

Residential Rate Advisor



SEPTEMBER 19, 2011
PRESENTATION TO EUC

Issues to be Addressed

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Gary Goble

- Revenue Requirements

Bob Wittmeyer

- Green Choice
- Time of Use Rates
- Net Metering
- Fixed Charges
- Competitive Benchmark
- Survey Results regarding CAP Discounts

Gary Goble

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REVENUE REQUIREMENTS REVIEW

GARY GOBLE'S EXPERIENCE

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Regulatory Experience

- Arkansas Public Service Commission
- Public Utility Commission of Texas

Consulting Experience

- Almost 32 years as a consultant (and 6 as a regulator)
- Represented IOU's, Municipally-owned Utilities, Electric Cooperatives, and Consumers.
- Presented testimony in over 100 utility rate applications
- Worked on many more applications in which he was not a witness or in which no rate proceeding was initiated.
- Has submitted testimony in Texas, Arizona, Arkansas, Montana, Louisiana, Wyoming, North Carolina, New Mexico, Missouri, and New Hampshire.
- Previously provided consulting services to a number of municipally-owned electric utilities in Texas

Education

- Undergraduate degree in business (BS Public Administration - business)
- Master of Business Administration degree

Review of Revenue Requirements

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- **Cash Flow Approach**
 - Agree w/ Cash Flow Approach, but recommend that a comparative Rate Base Approach to revenue requirements also be required.
- **Pro-Forma Adjustments**
 - Concerns regarding Out-of-Period Adjustments and FY2009 Test Year
 - Concerns regarding A&G Expense. Recommend adjustment to A&G Expense in the absence of supporting information
- **Capital Improvement Projects**
 - Insufficient Information regarding CIP amounts
 - Recommend alternative methods for quantifying CIP requirements to include in Austin Energy revenue requirement
 - CIP Funding Assumptions employ 50% debt funding and 50% cash flow funding

Review of Revenue Requirements - cont

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- **Financial Policies**

- Recommend use of 1.75X DSC as "floor" to revenue requirement
- Recommend that a Depreciation Study be conducted
- Recommend that Austin Energy undertake a study to better define its adjustments for Repairs and Replacement Reserve
- Recommend that Austin Energy undertake a study to better define its Emergency and Contingency Reserve requirements.
- Rate Stabilization Fund should not be used to help with generation plant construction
- Recommend that Austin Energy undertake a study of the appropriate funding level for the Rate Stabilization Fund.
- We recommend that Austin Energy 's Cash Working Capital be set to zero in the absence of supporting information.
- Recommend approval of Nuclear and Non-nuclear Decommissioning Funds

- **Recommend that General Fund Transfers be determined excluding the costs of power**

Conclusion

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- AE has not fully supported the level of its proposed rate increase.
- We propose adjustments to AE's test year CIP amounts to better reflect the level of CIP that AE can reasonably expect to occur during the period the proposed rates are in effect.
- We recommend that AE's CWC requirements be set at \$0.
- In the absence of supporting evidence AE adjust its A&G Expense downward to reflect a more reasonable and prudent level of expenses.
- We recommend that AE undertake a more complete review and analysis of its funding requirements:
 - depreciation rates
 - modify the method by which General Fund Transfers are calculated,
 - AE file supporting schedules setting forth its revenue requirements restated using a conventional rate base approach.

Bob Wittmeyer

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OVERALL RATE STRUCTURE

**RESIDENTIALADVISORRATEREVIEW@
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Role of the Independent Residential Rate Advisor

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- Independently review Austin Energy Rate Proposals
- Translate “utility speak” for Residential members of the Public Involvement Committee
- Gather information from the public
- Relay public’s concerns to Austin Energy
- Provide balanced representation of all residential interests

GreenChoice

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See Sept 1, 2011 Presentation to EUC

- Recommend that Fuel and Purchased Power cost be explicit in the rates, (not embedded in energy rate).
- GreenChoice power not allocated to specific customers can be included in “Purchased Power” cost.
- Transparency and understandability can be improved with this change.

Time of Use Rates - AE Proposed Structure

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Goal of Time of Use Rate is to move consumption from high value On-peak energy to low value Off-peak energy.

People need to be able to understand the rates.

