austin. The next item before you on the 12th is a contract for e-source, which provides utility membership and online subscription. We use this for research advisory and information services. It's a cooperative under the state of Texas department of information and resources or dir program. And it provides us with information for energy efficiency, marginalling technology, product, service evaluation and utility benchmarks includes data for 32,000 households nationwide and we use that for evaluating our products and services. As I said, both of those will be before you on March 12th. Any questions?

>> Tovo: I know I have a question. What is the amount of the contract with e-source companies?

>> Jeff, do we have an amount?

>> Tovo: Sure. I know it sounds like --

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maybe in the months ahead when we have the general manager's report if you're giving us a highlight about things to come, it would be great to have an analysis.

>> That sounds reasonable. Node I neglected to ask for --

>> Tovo: I neglected to ask for citizens communication before the minutes. I don't know if we have any individuals that would like to communicate with us. If you fall into that category if you would get the attention of the folks over at the table and we'll hear from you after Mr. Dumb Mr. Dubrowski's report.

>> I've been told the contract is 1.5 million.

>> So it's not clear to me what that is?

>> The contract?

>> The utility member and online subscription.

>> It's a database of information that e-source collects from customers nationwide, 32,000 household customers, and we use that for informing us on how to provide energy efficiency

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programs, customer energy efficiency services uses that database.

>> Tovo: What kind of information is provided within it that you wouldn't get from your existing customer database?

>> I can get that to you. Our program managers can be a bit more specific on that on the users of that data. We can provide that to you before the 12th.

>> Tovo: Thank you. Is this a contract that we've had in the past or a new contract?

>> We've had it in the past, yes.

>> Tovo: Yeah, I would be interested in knowing, which there are other options for obtaining that data.

>> Absolutely.

>> Tovo: Thank you. If you want to do the rest of your --

>> And we had a -- sort of the last thing we really had today was a wrap-up informing you that stint had been recognized by the green builder media for their 2020 sustainability city of the year for the large municipality award. A couple of reasons why the

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city of Austin was recognized on this was because of our significant contributions to electric vehicles, renewable energy, green building program and energy efficiency as well as the resilient strategies for storm water management and wildfire existing construction. That was a nice award to receive here. That's it.

>> Tovo: Congratulations to you and the staff and we extend our congratulations to the general manager. And that brings us I think to our financial reports.

>> Right. So I could have Stephanie who is going to present that for you.

>> Hi. Good afternoon. I'm Stephanie kadelka, the

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principal accounting manager for Austin energy presenting to you the first quarter results for fyperiod ending July of 2019. So we have a standard agenda for the presentation. These are unaudited results. I'll start with the executive summary on slide 5 5. A few high level noteworthy points, we're generally compliant with our financial policies except for the capital reserve. It's funded at about 70 million. And we expect it to stay at 70 through fy 20 as we have no budgeted transfers for fy22 reserves. We've above our minimum days cash on hand, that's 414 million. We have about 700 million in cash and reserves. Our operating revenues are at 328 million. They're a little bit higher than budget in prior year, primarily due to higher retail sales and that's due to warmer weather in the first quarter. Our operating expenses are trending close to budget for

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the first quarter. Our balance sheet remains liquid with a well balanced mix of capital funding and healthy cash and reserve balances. And lastly, the market and industry analysis section, I'll review some observations we've had on consumption patterns and the impact of those observations to our customers and to Austin energy. So I will go directly to that section unless we want to review the detailed slides of the presentation. We can go to 24. Yes. It's catch catching up with me.

>> Tovo: I assume since nobody speak up that there are no questions about the detail slides. Okay. Great.

>> Okay.

[1:57:22 PM]

So for the observation of the consumption that I spoke of earlier, there's kind of three trends or key areas that we're looking at. First is the growth and energy efficient homes, which means less consumption in our higher tiers, which is obviously a positive for our community, but we need to consider it in our next rate review. The second item would be customer bill stability. And just the instability that they see during the customer months -- the summer months because of our tiered structure which also puts the utility at risk of cost recovery. And the third theme is we'll look at cost recovery through our volume-based charges and how this can expose some of our most vulnerable customers as they stay in the higher tiers and stay in less efficiency homes.

>> This slide depicts

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housing construction at a 13 year high. In the past seven years multi-family has surpassed single-family. On the right graph that is our fy18 housing mix. That permitting that we just saw a trend that shapes our customer mix. And in 2018 a multi-family as the majority for Travis county. This slide is really kind of the basis for the trends and consumptions that we're looking at. On the right side in the darker red is multi-family. And as I mentioned, as the homes are more energy efficient this drives down consumption. And compared to pre-2012, new construction is about 50% more efficient. Approximately 16,000 new workers are moving into the area and they're mostly moving into those energy efficient homes and they use about half as much as a single-family home. Since 2016 you can see from

