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Dear Client:

“If you like what is happening with gas prices right now, then you’re going to love what happens with the cost of electricity over the next few years.” Says who? Says the elected official who presides over the sole source for electricity in Austin, that’s who.

This is a direct quote from Austin Mayor **Will Wynn**, the de facto CEO of the city-owned monopoly electricity provider, Austin Energy. Check your most recent residential or business bill from Austin Energy and you will get an idea of the significance of his statement.

He goes even further. Here’s another direct quote from the mayor. **“Make no mistake: powering our homes and buildings is going to get more expensive, perhaps dramatically.”**

If the reports we have carried recently about **peak electricity usage occurring earlier than ever** in Austin’s history, and the recent **Austin City Council decision NOT to accept an offer to increase participation in the city’s least expensive source of electric energy** didn’t get your attention, maybe these words of warning from the mayor will.

To be sure, Mayor Wynn was speaking about another energy-related effort when he uttered those words. **(He was trying to stifle criticism of an energy-saving city initiative.** More about that in a minute.) But he also referenced another point we reported to you last week about the record levels of electric demand (click the “Archives” button at the top to review the final item in our 6/20/08 edition).

Austin Energy pointed out that if Austin’s peak usage topped its ability to provide electricity later this summer, then Austin could tap into the Electric Reliability Council of Texas (ERCOT) to buy more electricity. This is not cheap. The mayor calls it **making “expensive power purchases on the energy markets during the heat of summer.”**

Of course, building new power plants is also an expensive proposition. But it is inevitable that an **area growing as quickly as Austin is going to need a lot more capacity.** Because it takes so long to build such plants, it could be a race to the finish line to determine if additional capacity is available when it is needed. For the comments by Mayor Wynn about a new energy saving initiative, see the next item.

The City of Austin is considering an approach to slow the increasing demand for electricity – by proposing an ordinance that it hopes would achieve better energy efficiency in Austin homes, rental properties and businesses. And rumors are rampant about what it will include.

Its passage is not imminent. In fact, the final content hasn't been decided. "To be clear," said Mayor **Will Wynn**, "we're still many months and a lot of public process away from considering anything." But the process *is* underway as a 28-member Task Force is studying the question. And ultimately the Task Force will submit recommendations to the Austin City Council.

The Task Force is working on a draft document and if the draft concept were adopted today, here is what the Mayor said it would do: 1) it would **require sellers to get an energy audit** and provide that information to prospective homebuyers, 2) it would encourage people to voluntarily participate in a program to **achieve basic efficiency upgrades** if a house needs it, and 3) it would set voluntary participation targets and track whether certain "goals" would have been met. "Under the Task Force draft concept, **the basic efficiency program could become mandatory if the voluntary program wasn't working**," said the mayor.

"This matters to you whether you know it or not," said Wynn, "because **we all share in the cost of wasted electricity**. It forces us to make expensive power purchases on the energy markets during the heat of summer, and brings us closer to the day when we would need to build expensive new power plants. **This drives up electric rates for everyone, not just those who are wasting energy.**"

The mayor was forced into issuing a rare public comment "to try to set the record straight" because of rumors swirling around what might be included in the ordinance when it is finally passed. Saying "there's been a lot of confusion and misunderstanding," the mayor said that, right now, the draft ordinance "would **not impose a tax on selling your home**," nor would it "force people to **buy expensive items like new air conditioners or new windows**," etc.

But as those who follow the workings at City Hall know quite well, a "draft" ordinance could change dramatically by the time it is presented to the Austin City Council for review, revision and passage. And there is no way to know at this stage if the **final version will be watered-down or strengthened considerably**.

In fact, one of the key elements in the mayor's unusual statement is his reference to the "voluntary" program becoming "mandatory if the voluntary program wasn't working." **The definition of what is "working" or "not working" and the definition of "goals" are going to be crucial to the final document.**

As we have pointed out many times, there are going to be many solutions to the demand for electricity – from alternative sources to conservation such as this Task Force is considering. But as the heat bears down this summer and your electricity bills increase, **the pressure is sure to rise on the Mayor and Council to address long-term energy solutions.**

Even though Austin air travel is at an all-time high, “US commercial aviation is in full-blown crisis and heading toward a catastrophe,” according to a business travel group.