The Off-peak tiers of these rates are unnecessary and make the rates unreasonably complex.



YOUR ELECTRIC RATES

Residential Time-of-Use Rate

Designed to compliment Option A only (Redesign required for Options B-D)

Name of Charge	Non-Summer Rate	Summer Rate	Non-Summer Rate	Summer Rate	Non-Summer Rate	Summer Rate
	(Oct-May)	(Jun-Sep)	(Oct-May)	(Jun-Sep)	(Oct-May)	(Jun-Sep)
Customer Charge (\$/month)	\$18	\$18	\$18	\$18	\$18	\$18
Electric Delivery Charge (\$/month)	\$10	\$10	\$10	\$10	\$10	\$10
Energy Charge (¢/kWh)	On-Peak Hours (Summer 2-8 p.m. only)		Mid-Peak Hours		Off-Peak Hours (10p.m.-6 a.m.)	
< 500 kWh	n/a	10.500	3.200	7.500	2.200	3.800
501-1000 kWh	n/a	11.750	4.892	8.685	2.700	4.500
1001-1500 kWh	n/a	12.764	7.100	9.500	3.290	5.500
1501-2500 kWh	n/a	13.500	8.536	10.000	4.000	6.000
>2500 kWh	n/a	17.500	12.000	12.000	7.500	9.500
Energy Adjustment (¢/kWh)	0.000	0.000	0.000	0.000	0.000	0.000
Community Benefit Charge:						
Customer Assistance Program (¢/kWh)	0.065	0.065	0.065	0.065	0.065	0.065
Service Area Street Lighting (¢/kWh)	0.114	0.114	0.114	0.114	0.114	0.114
Energy Efficiency Charge (¢/kWh)	0.301	0.301	0.301	0.301	0.301	0.301
Regulatory Charge (¢/kWh)	0.729	0.729	0.729	0.729	0.729	0.729

Time of Use Rates

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- Time of use Rates are a great concept in Texas given the about of abundant Off-Peak Wind Energy.
- The Time of Use Rates proposed by AE are unclear.

Recommend EUC Return TOU rates to AE for additional analysis

Net Metering (Solar Generation)

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- In the nodal market, the energy cost includes capacity, fuel and environmental cost.
- Real-time value of energy in the Austin Energy load area is calculated and displayed every 15 minutes by ERCOT.
- AE has failed to explain how they calculated the value of solar, (or if they updated their 2006 model for the nodal market).
- AE should update its study to reflect the nodal market.
- AE seems to have failed to have consider, that through rebates, other customers have already paid a significant contribution this generation. Or that the “green” value has already been used to justify the rebates.

Ideal Solar Metering

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- Solar customers should either pay or receive the hourly value of energy. Netting premium value On-peak energy against low value off-peak does not meet the fairness criteria.
- For AE to pay a premium above the actual value of the energy is unfair to other customers.
- Until such time as AE systems can achieve an hourly rate, AE will need to develop a proxy value.
- The proxy value should mirror the value the Solar customer will receive after AE's pricing/billing systems are in place.

Net Metering (Solar Generation)

