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Dear Client:

The process known as “fracking,” invented in Texas, revitalized the oil business (“awl bidness,” as they say in West Texas). And it is now the dominant energy production method in the US. What’s the next *Big Thing* in energy production – where Texas will also likely be dominant? Wind power. And “Big” is the operative word.

The hydraulic fracturing (fracking) drilling technique has allowed the US to increase its oil production faster than at any time in its history. **Now, for the first time ever, oil from fracked wells accounted in 2015 for more than half of US crude oil production.**

This is significant for the Texas economy. Because this new oil production has come from shale and other tight rocks in the nearby **Eagle Ford formation in South Texas and the Permian Basin in West Texas**, along with the Bakken and Three Forks formations of Montana and North Dakota. Sure, oil and gas prices are low now, but the industry – which is also a major contributor to electricity generation -- still provides a strong economic underpinning for Texas and Austin’s state government operations.

As we have previously reported, **Texas is also a leader in the burgeoning wind power energy business.** A drive through the wide open spaces of West Texas, where wind turbines are now more obvious than oil wells, reinforces the growth of this energy source. Also, as we have noted in the past, the **City of Austin is investing millions of dollars in long-term contracts for wind energy to provide electricity for its utility customers.**

Just as fracking increased oil production, the next *Big Thing* in wind power is really big. Turbine blades that power the rigs could soon be huuuuuge – more than two football fields long. **Today’s longest blades are about 262 feet long, but those in development are 656 feet long.**

To support these mega blades, **the towers upon which they will sit are estimated to rise 1,574 feet, soaring nearly one-third of a mile into the sky** – 100 feet higher than the Empire State Building. The diameter for each facility is nearly a quarter of a mile. Why is big great? First, they would generate up to **50 megawatts of electricity, 25 times more than today’s typical turbine.** Secondly, the blades would spread out when the wind is blowing lightly to capture as much power as possible. Still work to do. Could be 10-15 years before they are operable.

Speaking of electricity, there's good news on the way for many who get City of Austin electric bills. More than 450,000 Austin Energy (AE) customers will see a reduction in their cost of electricity starting in a couple of weeks – April 1st. After rates have skyrocketed in recent years, what is this all about?

It has to do with the cost of electricity the City purchases from the statewide market. **Austin Energy hits customers with a “Power Supply Adjustment” rate each billing cycle.** The falling oil and gas prices are contributing to the fall in price. So the rate will be reduced 11.3%. The Power Supply Adjustment is a dollar-for-dollar pass-through.

Pass-through of what? **“Fuel expenses for natural gas, coal and nuclear fuel, revenues from the sale of power through the Electric Reliability Council of Texas (ERCOT) wholesale market, the expense of renewable energy purchase power agreements, and the purchase of power through ERCOT to supply retail customers,”** according to Austin Energy.

So what is the practical effect of this? Well, let's break it down a bit. AE reports the average residential customer uses just over 900 kilowatt hours each month. It says **“a residential customer billed for 1,000 kilowatt hours will see a reduction of \$3.56 but actual savings depend on energy usage patterns.”** While not a lot of money, it at least is going in the right direction. And it is the lowest in any year since 2003.

Hold on, though. Your *total* electric bill may soon go back up. Remember, the City of Austin in its wisdom charges customers a summer rate. What's this? Yep, **AE charges *more* for the same electricity each summer (when you really need it for scorching summertime air-conditioning) to “force” you to conserve energy.**

Let's look at another utility that also bills you each month. The City of Austin is seeking a ruling soon to allow for more flexibility in its usage of effluent. In simple terms, effluent is water that has been treated by a wastewater plant. Or to put it more crudely, after you flush, the water that is remaining after it is treated is “effluent.” It is not necessarily drinkable (Scotch and Effluent, anyone?). But it is still water.

Effluent is regulated by the Texas Commission on Environmental Quality (TCEQ). **Effluent is currently being used by cities to irrigate parks, medians and other landscaping.**

Austin's request of TCEQ this week is too detailed to examine here. But suffice it to say Austin has joined other cities in seeking more flexibility of effluent usage. If approved, the cities say revised regulations would **conserve limited, drinkable water supplies and incentivize more investment into the beneficial reuse of effluent.** The TCEQ has 60 days to act.