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the graph, multi-family, they're staying in tier 1 since 2016. They've used about 500 kwh or less. And the trends you see here weren't fully anticipated when we set our rates back in 2012. This shows the impact to Austin energy's revenue stability. As you can see from the graph, tiers 1, 2 and 3 rates are set below cost of service. Most of tier 3. And we generate about 61% of our revenue through those tiers. The higher tiers, tiers 3, 4, 5, they're above cost of service and consumption in those tiers have decreased about 14% since 2012. In a normal weather pattern it takes Austin energy about 11 months to break even. This is an example of a customer bill, non-capped

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residential customer. Our fixed costs for this type of customer are about $39. On the left you'll see a typical bill whenever -- during the spring they use about 500 kwh. We charge the ten-dollar customer charge, and they'll be charged $14 for their energy use in tier 1. And when they use an additional 1,000 kwh for a summer bill, you see the same $24 is charged to them. They get charged around $68 more in the summer and 59% of that increase is due to our tiered rate structure. This slide depicts bills for cap and non-cap customers. Cap customers use about 15% more electricity and a higher proportion of their bills are in the higher tiers 3 through 5. So a disproportion national number of those customers receive benefit of cost

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shifting to our lower tiers. It means more tiers are shifted to our most vulnerable customers. And lastly looking at the principles we will use in moving to our next rate review is ensure efficiency, while protecting our most vulnerable customers and all while still encouraging energy efficiency and conservation efforts. And some of these do conflict with each other, but our goal is to strike a balance as we move into the next rate review. Questions?

>> Tovo: Vice-chair?

>> Pool: We mind me, we used to do the rate reviews every five years or so, but then when we did ours about four years ago, three years ago or whenever -- maybe it was two years ago in '17 --

>> 2017.

[2:02:27 PM]

Yes.

>> Pool: And I think at that time one of the recommendations coming out of the stakeholder group was to do them more frequently so that there weren't big swings in the rates. You say we're moving into our next rate review, so will that be three years from now, two years from now?

>> We'll be looking at '19 results. They're unaudited at this point. We're almost finished with our external audit. So fy19 will be used as the test year to start reviewing rate structure.

>> Pool: And then when will we be doing the rate --

>> Implementation around fy22.

>> Pool: So we would be having the conversations on the dais probably some time in 2021.

>> Yes.

>> Pool: So next year. All right. And then I imagine that our work this year will kind of lead into that as far as briefing all of the dais members especially the ones who were here before the rate case we about in '17,

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how that works and what to expect and the importance of the process and just keeping us kind of a running tab on how things are going with the conversations that you'll be having with various stakeholders. Great. Okay, thanks.

>> Tovo: Councilmember kitchen.

>> Kitchen: I wanted to ask some more questions about slide 30, just so I'm making sure I understand it.

>> Sure.

>> Kitchen: Could you go over that again? Is the is the-- is it that second bullet that you're speaking to when we say there's inequality of recovery?

>> Yeah, so the cap bills are the dark gray and in tiers 3 through 5, 35% of those tiers are cap customers versus 27% non-cap. And in tiers 1 and 2, 72% of the bills are made up by non-cap customers and 63% are cap customers. So they're not seeing the

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lowered tiered bills.

>> Kitchen: And the lower tiered bills are below cost is what you're saying?

>> Correct.

>> Kitchen: Is there information about why this is the case?

>> Information?

>> Kitchen: In other words, is there any analysis about why we see the cap customers falling into the higher tiers?

>> So it's back to just the energy efficient homes and the fact that they're not occupying the newer homes that are more energy efficient so they're not seeing that benefit.

>> Kitchen: Well, what has been the impact or has there been an impact from the -- don't we have programs in place to help address the energy efficient issues related to older homes?

>> That I don't have the answer to right offhand.

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>> Mark Dombroski? We do have a lot of penetration in that area and it's really three areas. It's kind of anecdotal information, but it's obviously building codes that really apply to the newer homes and multi-family homes that are being built are extremely energy efficient and the newer appliances. Multi-generational homes. And so when you have more people living the same square footage, you're going to use more energy dense home. Then it's a renter versus the owner issue that I think we've had some discussions about before. I think perhaps we can have a conversation with our energy efficient program managers and they might be able to give you more programmatic information about what we're doing. I know they are very diligent in getting to those populations that help with that. But what we're seeing from the multi-family homes is 300 kwh, 350, that's all the newer homes, and they're not

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necessarily affordable in the 200% range and that's what's being sold and what most of the population is moving into now. Because of that that's what we're picking up is mostly it's building code and energy efficient appliances.

>> Kitchen: Okay. I just think it would be helpful at some point in the future -- let me back up for a minute. Is there a thinking to change the way these tiers are working?

>> Right. As we go into the next rate case part of the reason we're giving this information is these are the things that we think we need to address in tier design and perhaps five is too many. Because you have to have steep tiers in order to have five. In order to have a low first tier you need a high last tier.