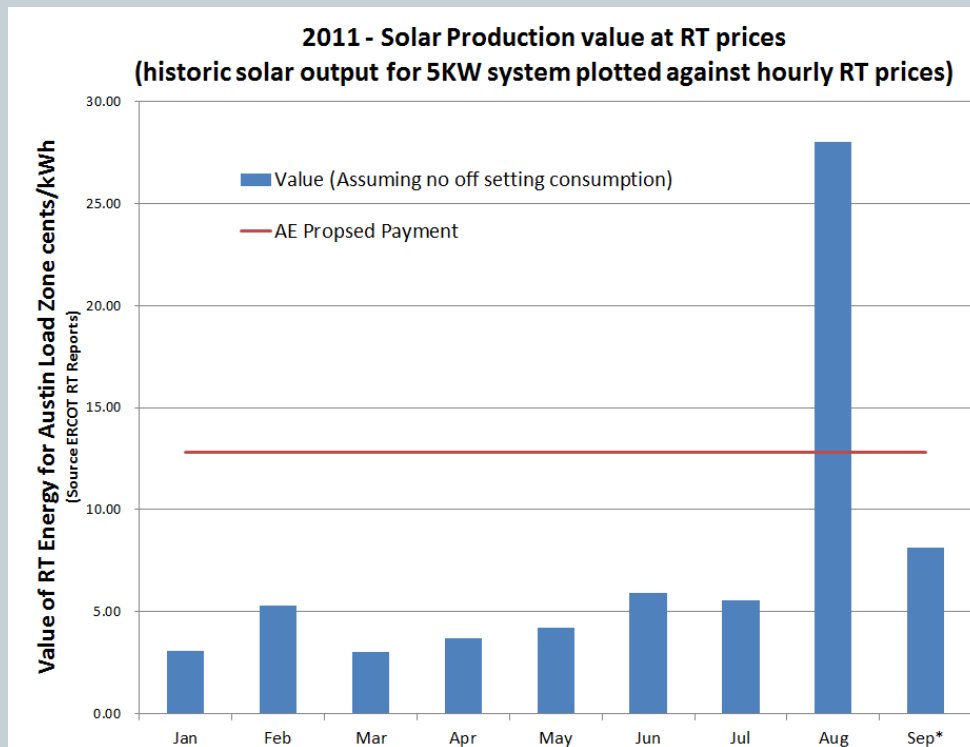
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- For Customers who have accepted AE Solar Rebates, AE's calculated value of Net Metering from customer owned Solar seems excessive.

Payment proposed by AE
12.8 cents/kWh

Value based on ERCOT Real-Time prices, (assuming 100% of PV generation goes to the grid)
7.44 cents/kWh

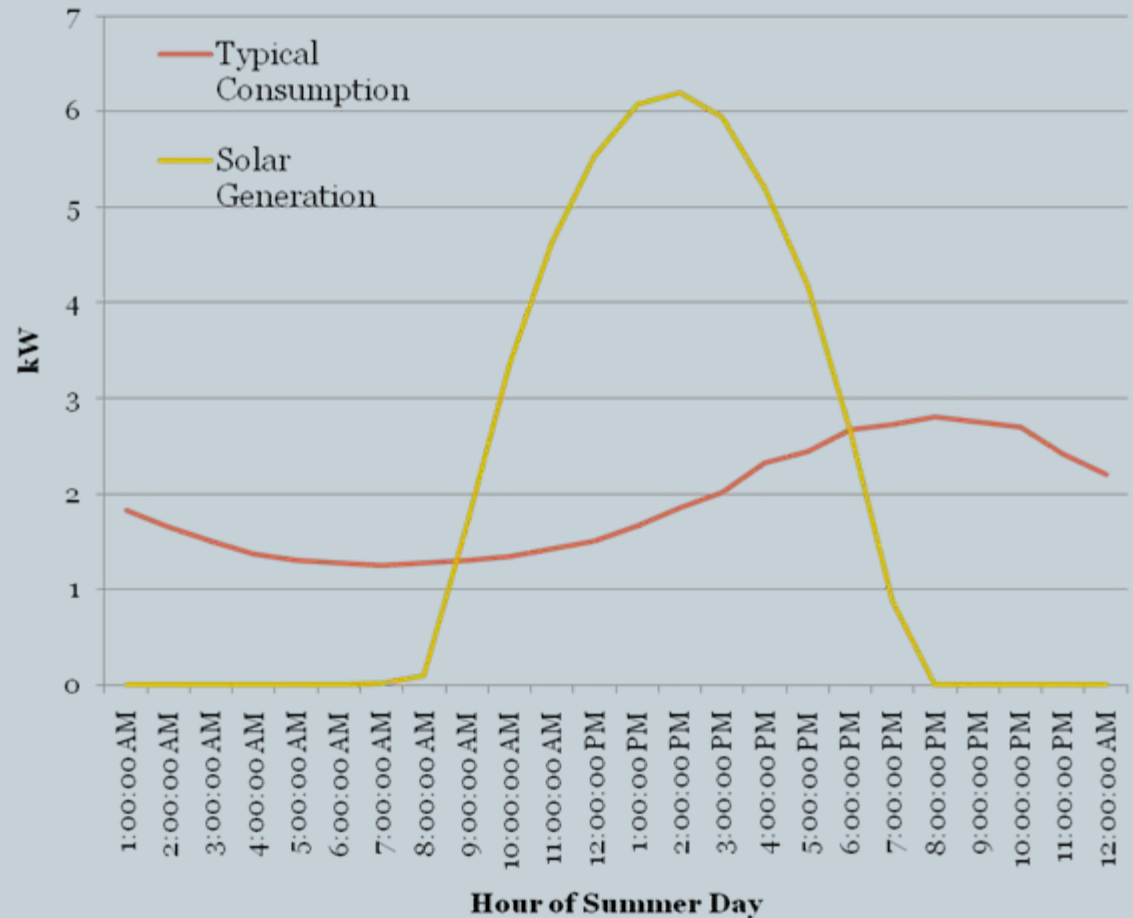
The EUC should instruct AE to go back and consider the value of solar in the ERCOT RT market taking in to account offsetting consumption, and calculate a monthly proxy value for solar customers which is fair to both solar and non-solar customers.



