

Interview of John Moore

John Moore was the General Manager of Austin Energy from 1984-1997. He also was the Executive V.P. of Energy Delivery Services at CPS Energy for two years (2009-2010).

He felt that working with City Council was more difficult than it ought to be. City Council has many areas to deal with such as zoning and planning. But there were many routine items on the agenda for Austin Energy, such as routine purchases of transformers, poles, wire, etc. that would take many hours of staff time to gain approval. He remembers waiting for hours to brief Council on a billion dollar issue with lawyers and consultants standing around while Council was conducting hearings on such issues as sponsorship of a kickball event or numerous zoning cases. On other occasions, lawyers and consultants waited for hours to brief the Council on the STP lawsuit at a cost of thousands of dollars per hour and then briefed the Council for about 1 hour sometime around midnight.

With politics or environmental concerns surrounding what should have been many routine items there did not seem to be a unity of purpose by City Council when conducting Electric Utility business. On many Electric Utility agenda items the City Council would do the least possible at the last possible minute because of so many competing concerns. But it would usually be just enough.

When he was there the revenues of Austin Energy were about a million dollars a day yet any purchase above the \$35,000 range was required to be approved by City Council consuming many hours of staff time.

He believes there was too much drama and uncertainty in something as financially important as the utility. As a result he feels Austin energy should be managed by an independent Board. He believes the CPS Energy Board is a good model. He likes the idea that the City Council stays out of the day to day operations of the utility. But it could set rates and the General Fund Transfer, leaving budgeting to the utility. He also feels that issuance of bonds should reside with City Council but that eminent domain should be handled by the Board. He likes the idea that staff time would be greatly minimized by once a month Board meetings instead of weekly City Council meetings. He believes the Board should be autonomous with appointments to the Board controlled by the Council. He feels that when you have a Board it makes more sense for the Board to be seen as the owner and Council as the regulator.

He believes that public input and participation is important, especially, for example, when it involves issues such as siting of facilities or the budget. But he doesn't believe that Council should dictate when the Board holds meetings.

Because the electric utility is a large, complex business that provides a critical service, he feels Board members should have a good solid business background including financial and utility operations. A regulatory background would be good too. He stated that there are two huge issues the Board has to deal with -- electric service reliability and financial soundness. He also believes there should be someone from outside the City limits on the Board.

He feels there should be five year terms with a two term limit. He likes how CPS Energy handles the length of time that members are on their Board. He likes long terms because there is a long lead time in many issues that utilities deal with. On the other hand Council's outlook is short term.

He believes the employees should be employees of the Board. He also believes the employees should be able to participate in the City pension or the Texas Municipal Retirement System.

He feels that in order to gain the benefits of total autonomy any reliance on the City for services should be stopped. That way there is no need to deal with City Departments or City Council for services.

He recommends that expenses for the Board members should be covered and that compensation be minimal or token.

He believes selection of the Board should follow the San Antonio model where the Board makes a recommendation to the City Council for a Board member and Council could accept or reject the nomination. He feels the process for initial selection of the Board would be enhanced if a recruitment committee were used similar to what was discussed in the 1996 EUC Public Forum on Governance or that a recruiter be hired.

He understands that utilizing a Board would cause a lessening of local control but he feels that loss would be outweighed by the efficiencies that are gained along with a unity of purpose and a more deliberate business like approach.

He believes it is time to move to a Board with 5-7 board members.

Interview of Milton Lee

Mr. Lee was General Manager of Austin Energy from July 1997 to October 1998 and Chief Operating Officer from January 1990 to June 1997. He also worked at City Public Service of San Antonio for a number of years including its CEO and General Manager from January 2002 to September 2010.

