

Volume 29, Number 7

May 18, 2007

Dear Client:

Semiconductor companies are large users of electricity. And, until last month, the city-owned Austin Energy charged the third most expensive rates according to 16 semiconductor companies that were surveyed. This is now changing.

Even though you talk in terms of billions of dollars when you discuss *building or upgrading* semiconductor fabrication plants, the manufacturers pinch pennies in *operations* as they price their products to compete in the world marketplace. Electrical energy consumption is a huge part of operations costs, so the pennies saved there are proverbial pennies earned. **The Austin City Council recognized this, and because it owns and controls Austin Energy (the electric utility that services Austin's semiconductor plants), it did something about it.**

The Council unanimously approved an ordinance to lower electric rates for larger energy customers. **Current customers that qualify for this rate reduction include Samsung, Freescale and Spansion.** The ordinance, by the way, does not specifically single-out semiconductors. Large data centers may qualify for the discount if their electricity consumption reaches 25,000 kW.

A dozen more companies may soon be eligible for the rate break. Customers large enough to reach a billing demand of 25,000 kW for two out of the preceding six months, and who maintain an average load factor of 85% or more, will **receive a 2.5% decrease in base energy and demand rates.** These customers must remain Austin Energy customers in order to qualify for the lowered rate.

This lower electric rate will help Austin Energy be more competitive against other power companies across the state and nation. **The rate reduction is a useful tool to attract and retain large high-tech and industrial customers.**

At one point in the early years of the high-tech emergence in the Silicon Hills of Austin, **there were more semiconductor plants in operation here than in any other single US location.** Austin was hot and locations around the world took notice. Now, most of the next-generation fabrication plants are being built outside the US. It's also expensive to upgrade the current 200 mm plants in Austin to 300 mm facilities (would you believe more than \$1 billion per plant?). It's possible the Austin plants would not be upgraded unless they are competitive in construction and operation costs. The Austin Energy rate reduction offers some relief.

Make no mistake, prices for electric energy are not low. The culprit: high prices for natural gas that powers most of our generators to make electricity.

Austin Energy generates electricity from a variety of sources. The cheapest is from a nuclear power plant, near the Gulf Coast. A coal-fired plant near La Grange also provides electricity for Austin customers at a lower price than natural gas-generated power. And alternative sources, such as wind and solar, provide only a fraction of the electricity needed to service Austin Energy customers. **Over the past few years, gas prices have risen more steeply than in the 1990s, and electricity prices have gone up accordingly.**

So how do we compare to others? After all, high electricity prices can be accepted a little more easily if you are getting the best deal out there. **“The Lone Star State is now widely recognized as the healthiest and most successful market for retail electricity in the nation,”** says noted Texas economist **Ray Perryman**. “In fact, it’s one of the best in the world.”

Perryman bases his claim on the fact that Texas introduced competition in the wholesale electric power market in the mid-1990s. Then, in January 2002, with the implementation of Senate Bill 7 — also known as the Texas Electric Choice Act — **the state began the process of establishing full retail competition. He says the competitive electric market has been very successful in Texas.** And he says Senate Bill 7 has also resulted in significant benefits to the state’s economy. The gains have escalated each year and now total almost \$14 billion in annual spending and more than 66,000 permanent jobs.

Yeah, but what about Austin? What competition? **We have a government-owned monopoly providing electricity to city electric customers.** Well, in Austin’s case, even the *threat* of competition stirred the old Electric Department out of its lethargy years ago.

The most visible change was the switch in name to “Austin Energy.” **The “new” city electric department started behaving in many ways as if it was competing with private electric companies.** Since it was the only game in town, it could’ve taken a “if you don’t like it, you can lump it” attitude. But it didn’t.

Not that it wasn’t tempting. Remember, many view Austin Energy as just another hidden taxing entity. **After all, it generates a profit each year and the excess revenue goes to finance other city services — just like tax revenue.**

Austin Energy, however, has kept its rates somewhat competitive with other utilities. And, as noted in the previous story, it has stepped up to the plate to reduce rates for its biggest customers, to enhance the overall Austin area economy. Also, instead of bowing to the controversial use of nuclear power, it uses electricity generated by the nuke *first*, to save rate payers money, before using the pricy gas-generated electricity. We’ll watch this for you.

Listen. You don't hear it do you — the debate in the waning days of the Texas legislative session over raising your taxes? The reason you don't hear tax talk is it's not happening. Other states are not so lucky. Almost every other state is talking about raising taxes.

