



YOUR ELECTRIC RATES

Rate Review Responses to Requests for Information and Questions

**For Questions Received on September 12, 2011 following the Electric Utility
Commission Meeting on September 1, 2011**

(Questions received between September 1 and September 9 were previously provided and posted
on September 14, 2011)

Released: September 16, 2011

Rate Review – Responses to Questions and Requests for Information

REQUEST NO.: AM2

REQUESTED BY: Andy McFarlane, Data Foundry

DATE REQUESTED: 9/12/2011

RESPONSE FILED: 9/16/2011

AM2.1. Please refer to Rate Analysis and Recommendation Report, Section 7, page 204, which states: “Figure 7.8 and Figure 7.9, respectively, show average commercial and industrial rate comparisons between AE [Austin energy] and other major electric service providers in Texas for 2009 based upon data from the U.S. Energy Information Administration (EIA-861 data).”

- a. Does this mean that for the annual benchmark analysis there will be a two year lag in the information concerning Commercial and Industrial customers rates in the competitive areas of Texas which will be compared to AE’s?
- b. Is this description the follow-up response to the answer to question 26 posed on April 27, 2011? If not, please provide the citation in the Rate Filing Package that describes AE proposed methodology to benchmark AE’s rates for all customers.

Response: The EIA-861 data is the only publicly available information on commercial and industrial customer sales in the competitive markets that Austin Energy is aware of. This information is published annually for the year prior to the previous year by the Energy Information Administration. For instance, the 2009 data was published January 2011. Thus, the data was for a period that ended about 13 months prior to the release of the data. As this is the only publicly available information on commercial and industrial sales in the competitive markets that Austin Energy is aware of, this is the only source that Austin Energy can use to compare Austin Energy electric rates with rates in the competitive markets in Texas.

AM2.2. Please refer to the proposed tariff for the Energy Adjustment shown on Page 59 of the Proposed City of Austin Electric Rate Schedule.

- a. How often does AE’s proposed tariff intend to allow for the adjustment to base rate energy?
- b. Why is AE proposing to allow the General Manager to adjust rates without the approval of the City Council?
- c. As the tariff currently reads the adjustment may increase or decrease based on changes in the Net Settlement Cost and is “calculated on the projected net cost per kWh”. How will the projected net cost per kWh be determined?
- d. Will the projected net cost contain true-ups from prior periods?
- e. Will these amounts be provided to the Austin Energy rate payers?

Response: The following responses are to the sub-set questions.

- a. The tariff does not specify the frequency of adjustments. Condition (2) in the Application section of the tariff requires a reset to zero of the Energy Adjustment (EA) if the level of the EA falls below negative \$0.01 or rises above positive \$0.01. If the EA is within that range (-\$0.01 and +\$0.01) condition (1) in the tariff allows but does not require the EA to be reset to zero.
- b. The City Council approves all Austin Energy tariffs. Allowing for the administrative adjustment of the Energy Adjustment is consistent with Austin Energy's currently approved Fuel Adjustment Clause tariff. That tariff is available online at: <http://austinenenergy.com/About%20Us/Rates/fuelAdjustmentClause.htm>. The proposed process is very similar to the current process where Austin Energy can administratively increase the Fuel Clause Adjustment in order to respond to market changes. The Austin City Council is notified as well as all customers when a change occurs.
- c. Net Settlement Costs are captured and recorded on a monthly basis and future Net Settlement Costs are forecast using production simulation software. The current state and the future state are tracked and analyzed monthly and reported to Austin Energy's Risk Oversight Committee. Based on this analysis, Austin Energy will increase or decrease the Energy Adjustment according to the tariff. The Rate Stabilization Fund will be used to comply with the Affordability Goal to keep future rate increases under 2 percent annually. The Rate Stabilization Fund should be considered in conjunction with the Energy Adjustment as the two are designed to work together to keep rates stable.
- d. Yes.
- e. Some components of the Energy Adjustment are considered confidential and cannot be released. Austin Energy's Annual Performance Report will contain information on the Energy Adjustment and the Rate Stabilization Fund for the previous year.

AM2.3. The proposed tariff for Large Primary Service – Special Contract Rider II on page 64 of the Proposed City of Austin Electric Rate Schedule contains a reference to the Fuel Adjustment Clause (FAC).

- a. Was this an oversight since AE is not proposing a FAC?
- b. If not, please point to the proposed tariff that describes the FAC.

Response: Customers served on the Large Primary Service – Special Contract Rider II will continue to be subject to our currently-approved Fuel Adjustment Clause tariff.

AM2.4. WP 20- Off-system, page 227 of 296, shows a reduction in revenue of \$21,657,426 for fuel expense, to arrive at net revenue. Please provide the work paper reference that shows the same reduction to fuel expense that was including in the base rate energy charge.

Response: Please see Work Paper 44 in Appendix D on page D-293 of the full-length Rate Analysis and Recommendations Report. Also, please see responses to CmDay 1.7 and CmDay 1.8.

AM2.5. Please explain what is meant by the term “non-Eligible Fuel” shown on WP 28- FERC 556.

Response: Non-eligible fuel costs are those costs not recovered in the Fuel Adjustment Clause (FAC) in Fiscal Year 2009. They primarily consist of congestion costs associated with wind contracts supporting GreenChoice® and labor costs recorded in FERC 556.

AM2.6. Reference is made throughout the Rate Filing to normalized sales and expenses. Please provide a thorough description of all methods and all assumptions made in the normalization adjustments. For example, if an adjustment for weather was made, what were the number of years and heating and cooling degree days used?

- a. Were adjustments made to account for the economic downturn in the test year 2009?
- b. If so, please provide all of the assumptions used.

Response: Please refer to the response to CmDay1.25 for a description of Austin Energy’s kilowatt-hour (kWh) sales adjustment methods. Known and Measurable Adjustments to Test Year revenues are addressed in Section 3 of the full-length Rates Analysis and Recommendations Report.

The Normal Weather definition used in the adjustment process is defined as the average weather in the last 10 fiscal years using industry accepted “Rank and Average” method on a monthly basis. The cooling and heating average temperature break points adopted in the calculation of Cooling Degree Day/Heating Degree Day (CDD/HDD) values are as follows:

- Cooling Break Point - 65°F
- Heating Break Point - 55°F

Daily CDD/HDD numbers were calculated based on normal dry bulb temperatures coinciding with Austin Energy’s meter reading schedules and aggregated by bill cycle. Each bill cycle CDD/HDD values are then weighted and summed to come up with the Revenue Month Normal CDD/HDD totals. Test Year Revenue Month (Normal or N) CDD/HDD values are summarized in the table on the following page.

Test Year Revenue Month Normal Heating Degree Days and Cooling Degree Days

	NHDD	NCDD
October 2008	0	316
November 2008	3	120
December 2008	73	12
January 2009	197	2
February 2009	111	1
March 2009	57	16
April 2009	8	93
May 2009	0	236
June 2009	0	433
July 2009	0	558
August 2009	0	617
September 2009	0	570

There were no adjustments made to account for the economic downturn in the Test Year 2009.

AM2.7. What is the purpose of the “Rate Stabilization Reserve”?

- Why does it require 90 days based on fuel expense?
- Was or will the policy be updated to reflect the nodal market?
- What is the source of funding for the Reserve? Please explain in detail how the Rate Stabilization Reserve will work in conjunction with the Energy Adjustment.
- When was this reserve approved by City Council? If it was, please provide supporting papers for request.