We may explore looking at maybe three tiers. The first tier a little bit smaller than 500 kwh. We're also recommending looking at when we design our rates for cap customers is design the rate first to

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recover the cost in how people use energy and then overlay the policy, which is if we want to protect our vulnerable population, at what level do we want to do that and overlay that on top of the rate structure? As opposed to using consumption as a way to getting at that? Because what we're saying is if you look at a lot of national studies, traditionally low income customers use less energy. And you will see a lot of that in national studies. What we're seeing here in Austin is not true. I think that you're seeing that in these numbers. So we're going to recommend that let's look at those from a policy perspective on not how they use energy, but from a policy perspective of how do we help address those vulnerable populations.

>> Kitchen: Okay. I think it would be helpful to have at the time we have any conversation about that a real understanding of the impact of the programs, the energy efficiency programs that are being operated and just an understanding of are we doing what we can there and what kind of impact is

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that having.

>> Tovo: Thank you, councilmember kitchen. It may be something we want to schedule for one of our upcoming meetings to go back to some of the low income task force and some of the other recommendations that were made providing suggestions to staff about how to -- how to get those weatherization programs to the individuals who could most benefit. And so it might be time to revisit some of those recommendations and see how many have been put into place and what other ones we might want to encourage the staff to move forward with.

>> Kitchen: Yeah. I asked that if it's this thrall one of the drivers for changing the rate structure, then we just need to -- I think we just need to understand what's driving this result.

>> Tovo: Councilmember alter.

>> Alter: Thank you. One question on this and then I want to go to a different slide. As I'm understanding it, we're going to do a rate case starting in 2021 so which would be who

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would be the earliest we would have a change in the rate structure going back?

>> So in keeping with the five-year cycle that our follow said there would be five years we'll review the rates, for rate change it's necessary, we would see that rate change in January of '22.

>> Alter: And then there was some comment in here that it takes 11 months to recover the costs. So for a bunch of customers we're not even recovering the costs most of the year, but extra energy that's perhaps used in the summer, at that point we're recovering some of that as the way our structure is working. That doesn't give you a lot of leeway over the course of a year if it becomes longer, if we're switching people around. So can you speak to that time frame for recovery and how that impacts our bottom line?

>> Well, we are fairly consistent through the year.

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It doesn't cost us less money to provide the service in January than it does in August, except the power supply, which is a separate charge. And often upfront we have for example, our debt services in two parts of the year, in may and November. And so there are cash flows going out the door that aren't necessarily equal to the revenue coming in. What really impacts it is if we have an area -- where you can see a lot of revenue for recovery of revenue. Because it's weather based. And if we have a mild year then we are underrecover. So we're really dependent on those -- on the weather. We set our rates to be a normal weather year. We look at sort of 30-year average, but either a hot summer or a mild summer can really throw off that revenue. And it's aggravated with having five tiers because even if you have the same

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number of hill country used in a year, if you -- of kwh in a year, if you use them using it in the springtime and not summertime, you're not getting up those tirz. You need to cover the cost.

>> Alter: I guess what I need to understand is we don't have a rate case come into effect in 2022, but there are scenarios where we won't be recovering enough of our costs and what do we need to do for those situations? If I'm understanding the numbers correctly, what you just explained.

>> Right. So the farther you get out from the rate year, 2019 will be our test year, so rates are set assuming that we have the same costs for the next five years, it's called known or measurable changes. And the farther you get away from that test year, the more out of date you get from those numbers. So that's why we have more periodic reviews. Prior to 2012 it had been 18 years before Austin energy had had a rate review.

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And one of the things that drives that is what we're talking about here today, which is it used to be that you had a growth in consumption or a load. Every year we had enough new customers and a new energy usage that that new load growth covered increasing costs, escalating costs. So what we're finding out now is it's just the opposite. It's not just us, it's a lot of utility. We're actually see very low flat growth. As we get all of the new customers in, new fixed costs, we're not selling more energy to recover those costs. So it might be in the future where we might have to have a rate review more often than five years if we find that we're struggling to recover our revenue reinvestment now we're doing okay, but we do think we need to have a rate review in 2021.

>> But having the review is the appropriate next step? There's nothing we need to be doing sooner than that as far as you can tell?

>> No, I think we're okay. We have a very -- those that

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haven't been through a rate review, it's very methodical. Process, and we hear from a lot of our customers and various folks. So it's time consuming. You wouldn't want to do it every year, but certainly we think right now five years it at a minimum how to do it. I'd also add about 48% of the revenue we need comes through our pass-through rates. So our power supply adjustment, we just set each year during the budget. We also have our community benefits charge that covers three components. We adjust that each year in the budget. And our regulatory charge, which is what we pay to use the system here in Texas, we adjust that each year. So about half the revenues we need we do adjust each year.

>> Alter: Thank you, that's helpful. The other question I had is when you look at the dashboards, as I 44 from past -- as I remember from past discussions that we were in partial compliance in the capital reserve and we were in this kind of

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medium setting for the competitiveness metric. How long have we been in the yellow zone for operating margins of debt to capitalization? I don't remember either of those being in the yellow or Orange Zones. It's on slide 9.

>> So days cash and debt services we're on target for those. For operating margin we are below -- for the period. And that's mostly related to timing for the nacogdoches acquisition. So the depreciation is accelerated on that plant compared to a 13 year recovery on the debt service. So that's driving the margin.

