

## Austin Energy 2011 Rate Review Decision Point List

August 29, 2011

Issue	Austin Energy Staff Recommendation <sup>1</sup>	Residential Rate Advisor	Other Parties	EUC
1) Achieve Revenue Requirement	Collect revenues from all customer classes sufficient to fund core functions and the utility's strategic objectives. Increase overall revenues based on the Test Year 2009 results from \$1,004,133,897 to \$1,111,135,775, or an 11.1% increase.	Concur as Austin Energy must collect its revenue requirement.		
2) Align Rates by Customer Class with Cost of Service (minimize subsidies across customer classes)	No customer class should pay greater than 105 percent or less than 95 percent of its cost of service in the implemented new rates, with the condition that the utility achieve its total revenue requirement through implemented rates with the exception of contract customers.	Concur with this metric. However, the selection of the cost of service model upon which the 105 percent and 95 percent are calculated, defines the true impact. The Average and Excess Demand (AED) method places 20% more cost on residential customers than the Baseload, Intermediate, Peak (BIP) method.		
3) Set Policy Bounds on Customer Class Alignment with Cost of Service	Set the Residential, Secondary Voltage <10 kW, and Lighting customer class target revenues at 95 percent of cost of service and set all other customer classes at 104 percent of cost of service.	Concur with this metric. See Issue #2, regarding cost allocation differences between the BIP method and the AED method.		

<sup>1</sup> Preliminary; to be finalized for final proposal to the Austin City Council based on consideration of public input and input from the EUC.

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4) Mitigate Impacts Within Customer Classes	(a) No residential customer electric bill below 1,500 kWh should increase by more than \$20 a month on average. (b) Transition non-demand secondary commercial customers to demand rates.	(a) Concur with Austin Energy. (b) Concur – Rate shock will be reduced with a transitional plan for non-demand customers, as they are brought up to cost of service.		
5) Select a Production Demand Cost Allocation Method	Apply the Average and Excess Demand Method to 1) recognize that customers benefit from both capacity and energy produced from generation assets; 2) to reward high load factor and energy efficient customers; 3) to be consistent with methodologies commonly used in Texas and around the country.	<b>Disagree</b> - Apply the BIP Method. Consistent with the Public Utility Commission of Texas (PUCT)-ordered nodal market. Recognizes that customers benefit from both capacity and energy produced from generation assets; and is consistent with methodologies used around the country. The BIP method is a simplified version of the Probability of Dispatch method previously approved by PUCT and the City of Austin. The PUCT has not made any determination regarding cost allocations in a nodal market. Furthermore, the BIP method is consistent with the use of Austin Energy's generation resources by the Electric Reliability Council of Texas (ERCOT).		

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6) Consolidate Customer Classes	Consolidate current customer classes from 24 to 9 classes and develop classes based on cost of service differentials, including unique service requirements and electricity usage characteristics.	Concur with the reduction in classes and recommend that AE continue to monitor differences in consumption within the secondary and primary customer classes and seek future reductions in the number of customer classes.		
7) Update Rate Structure for Residential Customers	Unbundle rates and apply a customer charge, electric delivery charge, energy charge, regulatory charge, community benefit charge, and energy adjustment.	Concur with the direction and suggest complete unbundling of the electric delivery charge from the energy charge to be consistent with Austin Energy's transparency principle and the Texas deregulated market.		
8) Update Rate Structure for Commercial and Industrial Customers	Unbundle rates and apply a customer charge, electric delivery charge, energy charge, demand charge, regulatory charge, community benefit charge, and energy adjustment.	Concur with the direction and suggest complete unbundling of the electric delivery charge from the energy charge to be consistent with Austin Energy's transparency principle and the Texas deregulated market.		
9) Update Fuel and Energy Market Costs Recovery Mechanism	Recover Test Year fuel-related costs in the energy charge and apply an energy adjustment in future years to account for future fluctuations in fuel-related and energy market costs.	<b>Disagree</b> – Rates are more transparent and GreenChoice® Program is easier to understand if fuel and energy discrete line items.		

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10) Apply Regulatory Charge	Add a regulatory charge to recover costs associated with transmission and ERCOT fees and remove these costs from the energy charge.	Concur as these charges are beyond Austin Energy's control.		
11) Apply Community Benefit Charge	Add a community benefit charge to recover costs associated with the Customer Assistance Program, service area lighting, and energy efficiency programs and remove these costs from the energy charge.	Concur as the entire community benefits from these programs. Change makes rates more transparent.		
12) Update Summer Rate Period	Shorten summer rate period from six (May – October) to four months (June – September) so that stronger pricing signals can be provided during the summer time period and to align with ERCOT.	Concur as this was one of my recommendations during the Rate Review Public Involvement Committee process.		
13) Apply Residential Customer Charge	Raise the current residential customer charge from \$6 to \$15 and remove this portion of residential customer-related costs from the variable energy charge.	Concur as the need to contact customer service is not a function of electric delivery. During AE's Rate Review Public Involvement committee meeting process, the residential representatives on the PIC recommended a \$12 customer charge.		