Response: Please see the section on “Rate Stabilization Fund” on pages 45 and 46 of the full-length Rate Analysis and Recommendations Report. Also, please see the following responses to the sub-set questions:

- A primary purpose of the Rate Stabilization Reserve is to stabilize rates and protect customers from higher than expected power costs. A fund balance of 90 days of power costs is reasonable to support its purpose.
- Yes.
- Reserve funding is included in the revenue requirement. Changes to the Energy Adjustment will be minimized or avoided by using the Rate Stabilization Reserve.
- The Rate Stabilization Reserve is a revision to an existing Strategic Reserve Fund policy. The Rate Stabilization Reserve is provided for through Austin Energy’s financial policies which were most recently published on July 27, 2011 and approved by the Austin City Council in September 2011. Financial policies are included in Austin Energy’s budget and can be accessed here: <http://www.ci.austin.tx.us/budget/default.htm>

AM2.8. What is the balance of the Rate Stabilization Reserve at the end of the last Fiscal Year?

Response: The Fiscal Year 2010 ending balance was zero.

AM2.9. What is the projected balance of the Rate Stabilization Reserve at the end of this Fiscal Year [Fiscal Year 2011]?

Response: The Fiscal Year 2011 projected ending balance is zero.

AM2.10. During the PIC [Public Involvement Committee] Meetings, it was mentioned several times that the reason that BIP [Baseload, Intermediate, Peak method] was chosen was because it most closely mirrored operations in the ERCOT [Electric Reliability Council of Texas] market. Doesn't ERCOT use economic dispatch modeling in the Nodal market and how is this different from the manner in which AE dispatched its resources in the Zonal market?

Response: During the PIC meetings, the Baseload, Intermediate, Peak (BIP) allocation method was recommended over the Probability of Dispatch (POD) method because of the December 2010 launch of the ERCOT nodal market. Please see response to EUCMtgl.16 for more information on BIP versus POD methods.

In the previous zonal market, Texas was divided into four different zones of load and generation and these zones were separated by interface constraints. The zonal representation assumed that power could flow freely within the zone such that any resource within the zone could serve load anywhere within the zone without constraint. These zones set the market price. Under this arrangement, Texas electric utilities could buy and sell into the market but all utilities were responsible for serving their load. As a result, the dispatch of Austin Energy generation resources was primarily dependent on the load requirements of Austin Energy's system.

The nodal market incorporates detailed power flows on specific lines and provides individual nodal pricing, which reflects transmission congestion within the zone itself. As a result, the cost of serving a load at a specific node may be higher and more volatile than the zonal price would indicate. Dispatching resources in a nodal market is still based upon economic dispatch, but the economics are based on the nodal price for a given generating resource, rather than the zonal price. In the nodal market, all generation within ERCOT is dispatched into the market to serve the ERCOT system-wide load. As a result, the dispatch of generation resources for Austin Energy is now dependant on ERCOT load requirements and the availability and price of competing generation units owned by other utilities. In the nodal market, the dispatch of Austin Energy units is similar but is not directly tied to Austin Energy's system load requirements. For this reason, BIP is a superior method as compared to POD, because BIP assigns generating units into categories that represent the function of various generating units in a nodal market. These categories are designated from a planning and cost perspective and do not rely on an economic dispatch of Austin Energy generation to Austin Energy system load.

AM2.11. AE stated that AE "generation resources effectively act as a hedge against market prices, protecting AE customers from high market prices" on pp. 9-10, Answer to Question 24

from the April 27 PIC meeting. Please explain this concept by providing specific examples and where that benefit will be reflected on the customers' bills.

Response: Please see the response to CmDay1.7.

AM2.12. How is AE planning to utilize its Smart Meters? What customer benefits will be provided in exchange for the significant expense that has been incurred?

Response: Austin Energy has installed automated meters for almost all Austin Energy customers. With these Advanced Meter Reading (AMR) meters, Austin Energy expects to increase meter functionality, improve customer service responsiveness, and enhance electric system reliability. Austin Energy customers' bills are more accurate (fewer mis-read or estimated bills), trucks are no longer dispatched for certain types of service requests that can now be handled remotely through the meter, and Austin Energy has improved its capability to detect theft of electric service. Data from Austin Energy's AMR meters provide enhanced system operations and outage data. These meters also provide more data to Austin Energy for all customers (daily reads for all, kW as well as kWh for all commercial accounts), the option for specialty programming or upgrades for hourly or time-of-use (TOU) data, and connections to new technologies such as Home Area Networks (HAN).

Austin Energy has improved Customer Service responsiveness since installing the AMR meters through faster response information to outages, faster response to service turn on, turn off requests, and by providing better, more complete data to answer billing questions received. Increased meter functionality allow Austin Energy to remotely turn on and turn off of electric service when customers move in or out of a premise, to remotely disconnect service for non-payment, and to check meter status immediately. Austin Energy will continue to improve its customer service responsiveness by offering customers more rate and billing options and web services, and by working with the Pecan Street Project and other stakeholder groups to test new technologies, such as HAN.

Austin Energy's electric system reliability has been improved with use of the data available from the automated meters, which provide real-time or near-time data for Austin Energy electric system components. This allows Austin Energy to better optimize and maintain circuits and equipment. These AMR meters provide improved outage information (such as last gasp and re-connect messages) that improves Austin Energy's ability to diagnose outage problems and confirm restored power.

AM2.13. Do the fixed charges AE proposes to include in the energy rates include generation costs?

Response: The cost of service study identifies costs of providing major utility functions including production, transmission, distribution, and customer functions. These functionally unbundled costs have been allocated to customer classes and will ultimately be collected through charges to customers.

The rates presented in the Rate Analysis and Recommendation Report are more unbundled than Austin Energy's current rate structure. That is, the rate design is guided by the type of costs being recovered. For example, the Electric Delivery Charge recovers the cost of distribution substations, poles, wires, conductors, and transformers required to deliver power to customers. It is appropriate to recover these costs on either a fixed dollar per month basis or a per kW basis from customers since these costs do not vary significantly with energy (kWh) usage. Fuel costs, which do vary with kWh usage, are to be recovered through rates which also vary with kWh usage, the Energy Charge, and the Energy Adjustment. While the rates presented more closely align rates with costs than do our current rates, they are not perfectly aligned. For example, the customer charges that we have presented are less than the customer costs identified in the cost of service study. Also, not all the costs identified as Electric Delivery costs are to be recovered through the electric delivery charges. In cases where the costs exceed the rates, the remaining costs are to be recovered through the Energy Charge. In the rates presented, all of the identified production costs and a portion of the customer costs and electric delivery costs are recovered through the energy charge.

AM2.14. Is there any cost-of-service data to support the proposed energy rate levels?

Response: Please see response to AM2.13

AM2.15. How were the proposed energy charges determined?

Response: Please see response to AM2.13

AM2.16. Please explain why AE has used a three year amortization period for rate case expenses? - (See WP 40, page 284 of 296).

Response: Please see response to CmDay1.26.

AM2.17. Please describe the Legislative Advocacy activities performed by Outside Services for \$10,420,298 shown on WP 42- Advocacy & Insurance, page 289 of 296 that AE expects to incur annually.

Response: There are no legislative advocacy costs included in the \$10,420,298 for Outside Services. Legislative Advocacy expenses for Fiscal Year 2009 were \$314,242 and were removed from the adjusted Revenue Requirements.

AM2.18. Please describe the Legislative Advocacy activities listed as General Expenses for \$22,369,487 shown on WP 42- Advocacy & Insurance, page 289 of 296 that AE expects to incur annually.

Response: There are no legislative advocacy costs included in the \$22,369,487. Legislative Advocacy expenses for Fiscal Year 2009 were \$314,242 and were removed from the adjusted Revenue Requirements.

AM2.19. WP-15- Other Revenue, page 219 of 296 shows adjustments that removed \$18,252,299 related to ERCOT revenues with a footnote 4 that states “Assumed benefit is passed back through the fuel charge, making customers whole if the revenue is realized.” Mr. Mancinelli stated in the EUC meeting on September 1, 2011 that off-system sales were netted against purchased power costs in FERC Account 555. Shown on page 2 of 5 of the Electric Cost of Service, an adjustment of (\$16,453,605) is shown to Non-recoverable Purchased Power. Is the adjustment to reflect test year ERCOT Revenue that Mr. Mancinelli referenced? If so, please explain the difference in amount.