>> Alter: When did that start shifting?

>> The acquisition was mid June. So we started the acceleration when we purchased the plan. So that's already showing up in the income statement.

>> Alter: Okay. And then the debt to capitalization?

>> Debt to capitalization is

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at 51 compared to a minimum of 50. We don't really consider this to be a negative. It was moved up because of the acquisition. It will start to smooth . As we -- as the debt matures and we pay down the debt.

>> Alter: So both of those are [indiscernible] The changing financials with the choice to close the nacogdoches plant.

>> Yes.

>> Alter: Thank you.

>> Tovo: Just one thing I wanted to ask about for clarification on 14, which relates to the questions that councilmember alter raised about our rates. I mean, we're still in a very good financial position.

>> We are.

>> Tovo: We took in 321 and our expenses were 281. So we're still taking in more revenue across our rates than we have expenses. So --

>> Correct.

>> Tovo: I think we can certainly look at those rates and determine whether or not there need to be

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adjustments, but we're doing well as a utility.

>> Yes.

>> Tovo: Okay. Councilmember pool.

>> Pool: And I also wanted to note that -- and I'm looking at page 30. I guess we keep flipping around. It really is evidence that our users are exercising care and saving on energy consumption, everybody is being really disciplined in their use of energy, especially in the Summers, right?

>> I'm having a hard time hearing you, councilmember.

>> Pool: I was talking about energy consumption by austinites. Everybody is -- I think we have done a really good education process to talk about reducing our energy consumption. And that would show up in our usage and in the money that is collected because people maybe are in fact turning up their thermostats to 83 during July, August

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and September rather than having it down at 78 or something lower.

>> I would add that for large utilities --

>> Pool: And that's a win.

>> It is. For large utilities our customers enjoy the second lowest bills in Texas.

>> Ellis: Has the lowest. And part of that is because we are energy conscious, they're aware of energy efficient, plus the efforts we've made in the building code and our customer energy program. So all of that added together means less energy, very flat loads. But there's a consequence to that, which is if you sell something on a volumetric basis, if you have less volume you will have less revenue. So maybe looking at rates as a sense of affordability isn't as important as looking at customer bills.

>> Pool: And then the other side of that coin, aside from the energy consumption, is the fact that we have to sell our energy to ercot, is that right? Can you explain how that works? And then we have to buy it back.

>> Sure. Most of what with you talk about here is our retail

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customers. This is what we're selling to businesses and homes in our service territory. The energy we produce, if you turn to [indiscernible]. The energy we produce from -- page 19. It will show you that we sell all the energy that we produce, either it's through our own generation plants or purchase agreements, we sell that to ercot at a market rate. And you can see for the preceding 12 months of December that we -- it costs -- that load zone costs us $655 million to purchase that from ercot and serve our customers. The assets that we owned we generated $275 million from ercot, selling power. We spent $44 million on contract a assets. That's the difference between a market price and the contract price, plus our green choice customers contribute that to the retail product and the value

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and solar customers. And environmental hedging, which is like an insurance policy for us. So in essence our customers end up paying $415 million for that $655 million of power. That's how the resources behave in the ercot market and how we buy-down the cost of that power for our customers. Erica is going to talk a little more about the resource plan and what we're going to do in the future and how it will help address that.

>> Pool: That would be great. I would also like to know how the owned assets number has changed over time. And part of that presentation from Erica would probably be to show how we are going to grow that piece even further so that we can continue to write down, for example, the 655 down to the 415.

>> Tovo: I have another question about page 30. I have to think a little bit about the structure and go back to our last rate case and really think through this. But I'm trying to -- I would like to just verify that I'm understanding your chart

[2:20:57 PM]

correctly. As we're talking about customers as opposed to non-cap customers, it looks to me as if our cap customers -- they're clearly in our top tier, there are fewer of them than non-cap customers. And it's a pretty small -- as we're talking about, you know, just based on the conversation, if you looked at the conversation without really looking at the chart you might have thought that a higher percentage of cap customers fall into that fifth tier. It's 1.8%. That's a pretty low percent of all cap customers if I'm reading this chart correctly.

>> That's correct.

>> Tovo: And the majority of cap customers fall into tiers 1 and 2. 64.2%. So I want to just reset that conversation a little bit because again it sounded to me -- it sounded to me like

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there was more evidence to suggest that cap customers were in those highest tiers and actually the majority of them were in that tier 1 and 2 and a very small percentage of them are in tier 5. They are more representative in tier 3 and 4. Their percentages are a little higher than the non-cap customers, but still most of them fall into those first two tiers. So I think as we start talking about rates, I do think we need to kind of go back to some of that earlier conversation about the reason for having those five rates, which as I recall, was about trying to provide the most protection for those who are most pressed to pay their bills. So is there something I'm not seeing here that -- and I'm trying to understand the assessment that the five-tiered structure disproportionately recovers cost from our vulnerable customers. I'm not sure I am understanding that argument.