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14) Apply Residential Electric Delivery Charge	Move distribution costs from the energy charge to an electric delivery charge for residential customers set at \$10 and remove this portion of residential distribution costs from the variable energy charge.	<p><b>Partly Disagree</b> – There is a cost of meter reading systems, meter drops, tree trimming, etc. that is unrelated to energy consumption. Therefore we agree with the \$10 per month fixed electric delivery charge.</p> <p>However, there are other electric delivery costs that are driven by demand (a measure of consumption). I recommend adding a second electric delivery charge to be consistent with deregulated areas and removing all electric delivery charges from the energy charge. This change is consistent with Austin Energy’s transparency and understandability principles. It also allows comparisons to be made with the deregulated market.</p>		
15) Implement Residential Inclining Block Tiered Rate Structure for Energy Charge	Expand existing residential inclining block rate structure from two tiers to five tiers to provide stronger conservation and energy efficiency pricing signals to the highest users in the residential customer class.	Concur - This will be one of the most complex rate designs in the country and, therefore, does not follow the AE design principle of “simple and understandable” rates. But it does follow Austin Energy’s strategic goal of incentivizing energy efficiency. I believe more weight should be given to goals than principles and, therefore, this change is appropriate.		

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16) Fund Customer Assistance Program	Fund the Customer Assistance Program with a Community Benefit Charge sub-component of \$0.00065/kWh to all customers.	<b>Disagree</b> - Recommend a flat fee consistent with survey results for <u>residential customers</u> of \$1/month. A \$1 fee is simple to understand, and transparent and therefore follows those principles. It will provide a stable funding source throughout the year, and will scale with the number of residential customers served by Austin Energy.  Concur - with the proposed funding mechanism for non-residential customers.		
17) Apply Commercial and Industrial Customer Charge	Apply customer charge at or near cost of service for commercial and industrial customers.	Concur		
18) Apply Commercial and Industrial Electric Delivery Charge	Unbundle rates and apply an electric delivery charge on a \$/kW basis at or near cost of service for all commercial and industrial customers.	Concur		
19) Apply Commercial and Industrial Demand Charge	Expand use of demand charges to all commercial and industrial customers and implement a three-year phase- in of demand-related charges (electric delivery and demand charge on a \$/kW basis) for the current non-demand customers.	Concur - This phased-in approach will reduce the rate shock on these customers as they transition to demand rates.		

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20) Apply Power Factor Adjustment for Commercial and Industrial Customers	Apply a power factor adjustment of 90 percent to all commercial and industrial customers with the exception of current non-demand customers during the phase-in period and customers with demand less than 10 kW.	Concur – Austin Energy is required by ERCOT to maintain a power factor of 97 percent so this is a good first step. The costs for AE to correct power factor to 97 percent are currently placed on all customers. Following this change, Austin Energy should continue to monitor the cost to correct the distribution power factor and determine if a greater adjustment is warranted.		
21) Implement Time-of-Use Alternative Rates	Implement a time-of-use alternative rate for residential customers with a 2,000 customer enrollment cap and implement time-of-use rates for each commercial and industrial customer class with an enrollment cap of the higher of 10 percent of the customers in the class or 10 customers for each class.	Concur – Suggest preference be given to residential customers with solar PV and/or an electric vehicle to ensure a representative sample of the impact these customers could have on future rates and demand profile.		

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22) Update Renewable Energy Alternative Rate (GreenChoice®)	Maintain the GreenChoice alternative rate for customers who wish to receive a 100 percent renewable energy price that is locked in and use a bundled portfolio approach that prorates the GreenChoice adjustment to account for system-wide renewables.	<b>Disagree</b> –Adjustment should continue to be shown as offsetting fuel charge. Program as described is unnecessarily complex and confusing. The recommended change to the portfolio approach is fine, but the overall program will be better accepted if credit is given for the fuel charge. If system level renewables were included as part of the fuel and energy charge (as the name implies), the entire program is simplified. That change achieves the AE goal, and meets Austin Energy’s transparency and “simple and understandable” principles.		
23) Update Net Metering Alternative Rate	Maintain a net metering rate for customers with distributed generation (e.g., solar PV) and apply a credit at the annual value of solar rate for excess energy generated on a monthly basis with the intent to move to a separate solar rate when meter data management capabilities are achieved.	Concur – Suggest moving to a solar rate which considers the hourly value of energy as expeditiously as possible.		
24) Update Thermal Energy Rate Option	Update existing thermal storage rate option to support customer investment in this technology.	Concur – As transmission lines are completed to wind areas, significant savings may be available for energy storage.		



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25) Plan for Pricing Pilot Projects with Pecan Street Project	Austin Energy will work with the Pecan Street Project to pilot new rates for customers. Any pilot project implemented must first be approved by the Austin City Council.	Concur – Suggest that the Austin City Council be very liberal on approving pilot projects with a maximum participation rate of 1 megawatt (MW), and less than 2 years in duration.		
26) Plan for Future Pricing of Long-Term Contract Customers	Move long-term contract customers to cost of service-based rates upon expiration of their contracts in 2015.	Concur on move to cost of service-based rates, and further suggest future long-term contract customers be tied to a specific fuel or power hedge which minimizes impact on other customers.		