

Volume 34, Number 31

October 26, 2012

Dear Client:

**It's unlikely. In fact *very* unlikely. But what if Mansfield Dam that holds Austin's water supply in Lake Travis failed? In this era of cyber security concerns and natural disasters, the probability has raised its ugly head. And if the dam failure occurs, in addition to massive flooding in the Austin area, would it also trigger a *nuclear* problem? That's right, *nuclear*.**

This is not meant to be an alarmist story. But a recent "not for public release" report written by the US Nuclear Regulatory Commission (NRC) has been made public and it contains elements about which you need to be aware. The NRC document shows that 34 reactors, one-third of the US nuclear fleet, may **face flooding hazards greater than they are designed to withstand as a result of failure of upstream dams.**

**The only Texas facility mentioned in the report was the South Texas Project (STP).** As you'll recall, the South Texas (nuclear) Project is located on the Colorado River downstream from Austin and Lake Travis in Matagorda County, about 11 miles inland from Matagorda Bay.

**The city of Austin, through Austin Energy, owns 16% of the STP and uses the relatively inexpensive power generated by the nuke to provide electricity to customers of the City of Austin utility.** Because the cost of the nuke-generated power is less than some of the other sources of electricity (wind, solar, coal, etc.), Austin uses all of its percentage nuke capacity to keep rates lower to the customers of Austin Energy.

The STP uses huge amounts of water from the Colorado River, that courses through downtown Austin, to cool the nuclear reactors. In other words, **water from Lake Travis is essential to STP's operations.**

The NRC initiated the study following **last year's disaster at the Fukushima Daiichi nuclear power plant in Japan.** You'll remember an earthquake and tsunami triggered massive water surges over the Japanese nuclear power plant. This led to a series of equipment failures and a meltdown. A massive evacuation followed and there was a lot of environmental damage.

The study was commissioned to assess the situation at US nuclear power plants that might be subject to flooding. Check out the next item for information of the **impact on Austin's nuke.**

**The South Texas (nuclear) Project (STP) that provides some of the City of Austin’s lowest-priced electricity for customers of city-owned Austin Energy is on a list of nuclear plants with a high risk of flooding-related failures.**

The Nuclear Regulatory Commission (NRC) report was not designed to be released to the public. However, the Huffington Post obtained a copy and wrote about it last Friday. As a result, we feel bound to report on the Austin-centric elements in the NRC study. The full report is already in the public domain so **you need to know how it might affect you. And, as mentioned earlier, the STP is a major component of Austin’s supply of electricity, not to mention any hazards that might arise due to a failure of the nuclear facility.**

A key element in the report: **“Failure of one or more dams upstream from a nuclear power plant may result in flood levels at a site that render essential safety systems inoperable.** For example, high floodwaters may fail all available power sources (e.g., offsite, emergency diesel, auxiliary), hinder operations, and damage other infrastructure resulting in station blackout and higher than acceptable risk.” This is a serious assessment.

**So, what is happening as a result of this report?**

A spokesman for the STP was quoted in the *San Antonio Express-News* as saying that a “flooding evaluation was done when the plant was constructed and found no issues.” But in the wake of Fukushima and *because of STP’s above-ground reservoir, it is doing a flooding re-evaluation that will look at upstream dams. And it is doing a seismic evaluation as well.* That report will go to the NRC early next year.

STP has been in operation a long time. Unit One went online in 1988 and Unit two in 1989. However, **this still makes them the sixth- and fourth youngest units in the US.** And while there have been no public reports recently of any structural problems in the dams along the Central Texas Highland Lakes, **those dams were built about 75 years ago** – during the 1930s.

The NRC report obviously looked primarily at nuclear power plants. Of course, **if any of the dams along the Highland Lakes failed – especially the flood-control dams regulating water in lakes Travis and Buchanan – there could be serious flooding devastation from those failures,** through the city of Austin and the cities downstream all the way to the Gulf of Mexico.

In the previous item, we mentioned cyber security. It has long been a national security concern that the infrastructure systems in the US may be a future target of those who would commit acts of terror against the US. The fear is that hackers, sitting in a dark room on the other side of the world, would **hack into the computer control systems for various infrastructure operations – such as the operation of flood control dams – and wreak havoc.** It’s still a worry.

