



Austin Energy Rate Review: Process and Overview

Electric Utility Commission
August 16, 2010





Multiple Objectives of the Rate Review

- ▶ Revenue enhancement
- ▶ Rate rebalancing
- ▶ New Business Model



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Strategic Approach

Ratemaking is a strategic exercise

- ▶ “New Business Model”
 - ▶ Develop framework for the Utility of the Future
 - ▶ Unbundling
 - ▶ Rate restructuring
- ▶ Public Involvement (PI) and endorsement
 - ▶ Establish Public Involvement Committee (PIC)
 - ▶ Outreach to selected constituencies
 - ▶ Gradual build up to broader public awareness
- ▶ Transition plan
 - ▶ Incremental implementation of rate transformation
 - ▶ Working assumption of three incremental rate changes
 - ▶ Upfront approval of transition/transformation plan from Council and PUC (if appealed)





New Business Model

Develop foundation to become Utility of the Future

- ▶ Two key components of rate review establish foundation for New Business Model opportunities
 - ▶ Unbundling:
 - ▶ Existing barrier to New Business Model—energy costs intertwined with infrastructure (wires) costs
 - ▶ Differentiate **costs** of generation from **costs** of wires
 - ▶ Rate restructuring:
 - ▶ Unbundling allows differentiation of energy **pricing** from wires **pricing**
 - ▶ Research alternative rate designs and pricing signals
 - ▶ Implement transition plan to unbundled pricing





New Business Model

Future Opportunities Build on Unbundled Pricing

- ▶ Unbundling and rate restructuring allow and promote:
 - ▶ Shift from “programs” to “products” with cost recovery through product pricing
 - ▶ Focus on customer side of the meter
 - ▶ Pecan Street Project pilot (2013 complete)
 - ▶ Energy time-of-use rates
 - ▶ Prepare for 2015 building code change (“zero-energy homes”)
 - ▶ Accommodate dynamic changes expected in industry as technology and business models mature
 - ▶ Establishes framework for implementation of generation resource plan adopted by Council this spring.





Public Involvement Plan

- ▶ Start narrow and deep, gradually expand scope
- ▶ **Phase 1: Nov. 2010 – Oct. 2011**
 - ▶ Public Involvement Committee (PIC)
 - ▶ Approximately 12-15 members from across the community
 - ▶ 12 monthly meetings
 - ▶ Independent facilitator
 - ▶ Residential rate advisor
 - ▶ Debate meaningful policy issues
 - ▶ Recommendations to AE Executive Management
 - ▶ Low-income community advocates discussion group
 - ▶ Outreach among target, engaged constituencies





Public Involvement Plan

▶ **Phase 2: Spring 2011-Spring 2012**

- ▶ Outreach to Broader Set of Constituencies
 - ▶ Numerous, targeted discussions with neighborhood groups and key constituencies

▶ **Phase 3: Winter 2011-Spring 2012**

- ▶ Broader based Town Halls
 - ▶ Expand scope to broadest audience





Other Communications Components

- ▶ Use web generously throughout public involvement
- ▶ Monthly briefings for EUC on rate review progress
- ▶ Regular briefings with City Council
- ▶ Formal EUC hearings Spring-Summer 2012