Response: No. The adjustment referred to above reflects the change in purchased power supporting GreenChoice®. Please see Work Paper 44 in Appendix D on page D-294 of the full-length Rate Analysis and Recommendations Report.

AM2.20. What is meant by Non-Recoverable Purchased Power?

Response: Please see AM2.19.

AM2.21. Where is the remaining \$25,528,883 in off-system sales revenue reflected in the cost of service?

Response: Please see (\$16,877,957) on Line 195, Column E with the remaining (\$8,740,926) embedded in the adjustment (\$17,503,790) on Line 205, Column E in Functional Unbundling on pages D-16 and D-17, respectively in Appendix D, of the full-length Rate Analysis and Recommendations Report.

AM2.22. WP-19 Non- Expenses – Non-utility operations in FERC Account 417 on Page 224 of 296 shows an adjustment of \$10,077,720 leaving a balance in the Test Year of \$6,211,223. Please explain why non-utility electric expenses that were not removed should be included in the cost of service and describe these expenses in detail.

Response: The test year balance for FERC 417 is \$2,331,688. This is the balance remaining after removing non-electric expenses of \$10,077,720 and accounting for an increase in reimbursements of \$3,879,536 from other City of Austin departments for the operation of the 311 call center.

\$2,079,086 of the remaining balance in FERC 417 relates to Austin Energy's share of the operation of the 311 Call Center that serves as AE's disaster backup Call Center, supports the primary Call Center and trouble calls.
\$252,602 is due to distributed generation.

AM2.23. Please explain the increase in FERC Account 555 in the amount of \$17,681,726.

Response: Please see Work Paper 44 in Appendix D on page D-293 for the computation and "Normalization of Load and Resources" on page 54 for discussion of the adjustment in the full-length Rate Analysis and Recommendations Report.

AM2.24. Why are the proposed tariffs for the Time-of-Use rates limited to a set number of customers? If this is a pilot program, when will it end? Will the tariffs be modified to allow for greater participation?

Response: The proposed tariffs for the time-of-use rates are limited to a set number of customers to reduce risks to the utility's financial stability. This risk issue is discussed in Austin Energy's long-term residential pricing objectives on page 143 of the full-length Rate Analysis and Recommendations Report. Any modifications to a tariff would require City Council approval. Capping participation provides the utility with the opportunity to explore new rate options to meet customer needs and the utility's strategic objectives while potentially reducing costs to the utility and its customers. Additional information on time-of-use rates for residential customers is provided on pages 137-142 and for commercial and industrial customers on pages 194-202 in the full-length Rate Analysis and Recommendations Report.

AM2.25. Will AE propose a tariff to allow for self generation with standby power for all customer classes?

Response: If a customer has need of standby, supplemental, maintenance, interruptible, or other non-firm service, Austin Energy will develop a tariff or contract at that time for the specific service(s) required.

Rate Review - Responses to Questions and Requests for Information

REQUEST NO.: CB2

REQUESTED BY: Carol Biedrzycki, Texas ROSE

DATE REQUESTED: 9/12/2011

RESPONSE FILED: 9/16/2011

INTRODUCTION

The following questions are submitted by Texas ROSE (Ratepayers' Organization to Save Energy). We pose the questions to further clarify the facts and our understanding of the Austin Energy (AE) rate increase proposal. If the question is answered in the rate case proposal we inadvertently missed seeing the information. Please provide a specific page and paragraph or line reference and explain how the information provides an answer to the question. Question numbers 1-23 are in reference to Austin Energy's Rate Analysis and Recommendation Report August 29, 2011. Questions 23-24 are in reference to the Proposed Rates Schedules in Appendix E.

LIST OF QUESTIONS

CB2.1. Page 16 includes a metric that states that for the Customer Assistance Program (CAP) Austin Energy (AE) will increase funding by at least 100 percent to increase the number of customers receiving assistance. Please provide the amount of funds spent under CAP during the Test Year. Please provide an explanation of the basis for increasing funding for CAP by 100 percent. Please provide the average number of customers that have participated in CAP annually over the past five years and the average amount of benefit received per year.

Response: The table below shows the amount of funds spent under CAP over the past five fiscal years and the average amount of benefit received each year. FY 2009 is the Test Year. The average amount of benefit varies by year and is dependent on the fuel charge in a given year.

Customer Assistance Discount Program (electric only)	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Average Enrollment	4,959	5,134	4,005	5,137	8,599
Average Combined Customer Savings	\$1.352 M	\$1.320 M	\$1.084 M	\$1.453 M	\$2.402 M

*December 2010 had the highest enrollment with 9,949 customers.

Austin Energy's 2010 Affordability Benchmarking Study demonstrated that rates for CAP participants are among the lowest in the State. In developing its recommendations, Austin Energy determined that doubling the dedicated revenues available for CAP discounts is appropriate to mitigate the impacts of rate changes to low income customers and expand the benefit to a larger customer base.

CB2.2. Please provide the eligibility requirements for the CAP currently in place and the proposed program. How many customers received CAP during the test year? Please explain differences in total population of eligible households and the number of customers enrolled.

Response: See the table below regarding programs that currently provide customer eligibility for CAP.

Current Eligible Programs for CAP

	Program
	Medicaid SSI/Aged/Disabled (Types: 3, 12, 13, 14, 18, 19, 22, 23, 24, & 51)
	Supplemental Security Income
	MAP
	CEAP

See response to question CB1.1 for CAP enrollment number for the Test Year.

The current program structure had a limitation of exactly 100,000 megawatt-hours based on GreenChoice® Batch 1 per city ordinance 041028-45. This limitation capped the total eligible customers to an average of 10,000 customers per year. With the expiration of GreenChoice® Batch 1 in March 2011, Austin Energy determined that this cap would be continued until a funding mechanism for the program was approved by Council in the current rate review. Austin Energy estimates that the current CAP eligibility guidelines make about 25,000 customers eligible for an electric bill discount.

Questions about future CAP program design are outside the scope of the rate review.

CB2.3. Please explain the current enrollment process and how the availability of the new billing system has impacted that process.

Response: The current enrollment process is a hybrid between manual enrollment and automatic enrollment. Austin Energy defines manual enrollment as the customer actually submitting documentation directly to Austin Energy to determine qualification validity. Austin Energy defines automatic enrollment as Austin Energy receiving an enrollment list directly from the State Medicaid office with individuals who receive one of the Medicaid types that qualify a household for the program. This list is utilized to automatically enroll the customer into the discount program. The new billing system is currently slated to go live October, 2011 and although some administrative aspects of enrollment within the system will be more efficient, the actual process of enrollment for the customer will remain the same.

CB2.4. How does AE intend to increase customer enrollment in CAP? Please provide a goal for the increased number of customers AE plans to enroll, an explanation of the methods to be used to increase enrollment and the total cost of the enrollment methods to the program.

Response: Austin Energy does not currently have a formal plan on how to increase enrollment at this time, as a final determination on future funding for the program has not been made. Austin Energy has a goal to increase funding CAP by 100 percent, but specific program design elements have not been determined. Once the rate review process has been completed and a final funding mechanism has been approved, Austin Energy will design an enrollment and program design structure with recommendations received from the Community Advocacy Group and other stakeholders.

CB2.5. How did AE determine that a discount of \$25 per month is just and reasonable? Please explain the rationale for choosing a \$25 monthly benefit and how this compares to the benefit provided under the program in place today.

Response: The Customer Assistance Program Discount program structure and the amount of the discount are yet to be determined. Program redesign will be completed after rates are approved and the funding amount is certain.

CB2.6. At p. 25, Table 14 item 50 states: “Institute a fee within the Community Benefit charge that creates a pool of monies to assist Customer Assistance Program participants.” Please explain how the monies will be used to fund programs for low-income consumers.

