

**Statement of Mark Farrar
Senate Committee on Business and Commerce
July 10, 2012**

Thank you, Mr. Chairman and committee members.

My name is Mark Farrar. I am a resident of Steiner Ranch, which is an Austin suburb that is served by Austin Energy.

I am Executive Director of Homeowners United For Rate Fairness, which is a suburban coalition that is engaged with the City of Austin over its electric rates. One of our major issues is the expenditure of Austin Energy's funds for purposes unrelated to the utility.

As Dick Brown pointed out, the Austin city council spends 15 percent of Austin Energy's gross revenues on non-utility items. Not 9.1 percent.

Austin Energy's spending practices are beyond the norm for public power systems. According to the American Public Power Association, municipal systems in the West South Central region pay 3 to 10 percent of their gross revenues to the city. Austin Energy is well outside this range.

The Texas Public Power Association states that the average transfer rate for large public power systems in Texas is 12.3 percent. But the category of "large" only includes two systems: CPS Energy and Austin Energy. So 12.3

percent is just the average of those two systems, and the average doesn't count all of Austin Energy's non-utility expenditures.

Austin Energy is often viewed as the peer of CPS Energy, which pays 14 percent of its revenues to the City of San Antonio. Although 14 percent is a high rate, there are significant differences between CPS and Austin Energy.

For example, the CPS payment is a hard 14 percent, and there are no additions, as is the case with the Austin Energy general fund transfer.

Also, payments made by CPS are variable, and can fluctuate from one year to the next, depending on operating results. Because of this policy, payments to the city have been reduced three times during the past decade. Conversely, Austin Energy's payments have increased year after year, even while the utility has accumulated major operating losses.

The Austin city council looked at CPS Energy's transfer policy, but rejected it because it might reduce Austin Energy's future payments to the city.

Perhaps because of its conservative policies, CPS Energy has a higher bond rating than Austin Energy. Austin Energy's bond counsel announced a few weeks ago that the utility's bond rating probably would be downgraded because the utility's operating reserves were almost exhausted.

CPS Energy is able to make large payments to the city, and still maintain rates that are lower than the rates of Austin Energy. The graph I gave to the clerk shows the rates of CPS compared to the rates of Austin Energy.

Austin Energy's excessive spending for non-utility purposes is a concern to us, because out-of-city customers are paying a 15 percent rate surcharge to fund these expenditures.

We asked the city council to discount our rate, in order to offset the cost of the subsidies we pay to the city. And the CEO of Austin Energy recommended that suburban ratepayers receive a 6.1 percent discount. The council dismissed the idea of a discount.

Instead, council members said, in effect, that the 15 percent surcharge is the price that suburban customers pay for using the city's streets, parks and other services.

This is a poor argument. One obvious flaw is that It ignores the fact that 90,000 other Travis County residents are not Austin Energy customers, and yet they also use city services. If the 15 percent surcharge is a fee for services, as characterized by the city, it should be applied to the entire county.

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Austin Energy Phase I Summer Rates Vs. CPS Summer Rates