[2:22:59 PM]

>> Sure. So about 76% of the energy we sell is below the cost of service. And so the question is proportionally percent of customers, cap versus non-cap, who is in that 64 percent is non-cap. So if you think that tiered structures is intended really to try to send a conservation signal to customers to use less is if you're in an energy efficient newer home, you're going to be using three, 350 kwh per month. If you're in an older home, maybe a larger home that is not less energy efficient, you can't reduce down to that same level. So you're not going to get the benefit of those lower -- that first and second tier. So what we're -- we're also doing another analysis, we're not there yet, but we have a great control group

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because the customers outside the city of Austin have three tiers. The customers inside the city of Austin have five tiers. So we're doing a statistical analysis to see are we seeing the same type of thing whether it's inside or outside the city in this type of behavior? And we'll bring that forward to council when we're done with that. That's a great control group that we're looking at. What we're saying is that if we're going to design a rate structure to help protect our vulnerable population, using consumption as the allocateor is probably not the right way. What we would design are rates to determine our cost and come back and determine what is the energy burden we think is bearable for our customers and set a cap program that then addresses that.

>> Tovo: Okay. Again, I'm going to reflect on those earlier conversations because it seemed to me we were trying to achieve a few different -- a few different goals with setting those first two tiers for our low usage customers as low as they were. But I'm still not understanding, and I

[2:25:00 PM]

apologize for asking you to repeat yourself again, but I'm still not understanding how if 64 percent of our cap customers fall within those first two tiers, how that is -- how they are disproportionately -- how -- I'm still not understanding your statement.

>> About 73% of non-cap customers fall in the first two tiers. So you've got 64% of cap versus 73, 72% of non-cap. So you have more non-cap customers receiving the benefit of being the first two tiers.

>> Tovo: Okay. I see your point now. I still think it's significant that the majority of our customers, of our cap customers are in the first two tiers.

>> 76% of all our sales are below that threshold in tier 23. But more of them are non-cap than cap customers.

>> Tovo: And so -- and again, I think part of that

[2:26:02 PM]

was -- you've indicated this really, was to send the pricing signals to those who are using the most on the end of the spectrum. So having those rates be higher for those last three tiers I think does that. We are encouraging through our rates more customers, cap or not, to fall into those first two tiers, which is in the end our goal for the utility. So it doesn't bother me to see high percentages of both of those kinds of customers in the first two tiers because that's where we want them. It's costly to --

>> I think with the housing structures, literally you can't use 2500 kwh in these multi-family energy efficient homes. So in order to ensure we can recover enough revenue to cover our costs, we will have to look at those tiered structures and make sure we recover the revenue. So it's changing those tier structures and where they break is something that we'll need to look at the next rate review. We have seen a 14% reduction in tiers four and five since we set rates. I don't have a clear indication of why that is.

[2:27:06 PM]

But certainly people are using less energy.

>> Tovo: Though again across our customers we are -- we continue to recover more revenue than we have expenses. Based on your chart back on the earlier chart that we looked at. >>

>> Last year we are underrecovered. I can get you the --

>> Tovo: I thought we just looked at that chart together, and the revenue was --

>> That's the operating revenue. Then we also have to make that service payment general fund transfers,.

>> Tovo: I understand that. But the fund transfers are transferring to the general fund and that's still -- I mean, we still took in that revenue. We've allocated it to those certain uses. But it's still revenue that we captured via our rates.

>> Sorry, I'm not following.

>> Tovo: We can go back. I hate to take my colleagues through this again, but the page that we were looking at

[2:28:07 PM]

a minute ago, page 14, the operating revenues are 321 million, operating expenses were 281.

>> Yes, that's correct.

>> Tovo: Even though we may be underrecovering in tiers one and two we're still taking in more revenue than we have expenses.

>> Well, that's not all of the bills we pay. So --

>> Tovo: But I'm looking at the bills beneath it, debt service we've discussed and councilmember alter raised that, part of that debt service, as I understood the conversation, had to do in part with the nagadoces plan.

>> That's correct.

>> Tovo: So the interest, by the time you add interest revenue in there, we still have -- we're still doing very well. I mean, our largest payouts, which are listed here as expenses, are really, you know, one way of looking at them are -- I mean, they're general fund transfers,

[2:29:07 PM]

economic development. Those are ways we've chosen to invest our revenue from Austin energy. So I'm not sure all those are expenses.

>> I'm not following. I think if you went to the bottom line, excess deficiency, so at the end of the day -- and this is not atypical for us in the first quarter because, again, we have a lot of bills we pay in the first part of the year. A year ago, according to budget, we would have had a deficiency of 59 million, but we had a deficiency of 54 million. And part of that reason is we had a little bit warmer winter than we had rfa forecasts so we generated more revenue in that first quarter. But you can see we're about on track for budget, but we are -- we have not collected enough revenue to pay all the costs to operate the utility. If you look a year ago, we were deficient of 82 million. I believe that's because we

[2:30:08 PM]

had a pretty mild winter, ifty remember right. Again, it's that weather generating. But if that weather changes, we don't collect enough revenue to pay our costs and that's why we have all the cash reserves. Because we still have to make all those payments to our vendors, still make the general fund transfer. So we have that cash reserve on hand to cover that in case the weather isn't as we forecasted.