Response: Please refer to the response to CB2.5.

CB2.7. For the test year, please provide actual expenditures for CAP including the cost of operating the program and enrolling customers.

Response: Please see response to CB2.1. Program operating costs are not separately identified and are included in Customer Care costs.

CB2.8. Please provide an estimated budget for all CAP expenditures after the program changes are made. Please include in the budget the cost of operating the program and the cost of enrolling customers.

Response: Questions about future CAP program design and forecast are outside the scope of the rate review.

CB2.9. At p. 103, paragraph 7, the description of "discount to low-income customers" has listed the objective of AE being "committed to improving energy efficiency of homes of low-income customers and other disadvantaged customers." In regard to this statement please answer the following:

- a. How will Austin Energy provide energy efficiency as a part of CAP? Specifically, what energy efficiency benefits will be provided?

- b. Please define the eligibility requirement for low-income customers.
- c. Please define “other disadvantaged customers” and eligibility requirements.
- d. How does the energy efficiency provided as a part of CAP coordinate and supplement the weatherization assistance program?

Response: Please see the following responses to each sub-question:

- a. Questions about future CAP program design are outside the scope of the rate review.
- b. Please see response to question CB2.2.
- c. Questions about future CAP program design are outside the scope of the rate review.
- d. Customer Assistance Program recipient information is provided quarterly to Austin Energy’s Weatherization group.

CB2.10. At p. 225 a time of use (TOU) rate is recommended. One of the supporting reasons for the rate is that it “moves AE toward its long-term residential pricing objectives while reducing risks to the utility’s financial stability (by offering this on a limited basis.) Please provide the specific long term pricing objectives referenced here and provide any studies or documentation developed to support this recommendation. Please describe AE’s long term residential pricing plan and provide any studies or reports that state "AE's long term residential pricing objectives" and/or provide supporting documentation for the objectives.

Response: Austin Energy’s long-term residential pricing objectives are discussed on page 143 of the full-length Rate Analysis and Recommendations Report. Austin Energy has not completed any studies or documents in support of these objectives at this time. Decision Point List Issue #25 recommends that Austin Energy 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. Piloting new rates provides the utility with the opportunity to explore new rate options to meet customer needs and the utility’s strategic objectives while potentially reducing costs to the utility and its customers. Piloting rates also minimizes the risks to the utility and its customers and allows the utility to evaluate research and analysis before moving forward with any rate options system-wide. Studies and reports will be made publicly available during and following these pilot projects.

CB2.11. How much revenue per year would be generated by the proposed CAP kWh charge of \$0.00065? How does the amount of revenue AE anticipates collecting compare to the proposed expenditure level?

Response: \$7,658,446 is the proposed funding at \$0.00065 per kWh (assuming voluntary contribution by long-term contract customers) as shown in Table 4.20, page 94 of the full-length Rate Analysis and Recommendations Report. The amount of revenue that Austin Energy collects from this program will be used to determine the expenditure level for the program and thus will be budgeted to match the anticipated funding amount.

CB2.12. What process will be used to reconcile the CAP account? How often will the account be reconciled?

Response: Once a determination of funding has been secured, staff of Customer Care and AE Finance will determine reconciliation procedures.

CB2.13. What action will Austin Energy take if the full \$0.00065 per kWh is not expended on CAP?

Response: Please see response to CB2.12.

CB2.14. How can customers be assured that funds collected for the CAP are used for the CAP?

Response: Please see response to CB2.12.

CB2.15. During the test year, what amount did AE contribute to the community to provide funds for billing assistance? How much money was contributed to the fund by residential, commercial and industrial customers? Please provide a breakdown by customer class.

Response: See the table below.

Funding Source	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Austin Energy	\$100,000	\$100,000	\$125,000	\$150,000	\$300,000	\$300,000
City of Austin employee donations to Combined Charities	\$0	\$0	\$0	\$0	\$4,718	\$3,820
Residential Customers and Small Commercial	\$36,031	\$46,335	\$42,221	\$44,438	\$43,649	\$39,723
Total	\$136,031	\$146,335	\$167,221	\$194,438	\$348,367	\$343,543

CB2.16. During the past years (2005 – 2010), what amounts did Austin Energy contribute to the community to provide funds for billing assistance? How much money was contributed to the fund each year by residential, commercial and industrial customers? Please provide a breakdown for the five years by customer class.

Response: Please see response to question CB2.15.

CB2.17. Please refer to Table 13, Page 21 of the rate case which states: “2) Expand use of pass through charges by adding a regulatory charge (transmission and ERCOT fees) and community benefit charge (for Customer Assistance Program, service area street lighting, and energy efficiency) and removing these costs from other existing services. Please provide data on the amounts deducted from existing rates to assure that customers are charged only once for Customer Assistance Program, service area street lighting, and energy efficiency.

Response: Please see pages D-129 and D-130 of the full-length Rate Analysis and Recommendation Report. Line 39 shows service area street lighting costs. Line 40 shows energy efficiency costs. Lines 43 and 44 show that none of those costs are to be recovered in base electric rates. There are no Customer Assistance Program costs identified in the cost of service study, but there is a proposal to charge \$0.00065 per kWh to all customers served under the new rates.

CB2.18. The paragraph on p. 50 with the heading “Pass-Throughs” references section 5 rate design analysis. Where in Section 5 or in other sections of the rate case does Austin Energy show the amount of the adjustment taken out of base rates prior to establishing the new cost pass-throughs to assure that customers are not paying the same costs more than once.

Response: See response to CB2.17 above.

CB2.19. Please provide a table that lists all cost pass-throughs proposed by AE and each component of the cost pass-through. Beside the name of each cost pass through, list the amount recovered for that purpose in the test year base rates that would be transferred to a cost pass-through under the proposed rate case.

Response: See pages D-138 and D-146 of the full-length Rate Analysis and Recommendations Report. Lines 417-419 show the regulatory charges. Lines 421-423 show the service area lighting charges. Lines 425-427 show the energy efficiency charges. Also, not shown in the cost of service study is a proposal to fund the Customer Assistance Program through a charge of \$0.00065 per kWh to each customer served under the new rates.

CB2.20. What is the relationship between the budget adopted by City Council and the base rates? Please provide the amount of the total budget approved by city council and the total amount of revenue AE estimates it will receive over the time period covered by the city budget.

Response: Base revenue in the budget is derived from base rates and estimated consumption levels. For the Test Year (Fiscal Year 2009), the total budget approved by City Council totaled \$1,413,921,716 and the total amount of revenue approved by City Council totaled \$1,319,693,514.

CB2.21. Please provide a list of test year energy efficiency programs, and for each program provide the amount of budgeted funds and the amount of expenditures. Please also provide the names of any new programs initiated after the test year and the amount of money currently included in base rates to fund each of the listed energy efficiency programs.

Response: Please see the table below regarding budget and expenditures for the conservation rebates and incentives fund for Fiscal Year 2009 (the Test Year). There are no energy efficiency programs that have started after the Test Year (Fiscal Year 2009).

Budget and Expenditures for the Conservation Rebates and Incentives Fund
CONSERVATION REBATES AND INCENTIVES FUND

	2008-09 AMENDED	2008-09 ACTUAL
REQUIREMENTS		
Electric Rebates and Incentives		
Free Weatherization	\$ 849,850	752,132
Multi-Family Rebates	1,030,000	1,143,984
Loan Options	321,448	228,712
Rebate Options: Home Performance with Energy Star, Appliance Efficiency and Air Conditioning	3,198,785	4,056,167
Clothes Washer Rebates	31,580	50,000
Duct Diagnostic/Sealing Rebates	260,000	56,918
Nexus-Home Audit CD	57,750	60,994
Compact Fluorescent Distribution	100,000	427,230
Loan Star Debt Service	175,000	0
Commercial Existing Construction	2,599,627	2,706,843
Small Businesses	967,599	248,639
Commercial Power Partner	631,429	300,880
Commercial Miser Program	157,857	139,897
Solar rebates	4,500,000	6,710,009
Refrigerator Recycle program	543,528	517,615
Multi-Family Duct Sealing	812,600	509,055
Residential Power Partner-Aggressive	1,095,498	670,259
Load Coop	123,655	7,508
Thermal Energy Storage	236,786	0
Total Electric Rebates and Incentives	\$ 17,692,992	18,586,842

CB2.22. For the following sub-questions regarding low-income weatherization please provide information for all accounts and all amounts including federal stimulus funds, Austin Energy funds and any other resource dedicated to low-income weatherization.

