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Dear Client:

**Next month, a decision will be made in Washington DC that could affect future sources of electricity for the Austin area. The Nuclear Regulatory Commission will rule whether the nuclear power plant, that currently provides electricity to Austin Energy, will be allowed to double its capacity. Even if approval is granted, it is an expensive proposition and it won't happen overnight.**

Right now, nuclear power, since 1988, has been an important part of Austin's diverse sources of power to generate electricity. **The nuclear power plant at Bay City, the natural gas plants in Austin, the coal-fired power plant in La Grange and the emerging wind and solar plants are all part of the mix of sources that keep our lights turned on.** And a growing region needs to be looking way down the line to meet future needs.

But will increased nuclear power capacity be part of Austin's future electricity needs, even though it is one of the cleanest sources of power? The odds are against it at this time. **First of all, it's not certain Austin's leadership will invest in additional nuclear power.** (It appears to be hell-bent-for-leather to invest even more heavily in solar and wind.)

**The really big question for Austin's energy future is whether the Austin City Council will also build a new natural gas plant?** Natural gas is **dependable** (unlike solar and wind, since the sun doesn't shine all the time and the wind doesn't always blow) and **inexpensive**.

Natural gas prices are currently trading at 6-or-7-year lows. And a recent report authorized by the City itself recommends building a new gas plant. But the report was met with skepticism. **This bears watching because the City is planning to de-commission the 45-year-old Decker gas plant by year-end 2018.**

So, what about the January South Texas Project's nuclear expansion plan? Well, it will only be built by investors when the market supports it. **Once funding is secured, it will take about two years to design and then about five years to build two nuclear reactors.**

Now, here's the key. If the NRC permit is granted, it is good for 40 years before it needs to be renewed. **So, with the permit, the operators can wait until market conditions are right.**

**It's now been almost a year since oil and gas prices began plummeting. Led by Saudi Arabia, OPEC decided near year-end 2014 to keep oil production steady. As a result there has been a glut in the marketplace. This started a price nose-dive that, this week, pushed oil prices to seven-year lows. This impacts the Texas economy and state government operations in Austin.**

For the first time since February 2009 oil prices this week fell below \$40 a barrel. Some experts predict this could have a **psychological impact beyond the oil markets themselves** – raising caution flags on future economic growth. (Click the “Archives” button above to go to our edition last week, where we review the current effect on Austin and the state).

It's a mixed bag right now. On the one hand, in the past year, the **rig counts in the South Texas Eagle Ford oil play fell from about 200 to around 70**. That's a precipitous drop by any measure. But it is only part of the story. And this is important: the US Energy Administration reports that production per well nationwide has reached record levels. And, significantly, **crude oil inventories remain at 80-year-highs – not 8 years, but 80 years**.

To underscore the “mixed bag” reference, consider that **Valero and Tesoro** (two San Antonio-based refining companies) **are reporting record profits**. Yet, there have been **layoffs in other companies, as well as bankruptcies** (though fewer than expected) – especially in energy-dependent Houston. This simply illustrates the volatility of the Texas energy industry. So you need to keep a watchful eye on the state economy next year.

As for Austin? **Tax revenues keeping Austin-based state agencies humming are fine – for now**. And, personally, you are paying a **very low price per gallon at the pump** as you enter the holiday travel period. But *change* is the operative watchword. To underscore how the energy business is changing, for the first time **Mexico's national oil company Petroleos Mexicanos is opening five Pemex gas stations in the US, in Houston**. And one of them includes a fully-stocked Taco Shack restaurant.

**The remarkable rate at which apartments are being built in the Austin area – and occupied at ever-rising rents – is another sign of *change*. Of course, the skyrocketing population growth is contributing to this. But there are other factors at play.**

It's a change in *choices*, notes entrepreneur **Jeffrey Minch**. “**There is not as much desire to ‘own’ for young folks,**” he says. And he points out the **quality of new apartments is equal to or better than entry level homes**. “**These trends will continue,**” he predicts. To refresh your memory on what we wrote that triggered Minch's observations, click on the “Archives” button at the top of the page and go to the November 6, 2015 edition.