>> Tovo: All right. Thanks. Any other questions about this? Councilmember alter.

>> Alter: I just had a comment, since councilmembers pool, tovo and Ellis are also on the water committee. Part of what I'm hearing is that our conservation efforts are doing well and shifting to multi-families, furthering those conservation but we're still adding folks to our -- as customers as the area grows and we need to be thinking about our business model or at least in this case the rate structure that goes with it as we're successful with our conservation efforts. And that's something that we see in water as well, as we are conserving more water

[2:31:09 PM]

and we make our money off of how much water we sell, that we have to rethink about what the business model is and how that looks over time as those economics change. And it's just -- it's a similar kind of dynamic, that as a council and with -- in conjunction with our utilities, we have to make sure that we're planning for over time. And the good news is that we're moving fast and furious in the direction of conservation, but it does raise business model questions for the success of our utilities that we need to be talking about and thinking about. And I think what was raised today, we may need to look at the rate structure. You didn't say we don't want a tiered structure. You're saying let's think about all our goals and put them together and we need to be factoring that into the discussion and that's a tool that's at our disposal, to begin thinking about what that looks like under this new economic scenario.

>> Tovo: Great. Thank you. All right. Thank you.

>> Kitchen: Chair? If there's time.

[2:32:11 PM]

>> Tovo: We have three more reports. So --

>> Kitchen: I can ask off-line.

>> Tovo: That sounds great, thank you. Why don't we move on to our operations report, and then I think we should take up our decker creek power station report and then we'll move on to the generation plan.

>> Thank you, chair, councilmembers. I'm Elton Richards, vice president of field operations. Been on board going on about three months at the end of the month so thank you for this opportunity to speak with you about our first quarter operational report. My understanding is we've already presented this in detail to the euc so it's just highlights for you and then if you have any questions we can definitely back up so the areas we'll be talking about are on slide 2. Slide 3, 1 thing that Austin energy takes very serious is safety. We do have the safety program. Slide 4 shows the data. And that shows the four quarter fy19 and first quarter for fy20. What you'll see is the total number of near misses is

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increasing, which is exactly what we want to occur. The more we can find out how close something is out there, then we can look at the next event and potentially be proactive in preventing it. Total injuries also increased, which is, again, good, because that means employees are reporting what's actually occurring in the field. You can see the total recordable cases are going down. Total vehicle accidents are down and we do have a program for the vehicle accidents to try to approach that this year to continue to push those down. The primary issues with the osha reportables continue to be soft tissue, and we do have a mobility program that we're working with with employees to try to work on that. What are you here for? I'm just messing with you. Thanks. To the right. To the right. Okay.

[2:34:13 PM]

That just shows the commercial availability, start, success, obviously numbers were lowered in the winter, when we take our outages. Numbers are seasonal, that's for the summer. Page seven shows the net load. That does show your consumption by fuel type and also consumption by renewable power and the nonrenewable. Page 8, system reliability, is one I'd like to take a moment on. The industry is moving away from the sadi, casi and -- going to a secema, mer -- the problem with the programs is it's all by numbers and division. So it can be skewed. You can have multiple customers having the same outage repeated but it looks like you're doing very well. With the customers experiencing multiple outages you're doing it by customer. To do that we're having to change how we track some of

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the data but we're hoping to have that within next quarter so we can truly interest being it and that will tell us where we're having pockets of customers that continue to have multiple outages and those are the ones we want to address. Veg management continues to be the largest cause for incidents and we're working on getting the cycle back on track with veg management. Page 10, I'd like to point out on December 19, you can see the increase at the renewable generation is a percentage of low, due to the new wood farm, so that's a system reducing our carbon footprint, which we've agreed to and we do have a plan for. On the power production on 12 and 13, that just shows the status of the chillers and those are the ones in downtown and one at Mueller and the one at ACC community campus. Then on page 15, that just shows our focus.

[2:36:14 PM]

The community on repowering downtown, we do have the Rainey substation being started. That will give us availability to have more load into downtown. As soon as that is online, the intent is to take the load off breaken bridge, rebuild and that will increase the network reliability for downtown. On environmental, Charles and Jackie have committed to leaving that red until we shut down the fossil plant so that will continue to be red until those are shut down. Then on the asset management, the reason that's going kind of side to side is we're trying to look at a new way to track our assets and do the maintenance and replacement on a performance based rather than time based just because a transformer has been in service for ten years if it's still a viable asset and performing reliably there's not a reason to necessarily go in and change it out because there's a time line that says do it. But to get there we have to have better intelligence on how we track those and what

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the maintenance issues are on them and reliability of them themselves. That concludes the operation report.

>> Tovo: Thank you very much. Any questions?

>> Thank you for your time.