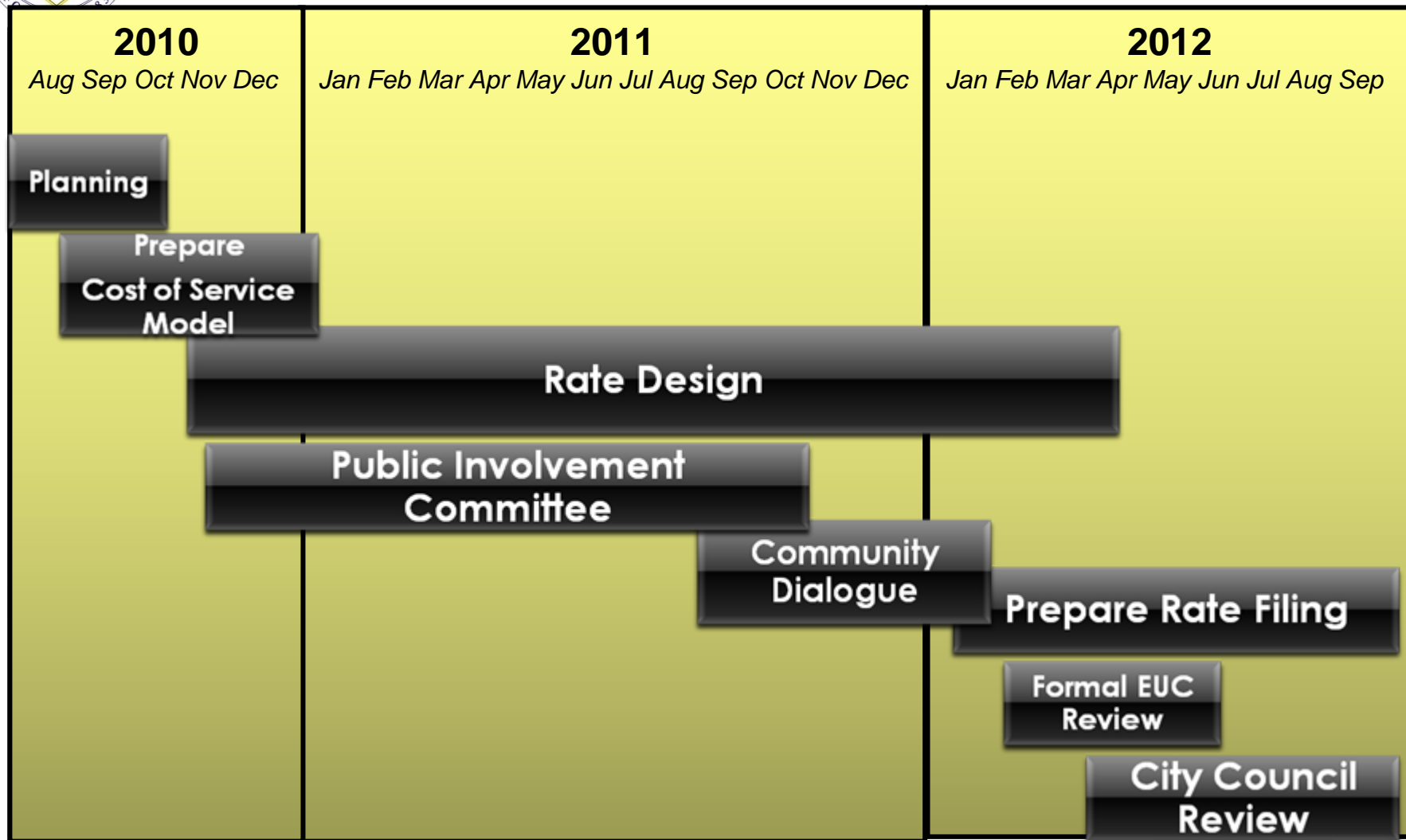
Cost of Service Model

- ▶ Develop a **Cost of Service** (COS) model, tightly integrated with a **Rate Design** tool and scenario analysis capability
 - ▶ Update regularly
 - ▶ Improve transparency
- ▶ Prepare Rate Filing according to PUCT requirements (testimony & format)
 - ▶ PUC rules dictate standard of review
 - ▶ Follow basic economic principles of rate making
 - ▶ Uncharted territory
 - ▶ No municipal appeal since deregulation
 - ▶ Set a precedent for Texas municipal filings
 - ▶ Communicate regularly with Texas Public Power Association





Rate Review Timeline



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Need for Consultant Engagement

- ▶ Staff augmentation
 - ▶ 17 years since last comprehensive rate review
 - ▶ Added depth needed
 - ▶ 26+ month process
 - ▶ Innovative rate designs
- ▶ New era of public engagement
 - ▶ Lessons learned from generation plan public engagement
 - ▶ Public eager to participate





Consultant Engagement

3 Separate Components

- ▶ Cost of Service and Rate Design
 - ▶ Develop unbundled Cost of Service Model
 - ▶ Research and develop rate design options
 - ▶ Present findings at public meetings, EUC, City Council
- ▶ Public Involvement
 - ▶ Manage Public Involvement Committee (PIC)
 - ▶ Organize constituency meetings and town halls
 - ▶ Help shape message and coach AE employees
 - ▶ Help in media relations
- ▶ Financial Consultant
 - ▶ Assist in research and analysis—added depth
 - ▶ Assist with development of forecast and scenario tool





Key Policy Decisions

- ▶ Balance among multiple objectives
- ▶ Timing of transition plan
- ▶ Design of new rate structure
- ▶ Level of low-income assistance embedded in rates and rate structure





Summary of Opportunities

- ▶ Assure long-term revenue sufficiency
- ▶ Execute strategy to become utility of the future
 - ▶ Development and public endorsement of "New Business Model" through collaborative Public Involvement process, consultant experience and AE staff expertise
- ▶ Engage public productively
 - ▶ Improve public confidence in utility decision making and transparency

