

THE

Paul Spelce

AUSTIN LETTER

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P.O. Box 1905 / Austin, Texas 78767-1905 / 512-498-9495 / Fax 512-327-1976 / e-mail News@AustinLetter.com

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Dear Client:

The first source of electricity for Austin Energy customers, each and every day, is generated by nuclear power. Not coal, not gas, not wind, not solar – nuclear power, the source that has been vilified by many for decades.

Nuclear power has been producing electricity for your Austin home and business since the 1980s without a problem. And it just could be the **wave of the future** for more and more utilities. More about this aspect in just a minute.

Why is electricity generated by the nuke your first source of power seven days a week, 24-hours a day? Because it is cheap, clean and reliable. Austin Energy reports the cost of **nuclear generated electricity is about \$5** per megawatt hour. The cost for **coal-fired electricity is about \$15** per megawatt hour and **natural gas generated electricity runs about \$75** per megawatt power. Big Difference.

“On a fuel cost basis, the nuke is so much less to operate than coal and especially natural gas that it provides a **net savings to our customers**,” Austin Energy spokesman **Ed Clark** told us.

Why doesn't Austin Energy switch to all nuclear power, all the time? **Because it is maxed out.** It is using all it can get for now (though the plant will be expanded) and this amounts to only about 28% of the electricity that is being used by Austin.

The source for Austin's nuclear power is the South Texas Project Electric Generating Station. **Austin actually owns 16% of the plant, and therefore, gets 16% of its output.** Other customers for the STP Nuclear Operating Company are Houston, San Antonio, Corpus Christi and surrounding areas. So Austin Energy can't get any more than the 16% it is now using.

With nuclear providing 28% of Austin's generated electricity, the remaining sources for Austin's electricity broke out this way in the city's fiscal year 2005: **coal, 35%; gas, 26%; renewables, 6% and purchased power, 5%.**

In addition to monetary considerations, there is also the environmental impact. Look at the amount of electricity generated for Austin by **burning coal in Central Texas.** Does this have an impact on our air quality? Let's look at this and what the future may hold in the next item.

“There is no such thing as clean coal” one expert proclaims, and yet the City of Austin continues to rely more heavily on burning coal to generate electricity than other, cleaner sources. What does this do to your air?

A recent book by **William Sweet**, published by Columbia University Press and titled *Kicking The Carbon Habit* starts out as an environmental treatise, acknowledging that global warming is happening and that something should be done about it. But his ultimate conclusion is a bane to many environmentalists: he suggests it is time to take “a second look at nuclear power.”

If you were in Austin in 1979, when the accident occurred at the Three Mile Island nuclear power plant, you know how vociferous the opposition was to nuclear power. The anti-nuke crowd was loud, but fell short in an election a few days after the nuclear accident that saw voters – barely – okaying Austin’s 16% participation in the South Texas Nuclear Project. The political scars were deep. **There is still opposition to nuclear power**; it is just not as vocal and active as in the past.

Looking at combating the greenhouse gas problem, Sweet, an editor at the Institute for Electrical and Electronic Engineers, says you are never going to get Americans out of their cars and that future reliance on wind and solar is marginal at best. So the obvious place to start is to **reduce our reliance on burning coal to produce electricity**. He said the US reliance on coal consumption now produces 10% of the world’s carbon dioxide.

As a result, he said **replacing coal plants** over the next couple of decades would be the best way to help **fight global warming**. This is a particularly meaningful statement considering Austin’s reliance on coal to produce 35% of its electricity.

And he says the **replacement for coal should be nuclear power** – all the while acknowledging that, to many, nuclear power spells c-a-t-a-s-t-r-o-p-h-e. In fact, the South Texas Project (STP), in which Austin participates, was one of the few nuclear power plants built after the Three Mile Island accident and the Chernoble disaster in Russia.

But the future may be changing. There are now more than a dozen energy companies applying for new licenses with the Nuclear Regulatory Commission. So we may be a lot **closer to a nuclear revival than many think**.

Austin’s nuke source is going quite well, thank you. For the second year in a row, the South Texas Project nuclear power plant has **led the US in the amount of electricity produced** by a two-reactor facility. In addition, STP’s fuel cost not only is one of the lowest for a nuclear plant, but also for *all* power plants in the country, because **uranium costs less than the coal, gas and oil used in fossil-fueled plants**. Finally, late this week it was announced two new units will be added to the plant near Bay City, to generate even more electricity. Even while producing such low-cost electricity, **nuclear power plants are making money** – so much so Connecticut has proposed a windfall profits tax on them.