Net Metering (Solar Generation)

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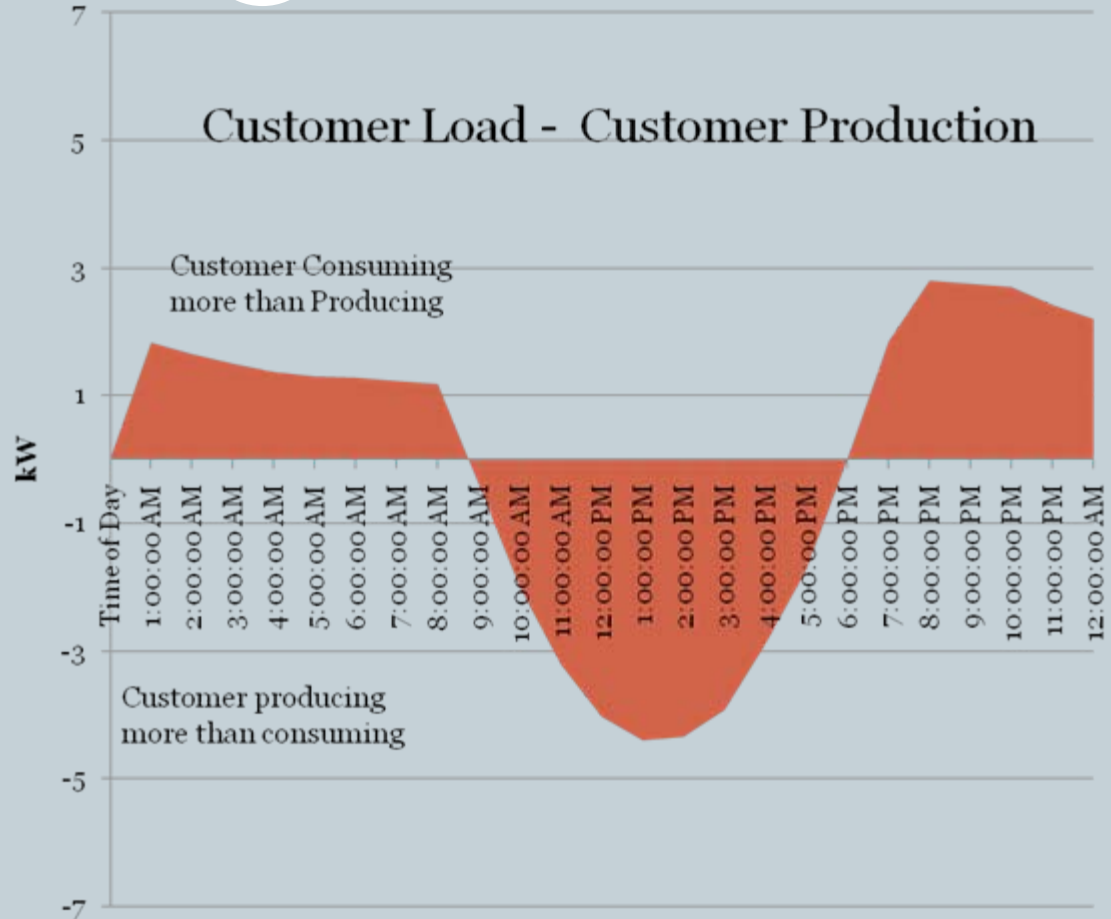
- To determine the value of RT solar we must look at both the local consumption and the generation to determine net to grid energy.