- a. What is the test year amount of weatherization assistance funding?
- b. What is AE's Austin Energy's five year plan for funding the weatherization assistance program?
- c. Please provide a report of all weatherization expenditures by account and the number of units completed.

Response: There were no federal stimulus funds for low-income weatherization in the Test Year. The Free Weatherization Program was budgeted for \$849,850 in Fiscal Year 2009 and expenses for that fiscal year were \$752,132.

Future funding plans for the weatherization assistance program are outside the scope of this rate review. Furthermore, providing reports on weatherization expenditures by account cannot be provided as individual accounts are confidential due to customer privacy.

CB2.23. Please refer to p. 225 Table 9 item 4) which states: implementing a TOU option as described will "move AE toward its long-term residential pricing objectives while reducing risks to the utility's financial stability (by offering this on a limited basis). Please describe AE's long term residential pricing plan and provide copies of any studies or reports that state or describe "AE's long term residential pricing objectives" and/or provide supporting documentation for the objectives.

Response: Please see response to question CB2.10.

CB2.24. Please reference the "Proposed Austin Energy Electric Rate Schedule" included in the rate increase proposal. Please provide a table that shows the amount that will be charged per kWh for energy efficiency under each recommended rate, the amount included in the test year base rates for energy efficiency and the estimated amount of revenue AE anticipates it will collect for energy efficiency under each of the proposed rate schedules.

Response: Since these are pass-throughs, the cost of service amounts are the rates. Please see Responses to CB2.17 and CB2.19.

CB2.25. At p. 3 of the proposed rate schedules, the residential rate schedule shows that residential customers will be charged 0.301¢ per kWh for energy efficiency. On p. 7, the table shows that Secondary Voltage Customers are charged 0.296¢ per kWh. Please explain how the total energy efficiency costs were calculated and how those costs were allocated among the rate classes,

Response: Please see Responses to CB2.17 and CB2.19 above. In addition, on page D-276 of the full-length Rate Analysis and Recommendations Report see column G. The energy efficiency costs are the sum of lines 11, 18, and 24 which total to \$27,720,129.

CB2.26. Please provide an estimate of the number of Austin Energy customer households with incomes eligible for the Children's Health Insurance Program (CHIP).

Response: It is estimated that 14,345 unduplicated households are eligible for CHIP in the Austin Energy service territory based on information received on February 8, 2011 from the Strategic Decision Support Department of the Texas Health and Human Services Commission.

Rate Review Responses to Questions and Requests for Information

REQUEST NO.: LC3

REQUESTED BY: Lanetta Cooper, Texas Legal Services Center

DATE REQUESTED: 9/12/2011

RESPONSE FILED: 9/16/2011

The following questions relate to Austin Energy's ("AE") proposed cost of service underlying the rates it is requesting the city council to approve for 2011-2012. In you intend to refer to the AE rate filing package in responding, in whole or in part, to a question, please provide specific page and line and section references, and explain how the rate filing reference answers the question asked. Unless specifically referenced, all questions generally relate to the residential customer class.

Questions arising from AE White Papers on electric rates prepared by RW BECK in 2011 and the Public Involvement Committee ("PIC"), including PIC questions and answers, that relate to revenue requirement, cost of service and rate design that effect AE's rate increase request and residential rate design proposals.

LC3.1 Please provide a breakdown of the 2009 costs that support the proposed \$18.75 residential customer charge reflected in Table 1 of RW Beck White Paper No. 4 at p. 11. (For instance, in the past the customer charge has included billing and collection costs, meter reading, meters, and service drop). For each of the cost components, please identify what portion of the \$18 customer charge that cost component represents. Also, for each cost component please explain how the total cost involving that component was allocated between the various customer classes.

Response: Please see response to question CmDay1.10 in document titled "Responses to RFIs and Questions from EUC Meeting #1" at www.rates.austinenergy.com/rresources.

LC3.2 Please provide a breakdown of the wire charges listed as \$14.26 in the RW Beck proposed residential rate design. Please provide the information by cost component and for each component, please identify its respective cost as well as how the total cost involving that component was allocated between the various customer classes. (For reference, please see White Paper No. 4, p. 11)

Response: See response to question CmDay1.14 in document titled "Responses to RFIs and Questions from EUC Meeting #1" at www.rates.austinenergy.com/rresources.

LC3.3 In white paper no. 4, page 27, AE states, “Preliminary cost of service results show that the total fixed costs to serve a residential customer are currently \$57.81 per month in the summer and \$31.61 in the winter.” Could you provide me the breakdowns of the cost components for these two amounts to serve a residential customer that are currently stated to be \$57.81 per month in the summer and \$31.61 in the winter? For each cost component identified, please quantify the costs. (To the extent you have provided the breakdown as to the \$31.61 amount in the above two questions, you may refer to those answers you provide).

Response: The breakdown requested is provided in the table below. All figures in the table below are derived from the full-length Rate Analysis and Recommendations Report. The Residential class cost of service indicates that in the months of June through September fixed costs for residential customers are \$92.59 per month and in the months of October through May fixed costs for residential customers are \$67.90 per month. Note that these are cost of service results and not Austin Energy’s proposed Residential class charges. Also, please note that between the release of White Paper #4 and the release of the Rate Analysis and Recommendations Report a number of updates were made to the cost of service study including the definition of seasonal periods and the allocation factors developed.

<u>Component</u>	<u>Cost</u>
Customer Charge – Each Month	\$21.69
Electric Delivery – Each Month	\$14.13
Transmission – June - September	\$17.08
Transmission – October - May	\$0.00
Production – June - September	\$39.69
Production – October – May	\$32.08
Total Residential fixed cost months of June - September	\$92.59
Total Residential fixed cost months of October - May	\$67.90

LC3.4 Why does it cost \$57.81 per residential customer per month in the summer and \$31.61 in the winter? Please explain.

Response: Fixed costs vary due to seasonal differences in Transmission costs and select Production costs, as shown in the response to LC3.3. Transmission costs are allocated to AE based on its contribution to the Electric Reliability Council of Texas 4 summer peaks (ERCOT 4CP) which occur in the months of June through September. Furthermore, select demand-related Production costs vary by season because loads, and the units dispatched to serve those loads, vary by season. Thus, demand costs associated with units to serve peak demand are higher in the months of June through September.

LC3.5 How, if at all, have you quantified the benefit provided industrial customers by the utility in preserving electricity service to industrial and other customers by giving them a priority for

service during rolling blackouts that is not applied to residential customers in general? If you have not quantified this benefit, please explain.

Response: The utility identifies circuits, not customer classes, available to assist in the event of an ERCOT-ordered rotating blackout. At this time, Austin Energy has increased the number of available circuits from 44 (February 2011) to 86, to participate in the event of ERCOT-ordered rotating blackouts. Austin Energy Electric Service Delivery staff has been making system adjustments and equipment upgrades to increase available circuits and expect to have 100 by the end of 2011. A map of the available circuits is posted to the Austin Energy website at www.austinenenergy.com. [Click here for details and a link to the updated map.](#)

LC3.6 How many times has AE reconciled its fuel expenses (as that term is used at the Texas Public Utilities Commission in fuel reconciliation proceedings) in the past five years?

