

THE

*Real Spelce*

# AUSTIN LETTER

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Dear Client:

**Now that the Democratic and Republican nominees appear to be set, this presidential campaign may unfold in a way that could actually be a bit refreshing – even though Texas may not see too much of the nominees, except when they swoop in to raise money.**

Hopefully, it is not the height of naiveté to think that when asking for your support, the candidates might choose to present themselves differently this time around. But there are early signs that some changes could be taking place. For instance, **the highly-scripted-and-stilted “debates” that seemed to be on TV every time you turned on the tube during the early primary season, may be a thing of the past.** No more TV moderators, no more boring, stiff and stage-managed programs.

The candidates this week trotted out the idea of appearing together in what has come to be called town-hall-style forums. Of course the two camps will niggle over the details (such as when, where, who will be in the audience, etc.), but it could be refreshing to **see them on the same platform quizzing each other and taking questions from the audience in a more free-wheeling format.** The idea is that this would replace the same-old, same-old debates.

If these joint town hall sessions occur, it could generate **more voter interest and it would certainly result in extensive, free, media coverage.** And that should be appealing to both candidates.

But make no mistake, each candidate is likely to continue to utilize individual formats that reinforce his particular strengths. Look for **Barack Obama** to continue to speak to huge rallies where his soaring, rhetorical flourishes are shown off to great advantage. **John McCain**, who is not an orator, will more than likely conduct personal town hall meetings to take advantage of his more conversational, straight-talk, style.

As for Texas, Democrats are highly-energized as they converge on Austin in record numbers this weekend for their state convention. Even though they have been shut out of statewide offices in recent elections, this energy is giving hope that **this could be a “turnaround” election year for the Dems.** But, unless some tangible signs emerge to indicate Texas is no longer a Republican state, look for **Obama and McCain to make only token appearances in Texas**, at the same time raising money to spend in swing states, such as Florida, Ohio, etc.

**Energy will be one of the top topics as voters pick the next US president. And, while energy affects everyone, Texas has more at stake than other states.**

As regular readers know, there are those in Texas – including state government here in Austin – who are pleased when the price of oil jumps. **The high value of oil generates more jobs, more profits and more taxes – even as motorists complain about rising gasoline prices.** Texas has been the leading energy state for many decades now and it is one of the reasons the Lone Star State’s economy has fared so well over the years.

But what happens to Texas if oil and gas diminish as energy sources? This is a possibility that should be considered as a result of the heightened interest in alternative energy sources, including nuclear, wind and solar. **Will the Texas economy suffer over time if there is huge swing away from reliance on oil and gas – especially where electricity is concerned?** The answer is no, if Texas moves aggressively to be the leader in alternative energy sources.

**Consider wind power**, which we have written about extensively in the past. The generation of electricity, no matter the source, has the same outcome – sending electricity to the home, institutional or business end-users in as efficient a manner as possible. And the signs are that wind generators – those monster-sized, modern windmills – will become as common in Texas as oil and gas rigs of the past.

Texas is primed for wind industry development, says **Jerry Patterson**, Commissioner of the Texas General Land Office. “Texas has deep industrial know-how based on our history of oil and gas development. Texas has strong gulf winds, the political will and the infrastructure, like transportation and deep-water ports, to make our state **the perfect site for this fast-growing industry.**”

Through an innovative public-private partnership led by the US Department of Energy’s National Renewable Energy Laboratory, **a new federal wind blade test facility will be built on the Texas coast near Corpus Christi.** “Once we build this test facility in Texas, the wind turbine and blade manufacturers will come,” Patterson said. “Just like when the federal government put the space center in Houston, this test facility will launch new wind blade research and manufacturing jobs in Texas. **This facility will establish Texas as a worldwide leader in wind power for decades to come.**”

So how big could this be? According to a study by the Energy Department, two decades from now **Americans could get as much electricity from windmills as from nuclear power plants** – generating about 20% of the nation’s electricity.

**Wind energy today accounts for only about 1% of the nation’s electricity**, although the industry has been on a growth binge – especially in Texas – with a 45% jump in production last year. So how does the oil/gas industry feel about this? An oil company, BP, is a leading wind developer and donated land for the previously-mentioned testing lab on the Texas Gulf Coast.