Often times, what *doesn't* happen is as important as what *does* happen in the Texas Legislature. This is one of those times. With all the debate over HPV vaccinations, what to do about Texas roadways, privatizing the Texas Lottery (dead, for this session), funding for education, etc. ad nauseum, **there has been no serious effort to raise the big money-generating taxes.** And legislators will go home Memorial Day – not to return (unless a special session is called by the governor) until January 2009.

Texas is unique in this regard. Other states are scrambling for revenue sources and most of them are focusing on **raising the state sales tax or expanding it** to include other goods and services. Also, almost every other state has a personal income tax, and some states are eyeing a hike in that big revenue source.

The bigger hikes in service taxes are likely to come in states such as Illinois, Michigan, New York, New Jersey, Ohio, Pennsylvania and Indiana – **all in the struggling Frost Belt.** But other states are also facing the same situation, such as Louisiana, Arizona, Utah, Wisconsin, Virginia, Missouri, and Maryland.

While it is always interesting to see the comparisons between “us” and “them,” there is a more practical side to this comparison. When the legislative dust clears in these other states toward year-end, **Austin and Texas should be in a stronger competitive position – especially to attract brainpower and jobs.** The savvy execs who make re-location decisions, or simply family-moving decisions, consider the bottom line – how much money will be left in their jeans after paying all obligations, including taxes (which are considerable in many other states).

Speaking of competitive advantages, while California is attractive in many ways, it is a high-tax, costly state in which to live and make a living. And Austin is exploiting this.

The Greater Austin Chamber of Commerce's well-funded effort to increase jobs in the Austin area – they call it “Opportunity Austin” — has **launched an ad campaign** directed at businesses in California. The GACofC points out that since 2004, 29% of the companies relocating to Austin from outside of Texas came from California, considerably more than any other state.

The marketing campaign includes ads in the California editions of *The Wall Street Journal* and *Business Journal*, in addition to site selection magazines. The focus of the ads and direct mail pieces centers around **Austin's relatively low cost of living, availability of talent and quality of life.** One of the ads offers a left-handed compliment to Californians with the headline: “It's hard to beat the atmosphere in Northern California. In Austin we found it wasn't impossible.”

As planning continues for expansion of Austin-Bergstrom International Airport (ABIA), with major funding anticipated from airline fees, one major airport is cutting back on what it charges airlines. And that airport is increasing air traffic by leaps and bounds.

San Francisco's airport is making it cheaper for carriers to land and lease terminal space at its newly-expanded facility. **Landing fees will be cut by almost 10% and lease rates will fall more than 3% in the fiscal year starting July 1st.** This marks the fourth consecutive year San Francisco International Airport has lowered fees to make the facility more attractive to airlines.

Is the strategy working? Are travelers in and out of SFO benefiting with more options? You bet! Take Southwest Airlines as an example. The Dallas-based airline carries more Austin travelers – by far – than any other airline. **Southwest stopped flying from SFO in 2001, citing high operating costs and lack of additional gate space.** During its absence at SFO, Southwest grew its service at airports in Oakland and San Jose.

With the new lower fees at SFO, Southwest has just announced the largest initial new city schedule in the low-cost airline's history. **Starting in August, Southwest will offer 18 daily nonstop departures from SFO.** Of course, this will benefit Austin travelers who want to travel to San Francisco.

It's not just Southwest Airlines that is responding favorably to the lower cost of operating at SFO. In recent days, low-cost carrier **JetBlue** began service from SFO (more than a year after inaugurating service in Austin). Later this year, **Virgin America**, another low-cost carrier backed by Brit **Richard Branson**, is expected to begin flying from SFO.

Passenger traffic at ABIA continues to grow as expansion planning is underway. **March 2007 marked the highest number of passengers traveling through ABIA in a single month.**

Speaking of traveling, **Dr. Louis Overholster** says the nice part about going to Europe on your vacation is – it's very efficient. You never have to close your wallet!

NEAL SPELCE AUSTIN LETTER (ISSN 1071-0612) is published weekly, except last two weeks of the year, for \$150 (plus tax) per year or \$249 (plus tax) for two years. To subscribe, call 512-498-9495. Periodical Postage Paid at Austin, TX 78767 by Austin Letter, Inc., 4105 Bee Creek Rd, Spicewood, TX 78669. POSTMASTER: Send address changes to: Neal Spelce Austin Letter, P.O. Box 1905, Austin, TX 78767-1905.

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