Response: Austin Energy reconciles the fuel expenses and fuel revenues on a monthly basis, and has adjusted the fuel adjustment factors five times as per our tariff since January 2006. For more information, see: [Link to Austin Energy Fuel Rates](#). Austin Energy is also audited each year by outside auditors.

Austin Energy is not required to reconcile fuel costs with the Public Utility Commission of Texas. Austin Energy's management of power cost recovery through rates is governed by AE's tariff. For more information, go to Austin Energy's current Fuel Adjustment Clause tariff at <http://austinenenergy.com/About%20Us/Rates/fuelAdjustmentClause.htm>

LC3.7 How is the customer billing system going to be allocated among the departments that will utilize it for billing purposes? How has that systems costs allocated to AE been further allocated among the customer classes? In your explanation, please make the underlying work papers to the allocations available for reviewing at AE's office.

Response: The allocation of the costs of the customer billing system is pro-rated on services provided using the following seven allocation factors: 1) service revenue by utility; 2) service revenue by electric, water and wastewater only; 3) bills by utility; 4) bills by electric, water and wastewater only; 5) service orders by utility; 6) meters read; and 7) total meters by utility.

For allocation to customer classes, please see line 60 of TY COS page D-120 of the Rate Analysis and Recommendations Report.

LC3.8 In your member information requests—PIC meeting Number 4, AE stated that 80% of the key accounts costs were allocated to secondary service customer classes. (See p. 6). Was any of this cost allocated to secondary service customer class allocated to residential consumers? If so, please explain how much and how it was allocated. Please provide documentation to justify any allocations of this cost made to the residential customer class and also as to the

amount. In your explanation, please make all work papers underlying the allocations available for reviewing at AE's office.

Response: Please see WP 38, Appendix D, on page D-281 of the full-length Rate Analysis and Recommendations Report.

LC3.9 For the key accounts referenced in No. 8 [LC3.8] above, please make any and all budget and cost justifications for each of the key accounts available for reviewing at AE's office. This request includes memos, studies and such other memoranda that explain the necessity of a key account.

Response: It is standard utility practice to have a Key Accounts group for commercial customers. Municipal utilities such as CPS Energy of San Antonio, New Braunfels Utilities, and Bryan Texas Utilities have Key Accounts programs. Austin Energy's Key Accounts group has ten employees with a total annual budget of \$1.4 million. Six Key Account Managers are assigned large commercial and industrial customers and these managers handle all Austin Energy requests from key account customers. Two Sales Representatives promote Austin Energy's conservation and energy efficiency programs to small and mid-sized commercial customers. These sales representatives also act as the primary contact for social service non-profits, churches, and national box chain retail stores.

Austin Energy's Key Accounts group has a direct impact on the utility's strategic objectives of customer satisfaction, reliability of service, promoting energy conservation and energy efficiency, and promoting clean energy. The Key Accounts team promotes energy conservation to all commercial customers ranging from small businesses to industrial customers. The group also promotes GreenChoice® to commercial customers. GreenChoice® is the most successful green energy program in the country, and commercial subscriptions represented 87 percent of sales as of August 2011.

LC3.10 Please break out the revenue requirement dollar into various components of cost, i.e. 5 cents is debt service coverage; 5 cents is "x" reserve levels; 5 cents is for "depreciation". In other words, please break down the revenue requirement formula with enough specificity so all reserve fund (i.e. capital improvement) accounts are identified if the costs are recovered in addition to the cost of debt service coverage.

Response: In the full-length Rate Analysis and Recommendations Report, pages 61-62, please refer to tables 3.2 and 3.3 for a breakdown of the revenue requirement.

The following questions relate to the rate filing package (both revenue requirement and cost of service) and to the RW Beck [now SAIC] white papers.

LC3.11 Please explain the difference between the \$21.69 residential customer charge cost of service set out at p. 19 of AE's Rate Analysis and Recommendations Summary Report and the \$18.75 customer charge cost of service set out in RW Beck's [now SAIC] white papers. In your

explanation, please list each customer charge cost component that is effected or has been added to the components included in the \$18.75 customer charge calculated by RW Beck [now SAIC].

Response: All cost of service and rate design analysis presented and released during the Rate Review Public Involvement Committee (PIC) process, including all information in the referenced white papers, was preliminary and marked as such in all documentation. Final results of the cost of service analysis were released in the full-length Rate Analysis and Recommendations Report. For a list of customer charge cost components please see the response to CmDay 1.10 which is reference in the response to question LC3.3 above.

LC3.12 At page 75 of AE's rate analysis, cost of service, AE uses the general fund transfer as an example of a "revenue-related cost". Please list each revenue-related cost AE has identified as a revenue-related cost for purposes of its cost of service study underlying its proposed rate requests. For each revenue-related cost identified, please provide the following:

- a. The total amount of the cost
- b. The reason for the cost being incurred and how the amount of that cost was calculated.
- c. How that cost was allocated to the various customer classes;
- d. If any of the costs were allocated to the residential customer class, how the cost was included in the rate design (i.e. was it included in the customer or wire charge, in a separate, unbundled rate, or in the energy or base rate).

Response: A comprehensive response to this inquiry involves considering two categories of revenue related costs: 1) costs incurred by Austin Energy based on revenue, and 2) costs allocated to customer classes based on revenue (or revenue requirement as a proxy for revenue).

- 1) Costs Incurred Based on Revenue – There are costs that Austin Energy incurs based on revenue, as summarized below.
 - a. **General Fund Transfer** – The General Fund Transfer represents a financial obligation established for Austin Energy by the City of Austin in its Financial Policies. The General Fund Transfer to the City of Austin is based on a formula including a three-year average of revenue.

For the purposes of the cost of service analysis, the General Fund Transfer amount was established by the Fiscal Year 2011 Budget of \$103 million. This is shown on line 5 of Work Paper 7 in the full-length Rate Analysis and Recommendations Report on pages D-206 and D-207 in Appendix D) as well as line 178 of the Functional Unbundling worksheet in the report (Pages D-16, D-24, and D-32 in Appendix D).

The General Fund Transfer is functionalized to Production, Transmission, Distribution and Customer Service in the analysis based on the total revenue requirement, excluding the General Fund Transfer and Franchise Fee. This is shown on line 178 of the Functional Unbundling worksheet in the report (Pages D-16, D-24, and D-32 in Appendix D).

The General Fund Transfer is sub-functionalized in the analysis based on the revenue requirement for each function. This is shown on line 178 of the Production, Transmission, Distribution, and Customer worksheets in Appendix D of the report.

Based on the functionalization and sub-functionalization allocations, the cost of the General Fund Transfer permeates all but the direct assignments to Regulatory Charge and Community Benefit Charge. Therefore, this impacts the cost of service results for the Customer Charge, Electric Delivery Charge, Energy Charge, and Demand Charge, as shown in Table 4.22 on page 96 of the report.

- b. **Franchise Fees** – Austin Energy pays franchise fees to communities outside of Austin served by Austin Energy. This cost is identified as adjustment 22 on page 58 of the report and is also calculated in Work Paper 9 (Page D-210 in Appendix D). The franchise fee amount of \$1,123,778 in the Test Year is calculated based on 3 percent of the estimated revenue projected in each of the communities.

The franchise fee is functionalized to Distribution in the analysis and then sub-functionalized based on the revenue requirement for the distribution function. Based on the functionalization and sub-functionalization allocations, the cost of the franchise fees is reflected in all of the distribution-related classifications, as listed on lines 38 through 55 on the cost of service worksheet in the report (Page D-120 in Appendix D).

For the Residential customer class, the allocation of the franchise fee is reflected within the cost of service results in both the customer costs of \$21.69 per month and the electric delivery cost of \$14.13 per month, as shown in Table 4.22 on page 96 of the report.