>> Tovo: All right. Thank you. If we could do the decker update quickly. Thank you very much.

>> Afternoon, councilmembers. My name is pat Sweeney, vice president for power production. Quick update on the decker retirement planning, particularly as it relates to the staff out there. As you know we're planning a shutdown one of our two large steam units at the end of this year, by the end of this year, and a second other large steam unit by the end of the following year. So we've been working with the staff, really over the past year and a half now and all the way to the end, to address concerns and how we're going to approach that. Actually we're adjusting the staffing size so it matches up with the need that will thereby in the future. We will still have four gas

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turbines there so we will need some staff but not the size that we've had. So based on the updates that we provided since January we haven't had a lot of change. We've been providing career assessments. Haven't had any additional uptake since January on that. We've covered about 70% of the target population of the folks affected, and so that number stayed the same since last month. We have offered and completed three additional workshops for them. This is out of a total of about 12 -- actually about a total of about 21 or two that have now been completed over the past several months. That included a workshop on applying for city jobs, interviewing skills, and interviewing practice. And so completed three additional workshops since your last meeting and had good participation in those. Coming up over the next few months, we will -- and I'm sorry I left off one. We did have -- we have quarterly communications. We actually had those

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meeting yesterday so that happened to be yesterday, and those meetings occurred and went well. So coming up next, though, we are now in a phase where we're developing career plans, coaching plans for the staff based on the intake of their career assessments and have some training. That's already lined up. That includes taking advantage of training that's online with what's called the electric power research institute, or epri. We're members. It's a very large organization many utilities are members of. They provide a significant amount of research and engineering for utilities, and that also includes a significant amount after available online training. So we've given access to over 100 courses that are available through our membership to the team, and they'll have access -- they already have access to those and they can begin to take those and get credit for those as they go through that. We're also having on-site training that will be conducted by epri here in

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the next month and a half, and that will be focused on electric service delivery activity, and that is -- Mr. Richards talked to you about some of the efforts there. That's one of our largest growth areas in terms of people need for the utility to keep up with growth here in Austin so we're focusing where we have significant needs for staff where we can match up folks where those needs are and epri will conduct on-site training that will focus on electric service delivery. And then after that we will be continuing to develop the career plans. That may include shadowing opportunities with some of the same work groups and others that we identify. That will occur over the latter half of this year and into next year. We committed to the staff that we would not actually have any reductions until both units are fully retired and we're going to take full advantage of retirements and vacancies that naturally occur and also to help folks find new opportunities along the way. And then following that

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we'll have our next quarterly communication in June. And we'll continue this process on an ongoing basis. That's all I have.

>> Tovo: I have a couple questions for you. Thank you for that update. That's very helpful. You've had three workshops. You talked about the online training and that some percentage -- I missed it -- have access. Is it everyone? All of the individuals have access?

>> They all have access to it, right. It's online. They just have to sign up and then you make your course selections and go through those. The courses -- they can range from an hour to multiple days, depending upon the selection.

>> Tovo: Do you have a sense of how many -- or do you have a count for how many individuals have begun the online training?

>> I don't and I don't know if -- if we've had a few it's just been recently because they just made that available to them.

>> Tovo: Is that something that employees can do on work time, on work hours?

>> Yes. They'll have opportunities to do it on work time and also because it's online they can also do it in their nonwork time as well.

[2:42:21 PM]

>> Tovo: Thank you. And so you said about 70% of the staff of the force has done career assessments?

>> So the work groups that are going to be impacted, which is the plant staff proper and then also our engineering support groups, that's the affected areas. About 70% of them have taken advantage thus far of the career assessments that we collect the information about what their interests are, their capabilities, and that then helps us design matching up where they might be able to go or where they need training and help direct what we need to focus on for our training efforts.

>> Tovo: Seems like we've been at 70% for a while, and so I'm wondering, are you continuing to communicate that opportunity out to the staff?

>> So we have. In fact we've been at that since October. We've sort of flattened out on that point right there. But at each of the meetings, in fact even yesterday's meeting, we reemphasized this is still available now as opposed to group settings

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it's more one on one. We're continuing to make this available as a one-on-one but we're also highlighting how important it is to actually do that because it makes -- it helps us direct them in the training towards the right resources and functions, right? Absent that we have a void of information and we're really not able to be as focused on our guidance.

>> Tovo: Thank you. Thanks for that detail.

>> Sure.

>> Tovo: Other questions on this subject? Councilmember alter.

>> Alter: I just wanted to -- there was a lot of de. Ts in there, most related to the employees. When is the expected closure again?

>> So decker 1, the first steam unit that we'll retire, we will retire it by the end of this current calendar year, okay? The exact date it will be set -- it will be after the summer peak period, sometime in the fall, but by the end of the year. The same will be true for

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decker steam unit 2, but it will be next calendar year in 2021.

>> Alter: Thank you for the clarification. Appreciate it.

>> Tovo: Great. Thank you. We appreciate these regular reports. Okay. That brings us to our last item on the agenda, and that is the generation plan task force -- I'm sorry, the generation plan update.