Mr. Lee believes that an independent board should govern Austin Energy. He feels a board will cause AE to be run more like a business, positively impact its bond ratings, and be more nimble with its members having more expertise than the City Council. He believes there will be an indirect impact on local control if AE is governed by a Board. He believes the Board, which needs to have members with subject matter expertise, should oversee day to day operations of AE and establish the budget. He stated that the amount of the General Fund Transfer should be closely coordinated with the City. However, because AE is owned by the community, the City Council should retain the power to set rates, the general fund transfer, issue debt and handle eminent domain. Setting rates by Council would include setting the return on investment; otherwise too much uncertainty will be created.

He believes the board should contain business minded members with financial, accounting and utility operations expertise and that at least one member reside outside the City limits. He noted that San Antonio serves 23 suburban cities but does not require a board member from outside the City limits. However, four of San Antonio's board members (San Antonio has five board members which includes the Mayor as an ex-officio member) are chosen from four quadrants in the service area, which quadrants contain areas outside the City limits. He recommends that they meet once a month but with flexibility to meet more often should the need arise. Board members should be compensated in the \$75,000 range to recognize the expertise and time required to attend and prepare for board meetings. Expenses should also be reimbursed. He believes they should have terms of 2 to 5 years with longer terms allowing more time to gain expertise. He also feels term limits should be similar to the ones established by City Public Service of San Antonio. Mr. Lee believes the recruitment committee, discussed during the 1996 City of Austin Electric Utility Commission's Public Forum regarding governance of Austin Energy, is a reasonable manner to select board members if there is also input from the existing board. The recommendation of the recruitment committee would then be forwarded to City Council for approval.

Mr. Lee recommends that AE not use any city services because of the bureaucracy involved coordinating with City management. He also believes that the employees should be employed by the board.

Public participation is very important to Mr. Lee. If public participation is reduced he would consider the process flawed. He views public participation important even if it is time consuming and perhaps more painful. He discussed the Advisory Council that San Antonio uses consisting of 15 members with 5 selected by their board and 10 members selected from each of the San Antonio's 10 council districts. He believes the Advisory Council is a reasonable method to gain more public input.

Interview of Juan Garza

Juan Garza was the General Manager of Austin Energy for 6 years from 2002 to 2008.

He stated his relationship was with City Council, was thru the City Manager, and that his job was to implement the policy of Council. He felt that generally things ran pretty smooth as far as reporting to Council and the City Manager. His frustration was dealing with the City bureaucracy. On urgent matters, there might not be time to run all the traps. For example, at one time when Sand hill Energy Center ran out of natural gas during a very severe cold snap, it became necessary to quickly move to run a new natural gas line to Sandhill without going through the Resource Management Committee or the Environmental Board; so that this situation would not happen again! They were understandably upset, but in his opinion, the emergency called for expedited measures. While acting first and asking for forgiveness later can effectively get things done, it should not be necessary. Going through the Electric Utility Commission and the City Council should have been enough.

He regrets that as General Manager he was not able to do enough to get proper consideration for the purchase of a portion of STP which AEP had placed on the market. It was a great buy for a number of reasons: it was an existing plant, it effectively had no CO2 emissions, it could have been purchased for less than \$300/kw, (At that time, a new build combined cycle natural gas plant cost about \$700/kw to build.), and lastly, the marginal cost of power from STP at that time was less than 2 cents per KWH compared to about 6 or 7 cents for natural gas fueled electrical power. In all likelihood, he feels the purchase would still not have been made, but all the facts would have been considered prior to the decision if there had been a board.

Nevertheless, he stated he personally did not have a problem dealing with the City Council; dealing with the city bureaucracy was his main frustration. Recruitment and retention was a particular concern. Top candidates would at times be lost to other employers who could act more quickly than AE or who simply paid more than AE. This was not a case of COA human resources employees exercising poor judgment; it was the result of city HR policies that were incompatible with the power industry.

Mr. Garza supports the idea of an independent board for AE that is autonomous from the city except for approval of rate increases, new debt, or exercise of eminent domain powers. In all other matters the board should act independently. The only remaining tie with city operations should be the billing system. The current way of combining all bills for city services with the electric bill more than likely is cost effective and would be literally impossible to separate in any event.