- 2) **Community Benefit** – The costs associated with the Community Benefit Charge are allocated to customer classes in the cost of service analysis based on revenue requirement, as summarized below.
 - a. **Energy Efficiency Programs** – The costs associated with Energy Efficiency, Green Building, and Rebates and Incentives amount to \$27,720,129 in the Test Year. These program costs are allocated to customer classes based on the revenue requirement, as shown on line 23 of the cost of service worksheet in the report (Page D-119 in Appendix D). This cost is a key component of the Community Benefit Charge and amounts to 0.301 ¢ per kWh, as shown in Table 4.22 on page 96 of the report.
 - b. **Service Area Street Lighting** – The cost for Service Area Street Lighting is \$10,434,438 in the Test Year. This cost is allocated to customer classes based on the revenue requirement, as shown on line 74 of the cost of service worksheet in the report (Page D-120 in Appendix D). This is also shown in Table 4.19 on page 93 of the report. This cost is a key component of the Community Benefit Charge and amounts to 0.114 ¢ per kWh, as shown in Table 4.22 on page 96 of the report.


LC3.13 Please identify each cost AE has included in its rate filing package that is non-reoccurring and whose recovery is amortized over five years or less. (An example of a non-reoccurring cost is rate case expenses included in an amortized amount in the cost of service ("COS") that AE has recommended be amortized and recovered over a three year period.). For each cost, please provide the following:

- The identification of the cost;
- The total amount of the cost;
- The amortization time period and the amount included in the test year;
- How that cost was allocated among the customer classes, and if allocated to the residential customer class, how that cost was included in the rate design. (Same as noted in 12(d) above).

Response: Austin Energy has removed non-reoccurring costs from the revenue requirement. Please see response to question CmDay1.26 in document titled "Responses to RFIs and Questions from EUC Meeting #1" at www.rates.austinenenergy.com/rrresources.

LC3.14 Please provide the total dollars in extra sales AE has experienced that were higher than the amended budget for 2010-2011. (For reference to the requested information, please see page 17 of City of Austin Financial Report Quarter 2. For six months ending March 31, 2011 which showed that as of the second quarter AE had \$10.39 million in extra sales over the budget). Please provide this information for the next year's budget to the present as well.

Response: Please see table below.

AUSTIN ENERGY FY 2011 BUDGET TO ACTUAL (Budget Based Statement)						
Unaudited Results						
\$ in Thousands						
	July 2011 Year to Date Actual	July 2011 Year to Date Budget	Variance	Percent		
REVENUES						
Service Area Base Revenue	\$ 499,083	\$ 475,823	\$ 23,260	4.9%		
Bilateral & Ancillary Service Sales	13,746	18,750	(5,004)	-26.7%		
Transmission Service Revenue	49,915	46,904	3,011	6.4%		
Transmission Rider	7,603	6,020	1,583	26.3%		
Miscellaneous Revenue	30,257	28,856	1,401	4.9%		
Interest Income	5,882	4,639	1,243	26.8%		
Total Operating Revenue Without Fuel Revenue	606,486	580,992	25,494	4.4%		
Fuel & Green Choice Revenue	351,795	389,473	(37,678)	-9.7%		
Total Operating Revenue	958,281	970,465	(12,184)	-1.3%		

LC3.15 Please provide the total amount of costs AE has included in its COS to support its recommended rate request for the following category of costs:

- Advertising, including advertising related to energy conservation;
- Donations; and

c. Contributions.

Response: Included in the cost of service analysis are advertising costs in the amount of \$1,208,208 and donations and contributions in the amount of \$282,500.

LC3.16 Does the amount of \$168,070,290 listed on p. 12 of 296 of Appendix D (Cost of Service) to the AE rate filing package as debt service reflect 1x Debt/Service Coverage? If not, please reference the amount in relation to Debt/Service Coverage.

Response: Yes.

LC3.17 Please provide the amount of cost in dollars attributable to the general fund transfer cost that was allocated to the residential customer class. Please explain the steps—including the application of any cost of service methodologies—that AE took to allocate the general fund transfer expense to the residential customer class.

Response: \$40,910,532.98 of the General Fund Transfer was allocated to the Residential customer class. Please refer to LC3.12.

LC3.18 Are any of the costs attributable to the general fund transfer sought to be recovered in the residential customer charge or wires charge? If the answer is yes, please identify the total cost(s) so sought to be recovered and the component cost(s) of the customer charge and the component costs of the wires charge that relate to the recovery of these costs.

Response: Each component listed in the responses to LC3.1 and LC3.2 above contains costs attributable to the General Fund Transfer. Austin Energy has not proposed to recover the total of the costs detailed in LC3.1 through the Customer Charge and Austin Energy has not proposed to recover the total of the costs detailed in LC3.2 through the Electric Delivery Charge. During the September 1st Electric Utility Commission (EUC) meeting, Austin Energy presented four residential rate options. Two of those options (Options B and C) included a \$10 per month customer charge, one option included a \$15 per month customer charge (Option C) and one option (Option D) a \$30 customer charge (which also would include 300 kWh of energy use). None of these customer charges is the sum of specific cost of service items.

LC3.19 Please explain how the amounts broken out of the general fund transfer and placed under the categories of Production, Transmission, Distribution, and Customer were derived. (See p. 20 of 296, line 178 of Appendix D, Cost of Service). Please make the underlying workpapers displaying the calculation available at AE's offices. Please explain what use, if any, AE had for the amounts that were broken out for purposes of cost allocation.

Response: Please see the allocator and its description on Functional Unbundling on page D-16 and D-19, in Appendix D of the full-length Rate Analysis and Recommendations Report. Also, please see the response to LC3.18 above.

LC3.20 Please identify the energy efficiency costs that are proposed by AE to be recovered with a rider. In identifying the costs, please include the individual program project cost.

Response: Please see page D-276 of the full-length Rate Analysis and Recommendation Report. The sum of the amounts (\$27,720,129) shown in column G of lines 11, 18, and 24 are to be recovered through the Energy Efficiency Charge as a component of the Community Benefit Charge.

LC3.21 For each program project identified in No. 19 [sic 20]above, please provide the following:

- a. Where that cost is located in the rate filing package (by page and line reference)(If in multiple locations, please identify);
- b. How much cost is included in the individual project;
- c. What customer class the project is supposed to serve;
- d. How that cost was allocated to the various customer classes and the amount of cost allocated to each customer class;
- e. If any of the costs were allocated to the residential class, how those costs were included in the rate design for purposes of recovery.
- f. What steps, if any, did AE take to ensure that it will not double recover any of the costs it intends to recover with a rider? Please explain.

Response: Program level detail has been aggregated in the cost of service. Please see the response to LC3.20 above for the most detailed level of energy efficiency costs contained in the cost of service study. For the allocation of these costs please see pages D-129 and D-130 of the full-length Rate Analysis and Recommendation Report, line 40. These costs are proposed to be recovered as a separate line item (Energy Efficiency Charge) as a part of the Community Benefit Charge. Pages D-129 and D-130, line 45, shows that none of these costs are recovered other than as a separate line item charge.

LC3.22 At page 81 of AE's ratefiling package, AE states: "Renewable resources were placed into their own category in recognition of their intermittent dispatch capabilities." Please explain how the costs AE incurred for these renewable resources were allocated to the customer classes and if any amounts were allocated to the residential customer class, how those costs were included in the rate design for purposes of recovery. (i.e. whether the costs were included in the customer charge or the wires charge or in base rates). In your explanation please identify what category AE placed these resources within and how that category related to the other categories discussed in this section of the ratefiling package.

Response: Please see pages D-119 and D-124 of the full-length Rate Analysis and Recommendations Report for this information. Renewable resources are shown in line 7 and lines 16 through 18. Residential production costs (including renewable costs) are to be recovered through the Energy Charge.

LC3.23 AE is supposed to get a financial benefit under the ERCOT nodal market. Has AE quantified that financial benefit and adjusted its revenue requirement accordingly? If so, what was the dollar impact? If not, why not. In your explanations, please make available for reviewing at AE's offices any reports or studies prepared by or for AE or provided to AE within the last two years that estimates or quantifies that benefit.