>> Good afternoon, councilmembers. My name is Erica, and I am vice president of energy and operations and resource planning and I'm happy to be before you today and provide some good news with regards to our resource planning process and the working group, the hard work that they have put insofar. We have -- the working group has arrived at drafting language which will commit us to a carbon-free portfolio by 2035 or sooner. This is an accumulation of work that's been done that

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will reduce carbon quicker than any other structure that has been proposed in the past. It will reduce carbon -- more carbon than any other structure in the past in an earlier time frame and it will do it affordablebly. So it's going to meet three objectives that our customers -- that are important to our customers, which is carbon-free, affordability, and the flexibility to be able to glide path out of our carbon assets in a manner that allows us to meet all three of those objectives. So you have a slide or a handout. Yes. That got handed to you. And this is just a time line that describes what the working group has been involved in for the last five months. It's been since September, so over the last six months, but they met five months over the last six. You'll see there that they have been briefed on market mechanics, on emerging

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technology, on a lot of utility programs, what we have been doing to date, and what we see able to do going forward. They have had over 13 studies done and reported and reviewed. They've also had over 20 presentations by different -- whether it's utility staff or outside of the utility. As well as just a robust process of questioning, providing questions to oust and answers back with regards to all of the different studies and presentations and discussions within that time frame. So currently we are targeting -- the last -- the ninth meeting is actually tomorrow afternoon, and there is a joint uc and rmc meeting scheduled March 9, where their recommendations will be brought to those

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commissions. And then we're targeting a council presentation and vote for approval at the end of March.

>> Tovo: Vice chair poop, pool,did you have a question or comment?

>> Pool: Our next meeting for this committee will be April 15 so we won't have a presentation before this comes to council for approval in March.

>> You'll have the recommendations that will come to council .

>> Pool: Okay. The remittances from the euc?

>> From the working group, euc working group.

>> Pool: Working group, okay. I would like to ask staff to do -- since we won't have a general meeting before to get those recommendations, if you could come and do -- even if it's small group, you know, I'd be happy to partner up with a couple three of my councilmembers

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and get that in advance so we can have a full appreciation of the recommendations and ask some questions so when it does come to us for deliberation and in the work session we're prepared for that and can dig into the questions at a level that it requires.

>> Yes. It's our pleasure.

>> Pool: That would be great. Thanks.

>> Tovo: Any other questions for staff? Alison -- councilmember alter.

>> Alter: I would like you to seriously consider moving it two weeks. That is when we're starting on land development code, and if we have a lot of people coming for a hearing, as we've had in the past for the generation plan, I just think timing-wise -- we also will have -- the

[indiscernible] Code is scheduled for the same meeting, and if we are given the same amount of time we were given last time to review the land development code, I just don't think that's gonna be a good idea for us to be able to give it the attention that we would like. I of course hope that everything that comes to out of there, everyone is in

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consensus and agrees and we can achieve all of those things, but I would just like to ask staff to think about whether that's the ideal timing if we're on track for the timing anticipated for the land development code.

>> Absolutely. I'll bring that back to the chair and the working group. If we are going through the process of presenting the -- in the small groups, would you be interested in participating in that as well?

>> Alter: I would. But if we're not going to get that until that timing, we're gonna have 1300 page land development code again to review at the same time and it's just not -- it's not a sustainable work pace to be able to give it its due. And if we do have a lot of people -- if something is not lining up properly and we end up with a lot of people, we won't -- it's gonna create an unnecessary dynamic and with already the wildfire urban interface coming the same week and who

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knows what else, I just would like to suggest otherwise.

>> Tovo: I think you raise a good point. That isn't probably ideal time. Vice chair.

>> Pool: Just looking at my calendar, I'd suggest y'all look at April 23. Because that will get us on the other side of the land development code. The new dates that we were given -- you probably haven't seen those so there's a raft of new dates for third reading. But maybe that April 23 meeting and that would give us a little bit more of a margin to be able to accommodate the information that you bring and it's really important, the gen plan is super important. I led on the adoption of it back in '16, I think it was.

>> 2017.

>> Pool: 2017. So it has -- there's a lot of interest in our community about the generation plan and the resource plan, and we will want to really be giving it our full attention. So just looking at this,

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April 23 or may 7 would be the one --

>> Tovo: Let's talk about dates outside of this setting. Is there anybody who wants to weigh in on that conversation at this point? Okay. Yes, councilmember alter.

>> Alter: I'm gathering from this that we're accelerating the speed with which we're getting to our goals. Is that --

>> Yes, you're correct.

>> Alter: Great. We did pass a climate emergency in August and provide direction to accelerate, and this was one of the key areas where we wanted to see that. So I'm pleased to hear that that's the direction and that we're doing it with affordability in mind as well. Thank you.

>> Absolutely.

>> Tovo: Yep. Great news whenever we decide to discuss it at council. So anyway, thanks so much. Anybody else before we conclude? All right. Thank you very much, staff, colleagues. We are adjourned at 2:50.

[Adjourned]