

Subject: RE: Questions re: Annual Report

Date: Friday, July 2, 2010 1:48 PM

From: Reilly, Stuart <Stuart.Reilly@austinenergy.com>

To: <sloan@vera.com>

Conversation: Questions re: Annual Report

Dear Mr. Sloan:

Your questions below were not addressed through the EUC Competitive Matters process because they were not submitted as part of that process. The EUC's rules called for individuals submitting written comments to provide "specific references to the provisions of the resolution that they believe should be deleted or their proposed alternative language for the resolution and/or a list of specific information categories that are currently considered confidential, along with a rationale for how release of such information would be useful to the public."

While the Commission had planned to determine which parts of the written comments met these requirements, after presentations were made at the March 22nd meeting, Phillip Schmandt moved to have AE staff go ahead and respond to written comments received, to Paul Robbins' specific questions presented, and to the points shown in your presentation as well. AE then posted on its website the comments to which responses were required. <http://www.austinenergy.com/About%20Us/Newsroom/competitiveMatters.htm> <<http://www.austinenergy.com/About%20Us/Newsroom/competitiveMatters.htm>>

As shown on the website, you submitted an email prior to the meeting, and you used a PowerPoint presentation at the meeting. While neither of these comments reached the level of specificity requested under the EUC Competitive Matters process, AE responded to the comments to the extent possible. AE was not notified that anything was missing from the comments posted, and AE had no reason to know that your questions emailed to Robert Goode and Marc Ott on the day of the EUC meeting were part of the Competitive Matters process because nothing in the email relates to the Competitive Matters Resolution.

Austin Energy continues to fulfill its obligations under the Texas Public Information Act, but AE cannot provide original research or analyses at the request of outside parties. No records currently exist which answer your question on whether AE fuel charges are currently too high, nor do specific documents exist to answer what impact fuel hedging has on customer bills.

Regarding your question about inconsistency in natural gas percentages reported in Roger Duncan's presentation and the 2009 Annual Report, you may be aware from your participation in the generation task force that the figures presented by Mr. Duncan were part of the work done by Pace consultants. Pace's forecast model was very sensitive to price and assumed that energy from the market would more often be cheaper than AE generation. Also, the Pace chart shows only the energy mix required to meet AE's load,

while the Annual Report includes power sales and ERCOT ancillary services. While Pace may have assumed more power from the market, and the annual report shows more AE generation, the relevant numbers in each are based on natural gas generation. Therefore, the more appropriate way of assessing these charts is to look at the Market categories as equivalent to natural gas. Doing so, Mr. Duncan's presentation shows natural gas (Natural Gas + Market + Market PPA) at 30%, while the annual report shows natural gas (Natural Gas + Power Purchased - Power Sales) at 32.4%. The reason for the 2.4% difference is the Pace study was a calendar year projection, whereas the Annual Report provides fiscal year actual numbers.

Thank you.

Stuart Reilly
Assistant City Attorney
Austin Energy
512.505.3796 phone
512.322.6521 fax

From: Mike Sloan <sloan@vera.com>
To: Goode, Robert
Cc: Schmandt, Phillip <pschmandt@mcginnislaw.com>; Scott Johnson <scottaj1@juno.com>; Strand, Chris <Chris.Strand@ServiceExperts.com>
Sent: Tue Jun 22 17:32:43 2010
Subject: FW: Questions re: Annual Report

Robert:

At the conclusion of our meeting today, you indicated that you would follow-up on the "Fuel Hedging" question that I asked via the EUC processes on transparency & the Annual Report. My recall is that Phillip asked AE to respond to the questions posed by EUC commissioners & the citizens who spoke at the March hearing.

I am not aware if any of my questions on "**Fuel Charges**", "**Fuel Hedging**" or "**Natural Gas % usage (or capacity factors)**" have ever been answered by AE — I originally asked these questions by e-mail on March 22 and posed them verbally at the March EUC hearing and at additional times by email (such as on May 20).

Please let me know if AE has responded or plans to respond to any of these items (and if so, where I can find the answers.)

It has now been 3 full months and I am getting the impression that AE does not plan to respond to these questions. Please clarify.

Thanks.