Response: Austin Energy has not quantified the benefit of the ERCOT nodal market at this time. Since participation in the nodal market is required under State law and policy, Austin Energy did not study benefits of the nodal market. The nodal market was implemented in December 2010.

LC3.24 If the council were to direct AE to develop a revenue requirement that would result in a debt equity ratio 60:40 for planned capital projects relied upon in developing the proposed rates, what would the revenue impact be to the currently proposed revenue requirement? Please provide the impact in dollars and as a percentage of system wide costs. Please also answer this question using a 70:30 debt equity ratio and using an 80:20 debt equity ratio.

Response: Austin Energy has not run the scenarios to produce this information. Any change in debt management strategy could have negative long term impacts on credit quality and future liquidity and could prevent Austin Energy from meeting the 2% affordability goal.

LC3.25 What is the total amount of debt in dollars AE has currently outstanding? Please also express this cost component as a percentage of its booked capital assets.

Response: Please see the Comprehensive Annual Financial Reports (CAFR) located at this web site: <http://www.ci.austin.tx.us/controller/> for this information.

LC3.26 Please provide the revenue requirement formula AE relied upon to derive its proposed revenue requirement used or to be used to set electric rates. (For example, see discussion in RWBeck White Paper No. 3, p. 6).

Response: Please see Functional Unbundling in Appendix D starting on page D-13 of the full-length Rate Analysis and Recommendations Report for this information.

LC3.27 For each component in the revenue requirement formula you provided in this request, please provide the following:

- a. A description of the component
- b. The revenue requirement amount calculated for that component
- c. Whether depreciation expenses are included, and if so, the amount
- d. What reserve accounts, if any, are included in that component (Please identify each account by name, account number and amount)
- e. Whether debt-service coverage is factored into the amount calculated for the component, and if so, how it was considered (Please provide an example)
- f. Whether cash working capital was factored into the amount calculated for the component, and if so, how it was considered? (Please provide an example), and
- g. Whether expenses related to decommissioning plant retirements are included and if so, the amounts broken down by accounts and by nuclear and non nuclear plants.

Response: Please see the following responses to the subset of questions:

- a. through c. Please see response to LC3.26.
- d. Please see margin calculation on Functional Unbundling starting on page D-13; Work Paper 29 on page D-265; and “Reserve Fund Contributions” on page 54 of the full-length Rate Analysis and Recommendations Report for this information.
- e. Revenue requirements are calculated using the cash flow methodology and debt service coverage does not impact the revenue requirement unless the calculated debt service coverage is less than 2.0X. Financial policy states that revenue requirements based on a cash flow basis produce a minimum of 2.0X.
- f. Cash working capital is a rate base item and was not calculated in this rate request.
- g. Nuclear and non- nuclear decommissioning expense is included in the revenue requirement as follows:
 - \$4,957,967 FERC 524 nuclear decommissioning expense in Fiscal Year 2009.
 - \$6,716,995 Margin calculation. Please see response to “d” above.

LC3.28 Has AE performed, obtained or received any benchmarking analyses involving its business operating efficiencies within the last five years? If so, please make the analyses available for review at AE’s offices.

Response: A benchmarking study was requested by the City Manager in 2010 and was completed in 2011. This study is currently being reviewed by the Attorney General's Office to determine if it is excepted from public disclosure due to confidential and competitive information contained within the study. Any parts of the study not deemed confidential by the Attorney General will be released.

In 2007, Austin Energy received an operating and capital cost structures benchmarking analysis performed by UMS Group. That study is copyrighted, with all rights reserved to the UMS Group, and the methodology is claimed proprietary by the UMS Group.

LC3.29 Please list each waiver of fee or charge other than those made under the CAP program that AE has made within the last five years. For each waiver, please identify the customer class that received that waiver. For purposes of answering this question, AE may aggregate the requested data by customer class, total amount waived, and year waived.

Response: Fees are sometimes waived for public benefit. The forgone revenues are not tracked.

LC3.30 Please make available for review at AE's offices the calculations, supporting documents, including any memoranda, that underlie AE's know and measureable adjustment to uncollectible expenses. (See Appendix C, p. 3 of 5, line 138).

Response: Please see Work Paper 17 – Uncollectible on page D-225 of Appendix D of the full-length Rate Analysis and Recommendations Report.

LC3.31 Please identify every assumption considered by AE in its adjustment to test year uncollectible expenses. Please make available for review at AE's offices any memoranda including analyses, reports, interoffice memos, interdepartment memos, and such other documentation prepared by or for AE or obtained by or provided to AE during the course of this rate case, including the period of time covered by the PIC involvement, that addresses any of these assumptions.

Response: Please see response to question LC3.30.

LC3.32 Is the approximate 2X the debt/service coverage ratio targeted by AE in this rate case inclusive or exclusive of the general fund transfer? Please explain the relationship, if any, between the general fund transfer expense and the debt/service coverage ratio.

Response: Please see response to LC3.27(e).

LC3.33 Please make available for review at AE's offices, any document that relates to debt/service coverage ratios of public utilities that was prepared by or for AE or was obtained by or provided to AE within the last two years that includes articles, reports, studies, analyses, interoffice and intraoffice memoranda, and such other documents that discuss public power debt/service coverage ratios.

Response: Please email ratereview@austinenergy.com with your contact information to set up an appointment.

LC3.34 Please make available for review at AE's offices the documentation that AE referred to in support of its statements made at the last EUC meeting in its rate case presentation relating to the debt /service ratios of public power utilities.

Response: Please see response to LC3.33.

LC3.35 Please identify and provide a breakdown of the costs AE has included under FERC account No. 911. (See Appendix D COS, p. 11 of 296, line 147).

Response: Please see table below for this information.

Category	Expense
Salaries/Fringes	1,156,129
Contractual Services	58,561
Commodities/Other	67,941
Expense Refunds	(7,926)
City Services	8,865,846

LC3.36 Please provide the chart of accounts description for FERC account no. 911.

Response: This account includes the cost of labor and expenses incurred in the general direction and supervision of sales activities, except merchandising.

LC3.37 Of the amounts AE has included in FERC account No. 911, what percentage has been allocated in the residential customer class and how was that cost included in the residential rate design for purposes for recovery? (i.e. was it included in a fixed charge, and if so, which one(s) and how much of that fixed charge relates to this cost.)

Response: 88.7 percent or \$8,994,095.63 of this amount was allocated to the Residential customer class. The four residential rate design options presented are charges and not the sum of any discrete cost items.

LC3.38 Please describe the purpose of the \$240,000 in costs set out at FERC 908 that is reflected at Appendix D, page 11 of 296, line 144. Please explain why this cost is not removed and included with other CAP expenses for purposes of the community benefit rider. Please explain how this cost is to be allocated among the customer classes, and if allocated to the residential class, how it is to be recovered in the residential rate design.

Response: The amounts re-allocated for the Community Benefit Charge includes only those costs related to energy efficiency. \$213,811 of this cost is being allocated to the Residential customer class. These costs are non-related energy efficiency costs and are customer service

related. These costs are allocated to the customer classes based on the total number of customer months by customer class. The four residential rate design options presented are charges and not the sum of any discrete cost items.

LC3.39 Please explain how the franchise fees included in the COS at line 189 of page 12 of 296 of Appendix D were derived? Of the amount of franchise fees, please quantify how much of that cost was allocated to the residential customer class and how that cost was to be recovered in the residential customer rate design?

Response: Please see Work Paper 9 – Franchise Fees in the full-length Rate Analysis and Recommendations Report located on page D-211 in Appendix D. The amount of the franchise fees costs allocated to the Residential customer class is \$482,826.57. The four residential rate design options presented are charges and not the sum of any discrete cost items.