He feels there should be representation on the Board by a customer or customers from outside the City limits. He believes all Board members should have some level of business acumen. Knowledge of the power industry by some Board members should be required. Generally, he believes that by requiring some level of expertise some of the politics are taken out of the decision making. But he acknowledges one can never take all the politics out of the decision making process. However, he believes the focus by

the Board will be more acute when a level of expertise is required. A consumer advocate should definitely be on the board.

He feels there should be 7 to 9 members on the Board.

He doesn't like the "hidden transfers" that occur thru the overhead charge; this is a matter that should be settled as part of the creation of the new board.

He believes the Board meetings should be open to the public at times that are convenient for the public to attend. The meetings should be televised or aired via the internet.

Mr. Garza likes the idea of a recruitment committee that reaches out to the community to find talent for the Board. A recruitment committee would need to find candidates with the necessary expertise in an open and fair process. He believes the Board should nominate candidates to City Council, similar to the San Antonio model. He feels that if you have a qualified Board it will do a good job when nominating a candidate to fill a vacancy.

He believes Board members should be reimbursed for expenses and should be paid a reasonable amount for their service on the Board.

Mr. Garza believes Board members should serve four year terms with term limits of no more than two terms. The length of the terms and limits are important because of the necessity for Board members to think and plan long term.

He believes the board should have approval power over the appointment of the executive team; say the General Manager, Deputy General Managers and the CFO. He also believes the employees should stay in the City pension plan if possible.

Finally, Mr. Garza believes that if the new board is created, the current EUC will become redundant and no longer needed.

Interview of Roger Duncan

Mr. Duncan was the General Manager of Austin Energy from February 2008 to March 2010. He was also a Councilmember on the Austin City Council from 1981 to 1985.

Mr. Duncan believes that because councilmembers are elected representatives of the people they need control of policy goals and objectives and not just over financial integrity but other issues such as energy efficiency. However, he acknowledged the time and complexity of the issues involved regarding Austin Energy. He believes the recent rate case was an eye opener for City Council as far as the time involved. He noted that it is more than a part time job to be on the Board of Directors for Austin Energy. He discussed the attempt by City Council to focus on Austin Energy when Wednesday work sessions were conducted sometime ago. But those didn't work out because of the number of other issues the Council was focused on where the agenda can be driven by events other than Austin Energy. All of these issues are exacerbated by deregulation of the industry and emissions issues.

As a result, he believes the governance of Austin Energy should be by a Board, but that it should not mirror the San Antonio model. He recommends there should be more than one City Council member on the Board but not a majority. He feels the Board should decide on the level of the general fund transfer. He also believes there should be someone on the Board from outside the City limits. The City should retain ratemaking authority but the issuance of debt and eminent domain should reside with the Board. He does not want to see Austin Energy employees negatively impacted if a Board is created.

Mr. Duncan believes public participation is very important. Therefore it's important that meetings are held at a time and place that is convenient to the public.

He agrees some local control will be lost if a Board is created but that it would be a "local board".

He feels Board members should be compensated since it is not a part time endeavor. They should be compensated for their time and skills and it should not be a token compensation. He believes that board members should have business experience, utility operations experience and that consumer interests should be adequately represented. He recommends that they have 3 year terms with no term limits. The initial selection of Board members should be accomplished by a recruiting committee as discussed during the 1996 EUC Public Forum on Governance. After the initial selection of the Board vacancies should be filled by following the San Antonio process where the Board makes a recommendation to City Council.

The use of City services by Austin Energy is a significant issue. For example, some City services, such as 311, are so integrated that it would be difficult to determine the impact if Austin Energy was not part of the 311 system. The question is if one called 311 and had an electric utility question how would the service be impacted.

Mr. Duncan believes the General Manager should report to the Board.