They're all around Austin in the newer, more expensive neighborhoods: over-sized, similar-looking homes, stacked side-by-side. These million-dollar houses have been all the rage for some time. But now they are being referred to as "tract castles," "garage mahals" and "faux chateaux." And these derogatory references could signal the beginning of a new trend.

Trends come and go in housing, just as in other areas. Styles change, tastes change, economics change. **Then there's always this "keeping up with the Joneses" thing.** When "the Joneses" start moving in a different direction, others – for whatever reasons – start relying on a similar compass to guide their decision-making. It has always been this way (though we'll leave it to the psychologists to explain it).

Currently Austin has been lagging behind residential real estate trends nationwide. So far, this is a good thing because while "hot" real estate markets around the country are now tanking, the Austin area is more measured and strong. As we've been reporting, we are now beginning to feel the upsurge in residential real estate other markets have enjoyed for years (though the bubble is now bursting for them). So, it becomes important for you to **understand where the rest of the country may be heading, in order to anticipate what might happen here.**

The rest of the country is downsizing. This is a blanket statement that can be refuted, but there is no doubt that all around the country many of those who have bought four or more bedrooms, 5,000-plus square foot homes (with soaring ceilings, grand entries, MBR suites, etc.), are looking around and saying, "We don't really need all this." They are not necessarily spending less money for a different place to live. In fact, **many will buy smaller properties and pay more per square foot — for quality, and because it suits their lifestyle.**

The Wall Street Journal cites a number of factors for moving away from the big house mania: upkeep costs, time to maintain the property, unused spaces, diminishing resale values, etc. And it points out a number of **national homebuilders are changing their product lines to reflect these concerns.**

The population category driving this new trend is the economic gorilla we've lived with for years – the 78 million baby boomers, born from 1946 through 1964. Around the nation, the *WSJ* reports, boomers are thinking about retirement and are wanting to cash out the equity in their homes, but the **next generation is not as interested in the "tract castles" as were the boomers** – because the next generation is marrying later in life and often have smaller families. As a result, the resale demand for the "faux chateaux" is diminishing.

The Austin area does not yet appear to be feeling this trend. But the recent uproar caused by the Austin City Council, when it reined in light-and-view-blocking larger houses in older neighborhoods, may be somewhat reflective of this trend. After all, other areas – such as Arlington County Va. (limited home footprints to no more than 30% of a lot) and Wood-Ridge, NJ (limited homes to no more than 55% of a lot) – were ahead of Austin in this movement.

Last year's devastating hurricanes in our neck of the woods (Katrina in Louisiana and Rita on the Texas Gulf coast), etched their names into the history of natural disasters. Will the next monster of a storm carry your name?

Each year, the National Hurricane Center in Miami selects names – in alphabetical order – for **Tropical Storms and Hurricanes that might develop in the upcoming Atlantic seasons**. The 2006 season got off to a quick start with Alberto that began as a tropical storm well within the Gulf of Mexico. It briefly reached minimal hurricane strength (sustained winds in excess of 75 mph) then turned into a rainmaker over Florida and the lower East Coast. So is your name on the list of monikers selected for the remainder of the season that ends 11/30/06?

The next tropical storm or hurricane will be christened **Beryl**. Then, in order, they will be named **Chris, Debby, Ernesto, Florence, Gordon, Helene, Isaac, Joyce, Kirk, Leslie, Michael, Nadeen, Oscar, Patty, Rafael, Sandy, Tony, Valerie** and **William**. You'll notice there is a mixture of male and female names.

For years, the names were all female. Don't know why, that's just the way it was. Then, **complaints started pouring in about slapping only female names on such devastating forces of nature**, so the National Hurricane Center began mixing male and female names.

Okay, so what happens if they run out of names – as they did during last year's busy season? In 2005, a record 28 storms formed, including an unnamed subtropical storm that was added to the official list in April. **This year, as they did last year when they ran out of names, they'll go to the Greek alphabet** – Alpha, Beta, Gamma, etc. By the way, the long-term averages for the number of named Storms (11), Hurricanes (6) and Major Hurricanes (2) will likely be broken again this year as the seasonal outlook for 2006 calls for *above normal* levels of activity.

Dr. Louis Overholster says cheerful people resist disease better than grumpy ones. Or, as he put it, "the surly bird catches the germ!" (groaaannnn!)

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Sincerely



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