There is no question that the **Austin area economy is impacted** by the availability and price of flights at Austin-Bergstrom International Airport (ABIA). It’s not just you, your associates and/or your family moving from city to city for business or leisure, it reaches into so many other areas. For instance, the movement of just-in-time parts for manufacturing, perishable food and other goods is subject to higher prices – if the shipments can even be handled.

A study by Airline Forecasts LLC and the Business Travel Coalition is sounding the alarm, saying if gas prices don’t fall quickly, **the US airline industry will have a “massive failure” that will cause more bankruptcies, including liquidations.** It says airlines “have never faced a darker future.”

The study suggests **airline fares will have to increase at least 20% just to cover the jump in fuel costs since 2007.** But the report concludes this is an impossible increase, given the level of seat capacity in the airline system. As a result, the study warns that “at current oil prices, **several large and small US airlines will default on their obligations to creditors** beginning at the end of 2008 and early 2009.”

Two major carriers serving ABIA, **Fort Worth-based American Airlines and Houston-based Continental Airlines, have already made announcements of major cutbacks**, along with recent raises in air fares. Continental is ending its flights between Austin and Cleveland, and in an effort to lower administrative costs, has reached a cooperative agreement with United Airlines on frequent flier programs, lounges and facility utilization. Likewise, American is taking the drastic step of cutting all flights between Austin and Dallas Love Field as of 7/2/08.

Dallas-based Southwest Airlines appears to be weathering this industry crisis better than most. **It is the only major US carrier to earn a profit in the first quarter and said it expects to increase capacity by about 4% this year** while other airlines are cutting flights and laying off thousands of workers. Southwest, as you know, carries more Austin travelers – by far – than any other airline at ABIA.

Southwest has done better than other airlines largely because of its fuel-hedging program, which it put into place several years ago. Even so, **it increased fares three times in April and May** and the Associated Press reports more price hikes are on the horizon at Southwest.

Interestingly, a JD Power & Associates national survey of airline passengers reports that travelers are more **concerned with deteriorating customer service**, rather than high fares and added charges. The study found overall satisfaction for the airline industry has declined in 2008 to its lowest level in three years. It’s a rough time for airlines and the effects reach into Austin.

High-tech workers in California, pay attention: high-tech jobs in Austin are high-paying. In fact, the tech jobs in Austin pay more than twice the average Austin salary. And – get this, California – the cost of living in Austin is dramatically lower than in the Granola State.

According to the nation's largest technology trade association representing all segments of the high-tech industry, AeA, **Austin's wage differential between high-tech and private sector jobs was the largest in the nation.** The average tech-industry worker in Austin earned \$100,500 in 2006, which was 113% more than the metro area's average private-sector wage.

Okay, this is impressive enough locally. But how does it compare nationwide? Only 56 Cybercities (as AeA has labeled them) had wage differentials higher than 50%. **Three Cybercities – Austin, San Diego and Sacramento – had differentials higher than 100%, with Austin leading the pack.**

The “differential” is important because the average wage in a dynamic city usually reflects the cost-of-living. Take housing for example. The average cost of a home in San Diego and Sacramento is infinitely more than the average cost of an Austin home. So, obviously, **a high-tech worker can enjoy a much higher standard of living in the Austin area than just about anywhere in California.**

As a whole, the high-tech industry in Austin employed 68,800 people in 2006, ranking 23rd among US cities, according to the most current metropolitan data available, reports AeA. **It represents an increase of 2,300 jobs or 3% over the previous year.** In addition, Austin's largest high-tech sector was electronic components manufacturing, which employed 16,000 workers in 2006, followed by computer systems design and related services (11,900), and computer and peripheral equipment manufacturing (10,700). (Finally, you ask, **why did we refer to California as the Granola State in the opening paragraph?** Well, because after you get past the fruits and nuts, there is nothing left but flakes! We know, old joke!)

Dr. Louis Overholster raised his rates due to more expensive tests and equipment as well as older clientele needing more services. But also because he wants to keep driving his gas-guzzling SUV!

Sincerely



Editor/Publisher