Net Metering (Solar Generation)

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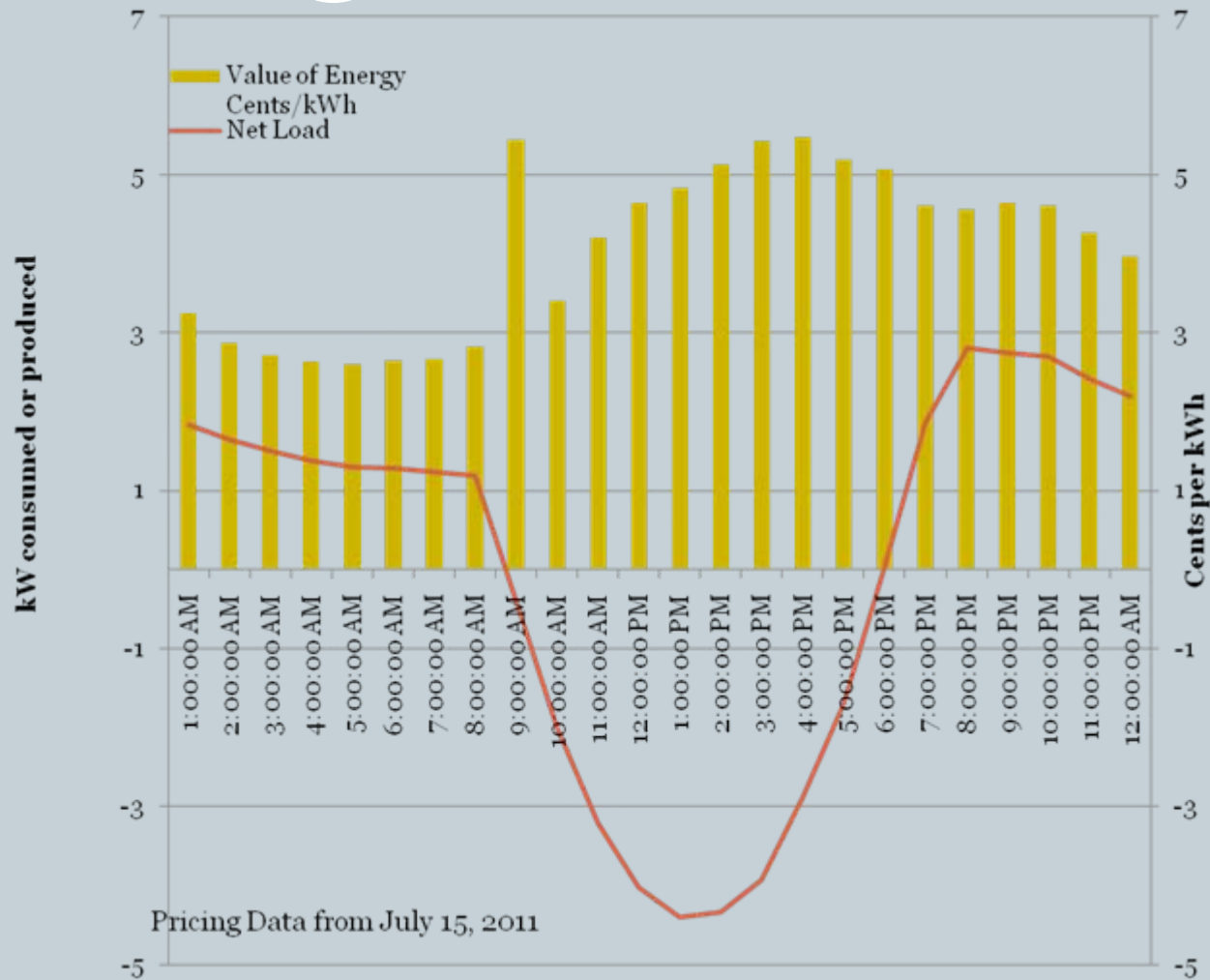
- In the example to the Right you can see that the customer uses energy in all hours. But during the premium hours he produces more than he consumes.