**One line of logic holds that if alternative energy sources get a bigger slice of the pie, current electricity generators – such as coal and gas – will lose market share.**

The City of Austin's electric company, Austin Energy, gets its electricity generated by gas, coal, nuclear and alternative sources including wind. You, the end-user, do not as a general rule know the generation source of your electricity. (Though, more than a year ago, we reported the first electricity drawn down for you by Austin energy is generated by nuclear power – because it is the cheapest of all its sources.) **So if wind-generated electricity increases, what happens to the other sources?**

The American Wind Energy Association estimates if wind energy's share of power production grows to 20%, **gas consumption is expected to decline by 11% and coal consumption by 18% in 2030.** And, of course, the association picks up on the climate impact by pointing out if this occurs, carbon dioxide emissions would be reduced by 825 million metric tons a year.

Natural gas used by Austin Energy comes out of the ground in Texas, but coal is shipped by rail into Central Texas from out-of-state to be burned in the Fayette Power Plant in La Grange to generate electricity for Austin Energy customers.

But it's not just gas and coal-fired plants that could be affected by increased wind-generated electricity. What about nuclear power? Even though it has been decades since a new nuke plant has been built, there are at least **two nuclear power plants in the advanced planning stages in Texas:** 1) a second facility at the South Texas Project (in which Austin Energy participates but has declined, for now, to commit to join the additional plant), and 2) another separate operation entirely just north of the existing south Texas Project Plant.

**Nuclear power can generate the lowest cost electricity.** This is a big plus. But there are also big negatives: the time it takes to bring a power plant online and negative public perception of the nuke and its waste disposal.

Alternative sources are in their infancy, with wind power coming on strong. But **alternative sources also are costly at this stage of the game.**

So where does this leave us? **The oil and gas industry in Texas is safe for now. In fact, it is thriving.** Looking down the line, state government is working aggressively with industry and with the feds to become a worldwide leader in wind power. The nuke looks like it may come along slowly. It appears it will be decades before nuclear power reaches market penetration to the point it has in other countries, such as France.

Fast-growing areas such as Austin will be impacted more heavily than most as resources are stretched by **increasing electricity demands.** Austin Energy has a good mix of power sources now, but obviously the mix – and the cost – will change, and maybe sooner than expected.

**Fort Worth-based American Airlines is slipping a bit while Dallas-based Southwest Airlines is scooting right along, ahead of the pack.**

While visiting with a Southwest Airlines pilot recently, we told him what we wrote a few weeks ago – that, based on past history, Southwest was poised to make some dramatic gains in this topsy-turvy airline market. He not only concurred but suggested the scuttlebutt among the pilots was there could be a major announcement this year – **such as a code-share arrangement for international flights**. He had no specific knowledge – just speculation by some insiders.

In the meantime, Southwest is moving merrily along while others sputter. In response to American Airlines' announcement that it would charge passengers a per-bag checking charge, **Southwest said it will allow “you to check up to two free bags when you travel with us, and has no plans to change that.”** Zap!

This, and other factors, may be working for Southwest. This week Southwest reported it was seeing **year-over-year gains in traffic, while American reported drops in traffic** and capacity from year-ago levels.

And at Austin-Bergstrom International Airport (ABIA), **Southwest reported this week it was up 8%** comparing April 2008 to April 2007. **American on the other hand was down 6.5%** at ABIA for the same period. Overall passenger traffic was up 3% at ABIA, meaning that Southwest was outperforming the Austin market itself by a substantial margin.

Interestingly, there was another report last week from the Travel Industry Association that “Many travelers believe their time is not respected and it is leading them to avoid a significant number of trips.” Not so in Austin. **ABIA passenger traffic is up 5.5% through April 2008, compared to the same time span last year — a good sign for the Austin area economy.**

**Dr. Louis Overholster**, speaking of travel (and politics), absorbed all the presidential political news this week and opined: “Are we there yet?”

Sincerely



Editor/Publisher