Mike
512-731-8740 (m)

----- Forwarded Message

From: Mike Sloan <sloan@vera.com>
Date: Mon, 22 Mar 2010 08:55:29 -0500
To: "Goode, Robert" <Robert.Goode@ci.austin.tx.us>
Cc: "Ott, Marc" <Marc.Ott@ci.austin.tx.us>
Conversation: Questions re: Annual Report
Subject: Questions re: Annual Report

Robert:

I wanted to give you a heads-up about observations from the new Annual Report (attached), which was circulated Saturday afternoon by Toye, so that AE can better prepare for these questions or pro-actively address them at tonight's EUC meeting.

It is appreciated that AE has volunteered some new info not in last year's Annual Report, but a few things jump out:

1) Are AE Fuel Charges currently too high?

With apparent over-collection of more than \$30 million in 2009, can fuel charges be lowered for 2010?

2) What is Fuel Hedging and its impact on customer bills?

Fuel hedging, with apparent extra cost that may approach \$100 million in 2009, begs a thorough public explanation.

3) Why inconsistency in reported Natural Gas resources?

Annual report says 27.8% -vs- 11% in recent report to City Council by Roger Duncan on Jan, 28, 2010.

Any clarity you can bring on these items is appreciated. I would be happy to talk to any of your staff on these issues prior to tonight, if that would be helpful.

Thanks again for taking the helm at the utility.

Mike
512-476-9899

CALCULATIONS

Based on numbers in the Annual Report and AE's average fuel charge as reported to the Task Force:

12,103,140,282	kWh	"Consumption" by all customers in 2009
0.03635	\$/kWh	average fuel factor during 2009
439,949,149	\$	charged to customers in 2009 [calculated]
309,158,289	\$	"Fuel cost" (excluding hedging & ERCOT fees)
130,790,860	\$	Excess of customer charges above actual fuel costs [calculated]
0.03371	\$/kWh	"Fuel Cost Average" (presumably includes hedging & ERCOT fees)
407,996,859	\$	actual total fuel costs in 2009 [calculated]
31,952,290	\$	apparent over-collection from customers during 2009

----- End of Forwarded Message

----- Forwarded Message

From: Mike Sloan <sloan@vera.com>

Date: Thu, 20 May 2010 16:42:43 -0500

To: "Goode, Robert" <Robert.Goode@ci.austin.tx.us>

Cc: "Ott, Marc" <Marc.Ott@ci.austin.tx.us>, "Leffingwell, Lee"

<Lee.Leffingwell@ci.austin.tx.us>, "Martinez, Mike [Council Member]"

<Mike.Martinez@ci.austin.tx.us>, "Cole, Sheryl" <Sheryl.Cole@ci.austin.tx.us>,

"Morrison, Laura" <Laura.Morrison@ci.austin.tx.us>, "Shade, Randi"

<Randi.Shade@ci.austin.tx.us>, "Riley, Chris" <Chris.Riley@ci.austin.tx.us>, "Spelman,

William" <William.Spelman@ci.austin.tx.us>, "Dreyfus, Mark"

<Mark.Dreyfus@austinenergy.com>, "Mele, Cheryl" <Cheryl.Mele@austinenergy.com>

Conversation: Why is reducing energy efficiency funding right for Austin ?

Subject: Re: Why is reducing energy efficiency funding right for Austin ?

Robert:

Thanks for the quick reply.

Part of your predicament is how AE charges customers -- the utility has made it very **easy to burn more carbon** (with a fuel charge that's variable), but very **hard to use more efficiency & rooftop solar** (stuck inside a fixed base rate).

Back in 2003, AE busted its fuel budget by about \$100 million but easily recovered that from customers with a variable fuel charge.

If AE wants more funding to make efficiency a higher priority now (consistent with the unanimous recommendation of the Task Force), one way is to pay for it with a variable charge, like CPS does for its efficiency & solar programs today.

I realize that you have not finalized recommendations, but staff memos & RFPs suggest AE is intending to punt fixing core utility problems down the road a few years until after its rate case. I very much hope I'm wrong about that, but that's what the signals now suggest.

Efficiency is a bellwether for the fundamental direction of the utility: does the City favor a "**community perspective**" to lower customer bills, or a "**utility business**" perspective that seeks to grow sales and revenue?

Council may grapple with this issue this summer, just as Councils have in the past.

Robert, I know you've stepped into a difficult job, likely with different members of your team advising you to go in opposite directions. Good luck in sorting it all out.