Net Metering (Solar Generation)

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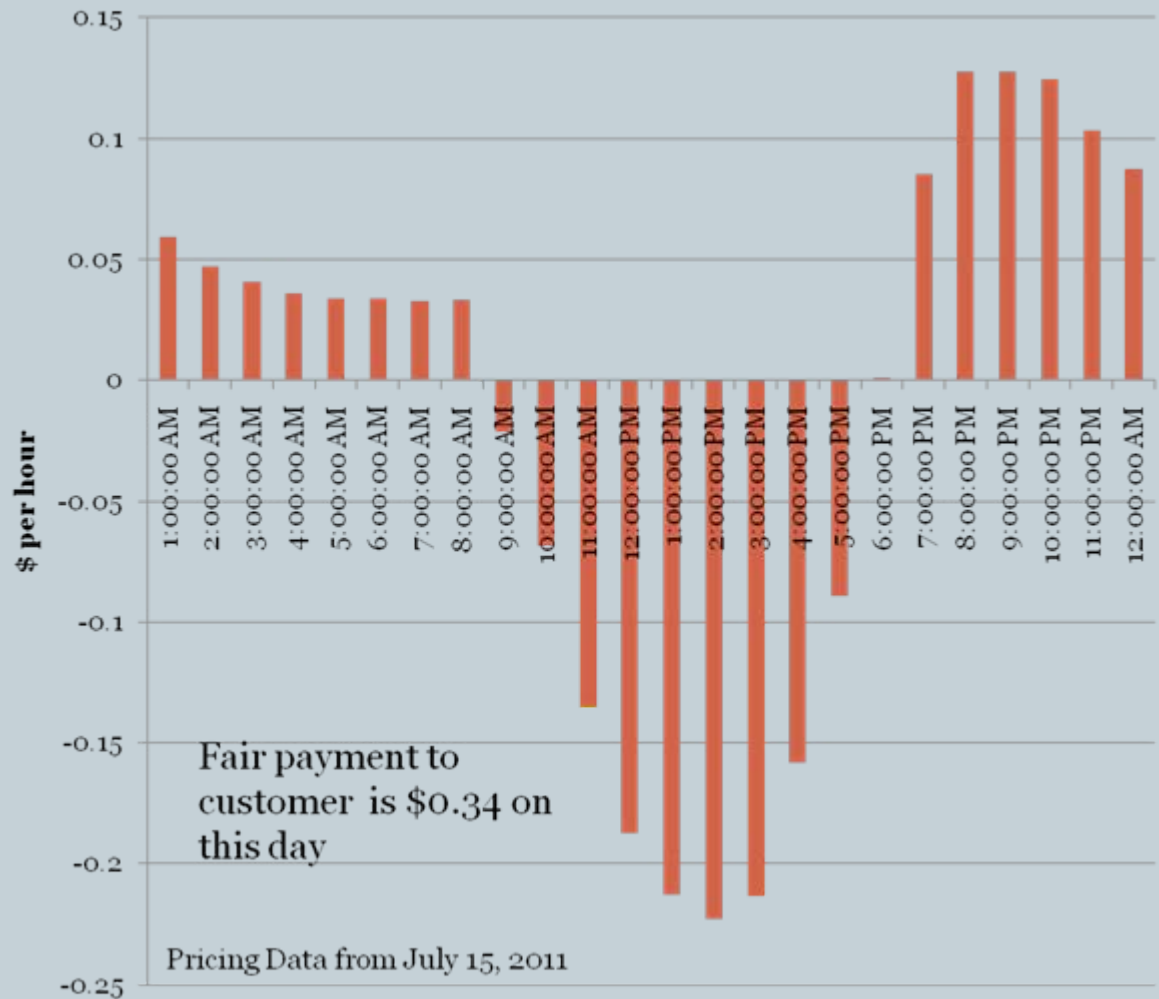
- By premium hours we mean hours in which the price tends to be higher.



Net Metering (Solar Generation)

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- The “fair” way to compensate the customer would be to have them pay the RT price during hours of net consumption and pay them the RT price during hours of generation¹.