According to longtime Texas economist Ray Perryman, the Austin metro economy continues to outperform both the state and the nation, but the Houston metro has struggled due to lower oil prices. If anything, Houston's loss is Austin's gain, claims an Austin real estate pro.

The Perryman Group's latest forecast for the state's population centers indicates **moderate growth over the next five years, with the Austin area setting the pace.** (Perryman's analysis covers the six largest metros in Texas, where about three of every four new jobs are created.)

The Austin area's "**recent rate of job growth has been leading the state, and the area continues to compare well with most parts of the United States in terms of economic performance,**" Perryman reports. In fact, Perryman's forecast "indicates strong growth in real gross product of 4.42% per year through 2020."

Okay, Ray, what does that mean in everyday language? "**An addition of 127,656 jobs over the period,**" he said. And that's a 2.49% yearly rate. Population? **Perryman thinks jobs will be created at a faster rate than his predicted population increase.** He forecasts population will increase at a 2.1% pace during the next five years (compared to the 2.49% job increase rate he just mentioned).

Houston's pace of growth is expected to pick up during the next several years, according to Perryman. But for now, there are those who feel **Houston's slowdown is helping Austin.**

According to *Bisnow*, "while Houston suffers from low oil prices, Apartment Realty Advisors (ARA) principal **Pat Jones** says Austin doesn't feel the pinch at all. Austin is technology-driven, and **companies here aren't affected much by the macroeconomic headwinds that are hurting Houston** – unless their clients are energy-related."

"If anything, Houston's loss is Austin's gain," Jones says. "**Since investors are wary of Houston, they pour their capital into Austin.**"

His observations are echoed by Cadence McShane's VP **Srinath Pai Kasturi** who points to commercial real estate in Austin. "Occupancy and absorption rates remain high in the multifamily and office sectors," *Bisnow* quotes him. "Construction costs have remained fairly stable over the past six months. **In particular, East Austin is seeing a lot of activity, especially multifamily and creative office.**"

Bisnow writes that **Austin is one of the healthiest development markets in the US, and that trend is likely to continue for the foreseeable future.**

By the way, *Bisnow* is holding a State of the Market event in Austin at 7:30 a.m. at the Four Seasons Hotel, March 29th, where it says it will **present in-depth analysis and actionable intelligence.** It hosts similar events in other cities around the US.

As Austin streets get more crowded, the push to climb aboard Capital Metro buses will likely get more intense. You'll hear Capital Metro suggest more reasons why you should "leave the driving to us." But you should exercise caution about leaving *other things* to Cap Metro. Last year nearly 12,000 items were left behind by riders. What happens to those items?

Obviously, some of the lost items are claimed at Capital Metro's Lost & Found. But not many. **According to CapMetro's tally, less than 23% (fewer than 3,000) are typically claimed.** Many items are probably considered of little value, like a single glove or knitted cap left behind during the winter months, sunglasses during the summer, or umbrellas on light rain days.

But how about wallets? **An average of 700 wallets per year are turned in to CapMetro and only 66% are claimed.** Cell phones? Would you believe only 43% of the left-behind cell phones are re-united with their owners.

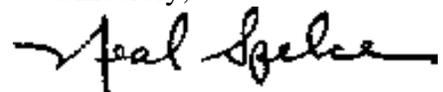
Okay, these are relatively small items that are easily misplaced. Maybe you can understand the low rate of reclamation ("now where did I leave my cell phone?"). But what about bicycles? **In 2015 more than 500 bikes were left on bus bike racks and just more than half of those were ultimately claimed by owners.**

Unusual items that were "forgotten" on the buses? **What about a push lawnmower? Or artificial limbs? Or (yuck!) teeth? Even a small boat anchor or fishing rods.** And a suspicious-looking black box delayed MetroRail service for about an hour until it was determined it contained somebody's lunch.

If unclaimed for three weeks, items in good condition are donated to social service organizations for re-use. Guitars, anyone? Unusable or unclean items are disposed of. Owners of wallets who can be identified are notified they have 20 days to pick up the wallet. After that any personal info in the wallet is shredded.

Dr. Louis Overholster says weaving a high-dollar Maserati around bus lanes and construction barriers on crowded downtown Austin streets is like bringing a Ming vase to a football game!

Sincerely,



Editor/Publisher