**Once again, Austin is running counter to a statewide trend – in a good way. And it has to do with retailing. Austinites are spending more bucks than last year while the rest of the state, as a whole, is in a slight slowdown mode.**

This is measured by sales tax revenue, that is largely collected on retail items. The latest tally – released this week – covers **transactions in October** that were sent to the state in November. And, the comparison looks back at October 2014 sales tax collections.

Figures show **2.9% more money was spent on items in Austin** where the sales tax was collected, than was spent in the same month the year before. But when you **crunch the statewide numbers, you find there was a 3.3% drop** in spending on items where sales tax was collected.

Again, with Austin in a positive mode, this was the second month where statewide sales tax revenues declined. Why is this? State Comptroller **Glenn Hegar** says statewide **“sales tax revenue declined again due to reduced spending in oil and gas-related sectors.”**

By the way, sales tax collections in October were not consistent throughout Central Texas. **Joining Austin with increases were cities like Round Rock and San Marcos. But dipping into negative territory were cities such as West Lake Hills and Luling.** It will be interesting to see how the numbers play out through the holiday shopping season that is all-important for many retailers.

**Loop360 has long been used as a north-south route on the western side of Austin. Now it is joining IH35, US183 and MoPac as a very crowded roadway during the ever-expanding drive time hours. One reason for the increase in traffic is the concentration of office space and technology operations in the Loop360 corridor.**

A recent analysis by the *Community Impact* newspaper showed **30 tech or tech-related companies located in a relatively short stretch of the roadway** – running generally from the intersection of Westbank Drive on the south going north to the semi-bottleneck Loop360 Pennybacker Bridge across Lake Austin.

New buildings will generate even more traffic. For instance, this includes **the 215,000 sf building leased by Apple this summer (but not yet fully occupied)**, adjacent to just-opened Hotel Granduca (not included in this total).

There are other major businesses in the area (**800-employee Dimensional Fund Advisors**, for one) dotting this portion of the hilly, winding, multi-lane Loop360, including a couple of busy shopping centers. Loop360 has been targeted for future expansion. But not immediately.

**What's the next big thing in transportation? Well some think you may soon see driverless golf carts buzzing around certain areas in Austin and, possibly, on local college campuses.**

One prediction is that they will be available within a year or so. **Relying on sensors for navigation, they have a variety of applications that are *not* on golf courses.** For instance, they can ferry students and instructors around college campuses. Another use: to transport non-driving residents of retirement and assisted living campuses. You get the idea.

Obviously, carts are less expensive than driverless cars. And they are much slower. The prototypes top out at about 15 miles per hour.

**Even though Christmas gifts are arriving daily at many Austin area addresses via conventional means this year, you can soon count on drones dropping packages at your doorstep. Some thought it was a far-fetched idea to see packages delivered by small drones buzzing into neighborhoods. But, here's the latest – and credible -- forecast.**

One reason it is credible to think these changes will occur over the next few years is that the **power of Amazon, Google and Walmart is behind this push.** After all, nearly 90% of items shipped by Amazon today weigh less than five pounds – light enough for small drones. In theory, **aerial service could cut delivery time to minutes.** If this works out, Amazon would profit by gaining new customers for its paid membership program. Others could follow suit.

And the drones you see today, may be yesterday's technology. Delivery drones, similar to fixed-wing and helicopter hybrids, are in an advanced stage of development. **They could fly fast to cover a lot of ground, then hover to gently lower their packages.**

Speaking of moving fast, **Dr. Louis Overholster** says he isn't sure when it happened but he is convinced the Austin City Council passed an ordinance requiring that at least four vehicles must go through an intersection *after* the light turns red!

Sincerely,



Editor/Publisher