

Statement of Dick Brown
Senate Committee on Business and Commerce
July 10, 2012

Thank you, Mr. Chairman and committee members:

My name is Dick Brown. I live in West Lake Hills, which is a suburb of Austin, and I am president of an association of suburban ratepayers. Though I live outside the city, I am required by law to be a customer of Austin Energy.

Austin Energy's service area encompasses 437 square miles. The utility serves 55,000 ratepayers who are located outside the city.

We are captive customers. We cannot vote on the Austin city council members who set our rates, and we cannot choose another provider, since Austin Energy is a monopoly.

We are concerned about the level of Austin Energy's spending on things that have nothing to do with the utility.

Austin Energy's official general fund transfer rate is 9.1 percent, which generates 105 million dollars per year for public safety and other essential services. But the Austin city council spends another 55 million dollars of Austin Energy's money on nonessential items, for a total of 160 million dollars. So the actual percentage of transfers and expenditures is 15 percent, not 9.1 percent.

The extra 55 million dollars is spent on such items as parades, music festivals, jogging trails, art shows, city council salaries and travel, lobbyists and sickle cell anemia research.

To finance Austin Energy's non-utility expenditures, the bills of all Austin Energy customers contain an imputed-- and undisclosed-- surcharge of 15 percent. The surcharge is mandatory, like a tax, and it is imposed on ratepayers outside the city. In effect, one jurisdiction is using its utility to tax the citizens of another jurisdiction.

Through the surcharge, outside ratepayers are forced to pay more than 24 million dollars per year for services in a city where we don't live.

Huge transfers are the driving force behind the utility's high costs and rate increases.

The bills of Austin Energy's customers have increased by 15 percent over five years, while average residential rates in Texas declined by 15 percent.

Also, the city council just adopted the biggest rate increase in the history

of Austin Energy, while also approving a rate structure that is the only one of its kind in Texas.

As shown by this graph, rates per kilowatt hour will increase with consumption. For many customers, the new rates will be 25 to 45 percent higher than five years ago.

The chart also shows the rates charged by IOUs in nearby Round Rock, which are 20 to 30 percent lower than Austin Energy's marginal rates.

The new rate structure targets larger homes in the suburbs, so our rates and surcharges will be disproportionately increased.

Austin Energy has lost 70 to 80 million dollars per year since 2007. Yet, during that time, the city council spent more than 500 million dollars of Austin Energy's money on items of every description.

Austin Energy's financial problems are unlikely to end. The utility doesn't have a rate adequacy problem. It has a city council spending problem.

And there is nothing to stop the council from spending even more of the utility's revenues, and forcing suburban ratepayers to share the cost.

But state action could protect Austin Energy's ratepayers.

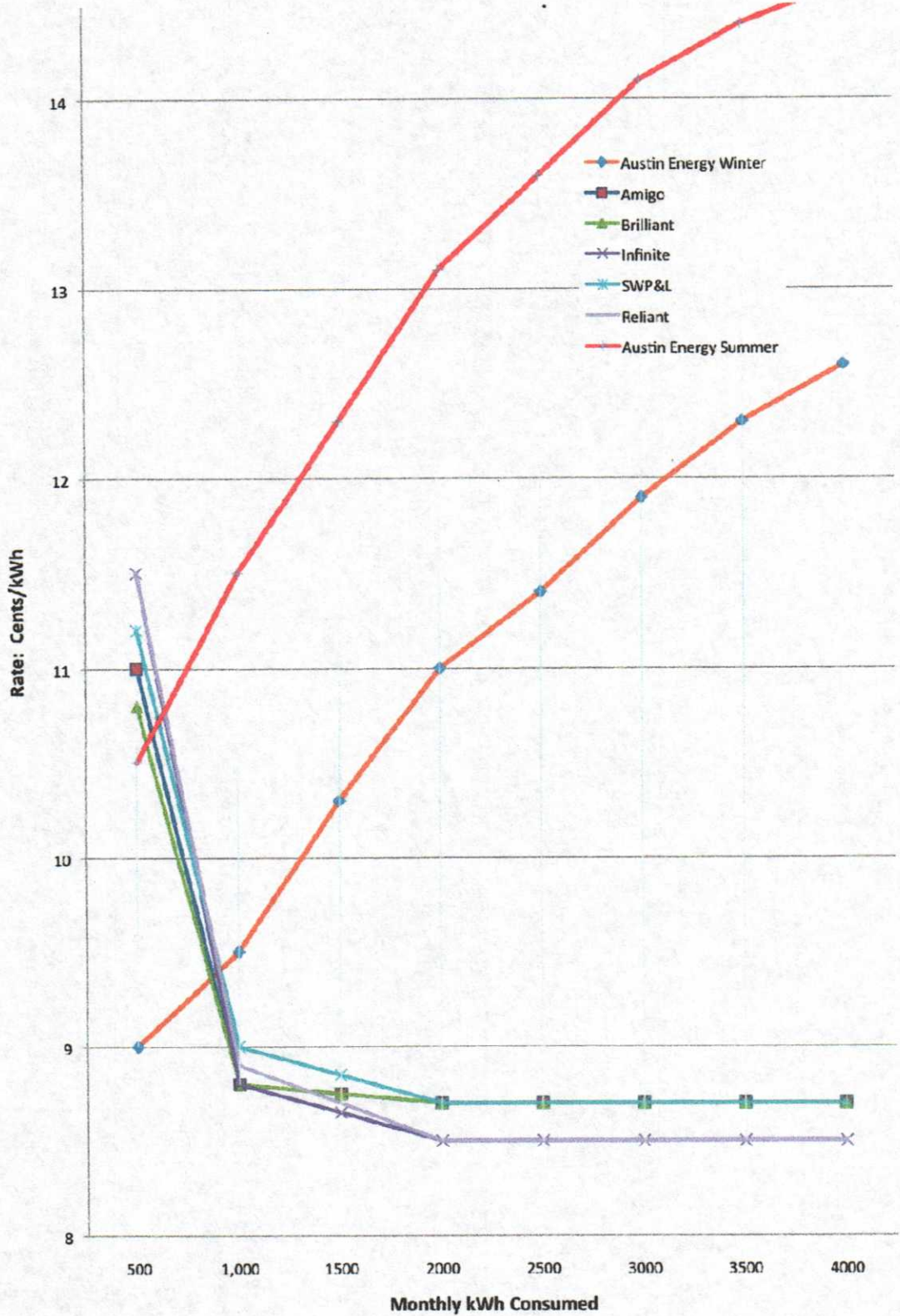
Either the state should mandate a lower rate for outside ratepayers, or non-utility expenditures should be capped at a reasonable level, well below 15 percent.

This would not be unprecedented. The North Carolina legislature, for example, passed a bracket bill that capped the transfers of three particular MOUs.

Also, Austin Energy should be required to adopt a rate structure that reflects prevailing rate structures in the state. Half of Austin Energy's service area is outside the city, so the utility's rate structure is a regional issue, not a local issue, and therefore a matter of state interest.

###

Austin Energy Phase I Rates Vs. Current Rates of Adjacent Competitive Utilities



All rates shown are inclusive, all-in rates. The five investor-owned utilities serve Round Rock residential customers. Rate data derived from: TXPUC 'Power To Choose.'