Mike

On 5/20/10 2:42 PM, "Goode, Robert" <Robert.Goode@ci.austin.tx.us> wrote:
Mike,

We're not "recommending" anything at this point. We're still involved in internal budget prep. We've had many internal budget meetings, and we certainly did share with the EUC at their last meeting that all programs that are seeking "increases" from this year's base budget are at this time "unfunded" because I told all AE staff that any increases will have to be the exception to the rule rather than just a "given" that they would be funded as in years past. We have NOT completed the internal balancing work.

So, just to make it clear regarding the existing energy efficiency budget...at this point, the EXISTING BUDGET was not reduced, nor is it likely going to be suggested to be reduced. The requested \$3.7 million **increase** to this program was shown as "unfunded" at this time (again the work has NOT been done yet to balance our budget recommendation) due to my direction to not adopt proposed increases until the Exec Team can discuss each priority. It's going to be hard with the deficit we have to recommend INCREASES to any budget without looking hard for some offsetting decreases...which we simply haven't had time to do yet.

So, Mike, you're way ahead of the process by saying that we seem to be "recommending... to underfund energy efficiency programs." We have a lot of work to do before we prepare

a recommendation to the City Manager regarding all AE's programs...including energy efficiency.

As a last comment, I hope you also do realize that we're projecting an \$83 million deficit this year, so many difficult decisions lie ahead. It's simply not a "business as usual" paradigm and some things will simply have to end up being "unfunded"...but at this point, we haven't determined what we will recommend.

OK, maybe one more "last comment". Mike, I'll ask you to let processes play out before you launch emails. Let us work through issues before you start down a path without knowing what staff is really even recommending. It takes a lot of staff time to engage (many times prematurely) in responding to these issues that may be completely moot by the time the thing gets processed.

From: Mike Sloan [<mailto:sloan@vera.com>]

Sent: Thursday, May 20, 2010 1:46 PM

To: Mele, Cheryl; Dreyfus, Mark; Goode, Robert

Cc: Ott, Marc; Leffingwell, Lee; Martinez, Mike [Council Member]; Cole, Sheryl; Morrison, Laura; Shade, Randi; Riley, Chris; Spelman, William

Subject: Why is reducing energy efficiency funding right for Austin ?

Cheryl, Mark & Robert:

Thank you for taking the time to date to meet with me and respectfully hear my views, but I have concluded that we have such vastly different perspectives for what is best for the City, that I should no longer divert your attention from your important work for Austin. I will not be attending today's meeting to discuss transparency.

Based on what I have observed, Austin Energy seems prepared to embark upon a series of traditional strategies to address its current financial problems and — unfortunately from my perspective — delay for many years fixing the root problems eroding your financial condition.

One of the strategies that you seem to be recommending, just as Austin Energy did in 1996, is to underfund energy efficiency programs.

As the City budget process marches forward, a few questions that may be helpful for staff and/or Council to explain to the community are:

- Why is it best for the people of Austin to reduce funding for the lowest cost and cleanest energy source (efficiency) yet retain full funding for more expensive and

polluting fossil fuel sources?

- During FY2009, Austin Energy appears to have collected approximately \$130 million more from customers through fuel charges (about \$440 million) than the utility reported it spent on fuel (\$309 million) presumably to pay for "hedging and ERCOT fees". When will Austin Energy provide a transparent explanation (it is now 230 days after the end of FY2009) about details of this amount and will the explanation be similar to the disclosure by AE's "competitor" Energy Futures Holding (TXU & Luminant) which shared 34 days after its reporting period the projected cost, volumes and future financial impact of its hedging program?

I do not dispute that Austin Energy needs more money from customers to rectify its budget problems; however, Austin should prioritize extra customer dollars on the most cost effective uses (like expanding energy efficiency programs) else it is creating a bigger long-term problem for Austin's customers and environment. This is not a novel solution. CPS in San Antonio has already started on a path to greatly expand efficiency and solar program investments (increasing from \$8 million per year eventually to \$77 million per year) while offsetting charges for polluting fuels.

It will be disappointing if Austin cannot figure out how to do the same.

Thanks again for your past cooperation and best wishes on meeting the energy challenges facing our City.

Respectfully submitted,

Mike Sloan

----- End of Forwarded Message