**Austin apartments are more than 96% full and rental rates are rising. As a result more than 8,000 new units are going to open within the next year to meet this strong demand. And construction is expected to begin on another 8,000 units within the next 12 months. But one market expert is becoming a bit concerned.**

After analyzing 3<sup>rd</sup> quarter Austin area apartment data, **Robin Davis** spotted what may be a little “uh-oh.” Davis has tracked apartment stats for years. She points out **“envious occupancy rates and the same effective rents continue to exceed previous historical highs.”**

But despite the stellar numbers, Davis says **“an element of caution was triggered by a subtle departure from the historical norms.”** In other words, the increase in apartment occupancies appears to be slowing. “While the 3<sup>rd</sup> quarter usually brings about an occupancy increase averaging 1.7%, **this quarter saw only a .59% rise, on the heels of several quarters of minimal increases,**” she observed. And she noted **“this is concerning”** because of all the new units getting ready to open and a like number ready to start construction.

Obviously this bears watching because **what happens to the Austin apartment market is reflective of the economy and, importantly, it impacts the buying and selling of homes.**

**Speaking of residential home sales, this segment of the Austin area market is tighter than a tick. And that’s good news – at least for home sellers.**

A lot of statistics can be cited when reviewing the **state of the residential real estate market** – such as number of homes sold, the median price, the average price, etc. However, there is one stat that boils it all down to a **bottom line economic health of the market.** The real estate pros refer to it as **“inventory”** and it is defined as **how many months it takes to sell a home at the current pace of sales.** It’s simple, but very revealing.

**Mark Dotzour**, the Chief Economist for the TexasA&M Real Estate Center, says “Real Estate Center research has determined that for Texas, **6.5 months of inventory of homes for sale is a stable market.**” This one measure tells you a lot about residential real estate. “When inventory is *below* 6.5 months, prices increase more rapidly. Inventory *greater* than 6.5 months causes price increases to slow. When inventory gets into the nine-to-12 month range, prices start falling,” he says.

**The months of inventory of single family homes in the Austin area in September was 3.7 months – the lowest figure in Austin in the last decade.** What does this mean? It means the Austin area has one of the most dynamic real estate markets in the US. As a result, if a home is priced right, sellers can expect strong interest in their home and buyers may face competing offers on the same home. No question: the Austin area is a seller’s market.

**Six years ago, Dan Garrison's wife chided him for drinking so much bourbon he decided to make his own. One problem: there had never been a legal whiskey distillery in Texas history. Never mind. He forged ahead and this month, 9,000 bottles of Garrison Brothers Texas Straight Bourbon Whiskey were distributed throughout Texas.**

Not only had there never been a legal whiskey distillery in Texas, his was the **first completely new bourbon distillery built in the US since Prohibition**. And, outside of Kentucky and Tennessee, Garrison Brothers is the only distillery in America successfully producing -- from corn to cork -- authentic bourbon whiskey and only bourbon whiskey.

It's been quite a success story so far. **He started from scratch, with little funding, and did much of the work himself with a couple of helpers in the small Hill Country town of Hye, near Johnson City west of Austin.** We contacted him late one winter evening a couple of years ago, and he was babysitting the distilling process himself -- nursing some of his product and reading a Bud Shrake novel for the umpteenth time, beside a hot stove.

**It took him until Texas Independence Day, March 2<sup>nd</sup> 2010, before he issued his first release of 1,000 bottles. It sold out in 24 hours.** The 2<sup>nd</sup> release, in the fall of 2010, disappeared from stores in just a few weeks. Garrison boasts he makes whiskey the old-fashioned way -- by hand: "We use organic gourmet-grade corn from the Texas Panhandle, soft red winter wheat grown right here on our farm and barley from the Pacific Northwest and Canada. And we never chill-filter."

The product has garnered national, award-winning, attention. But it can only be bought in Texas. And it is costly. "**Damn right, it's expensive and it's worth it,**" exclaims Garrison. But the price is dropping a bit. The first release carried a \$75-\$80 bottle price tag. This current large release can range from **\$65 to \$85 a bottle at retail**. For some, it is a collector's item. Dan is colorful and Texan to the core. Check out his website: [www.garrisonbros.com](http://www.garrisonbros.com).

As he ages, **Dr. Louis Overholster** says he's seen it all, done it all, can't remember most of it!

Sincerely



Editor/Publisher