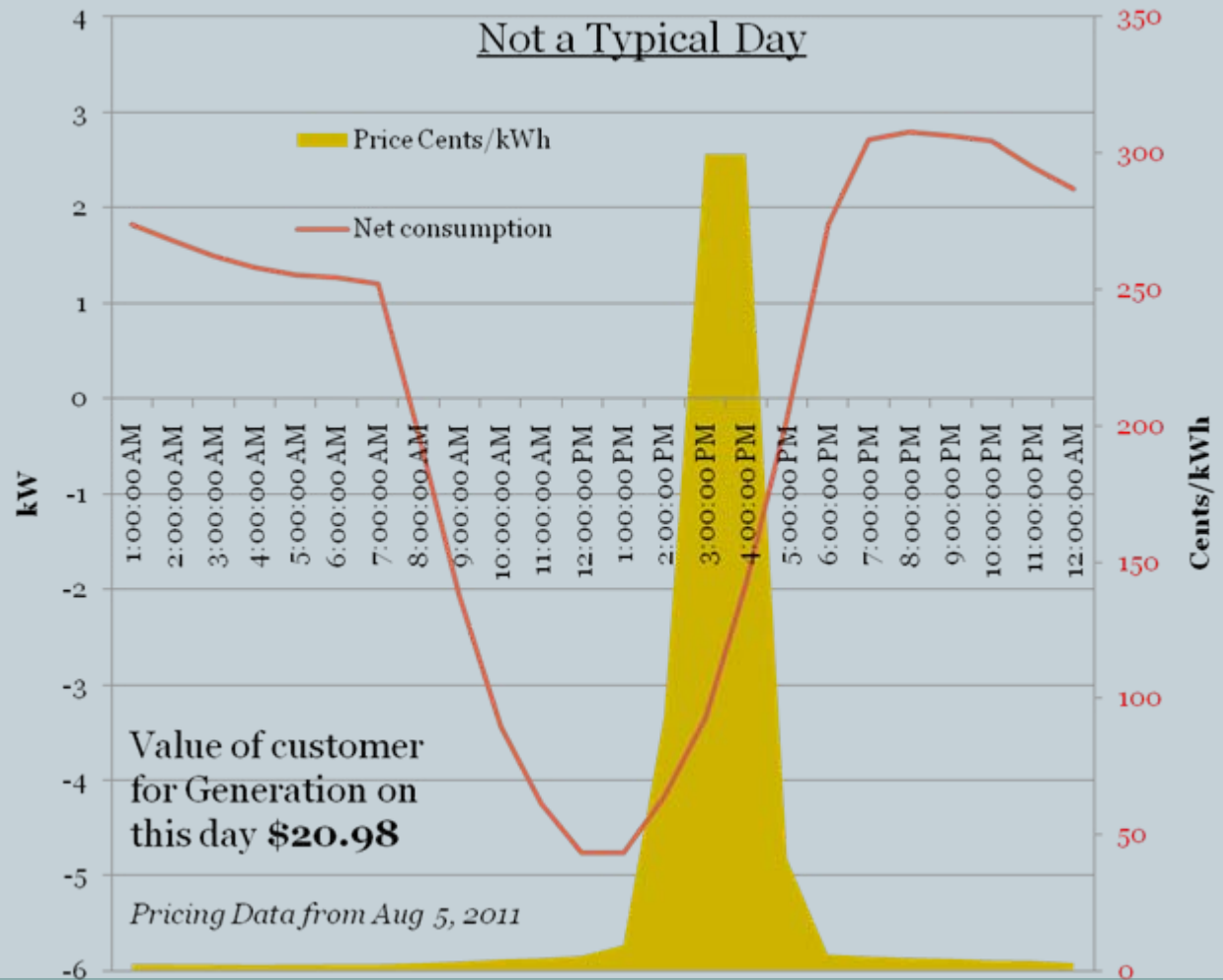


¹ Note this is easier if the Electric delivery charge is not part of the energy charge.

Net Metering (Solar Generation)

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- There are days when customer owned generation is very valuable.
- And customers with generation should be compensated.



Note pricing scale on the far right - prices peaked at \$3.00 /kWh

Net Metering (Solar Generation)

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- While the previous example show the true value of customer owned generation On a few peak days.
- I believe AE can do a better job of accurately forecasting the fair value of solar installations to all customers, if given additional time to do so.
- Specific Items they should address
 - Net to Grid Energy
 - Consideration of the value already paid in form of rebates
 - Value of energy in the ERCOT nodal market

Fixed Charges

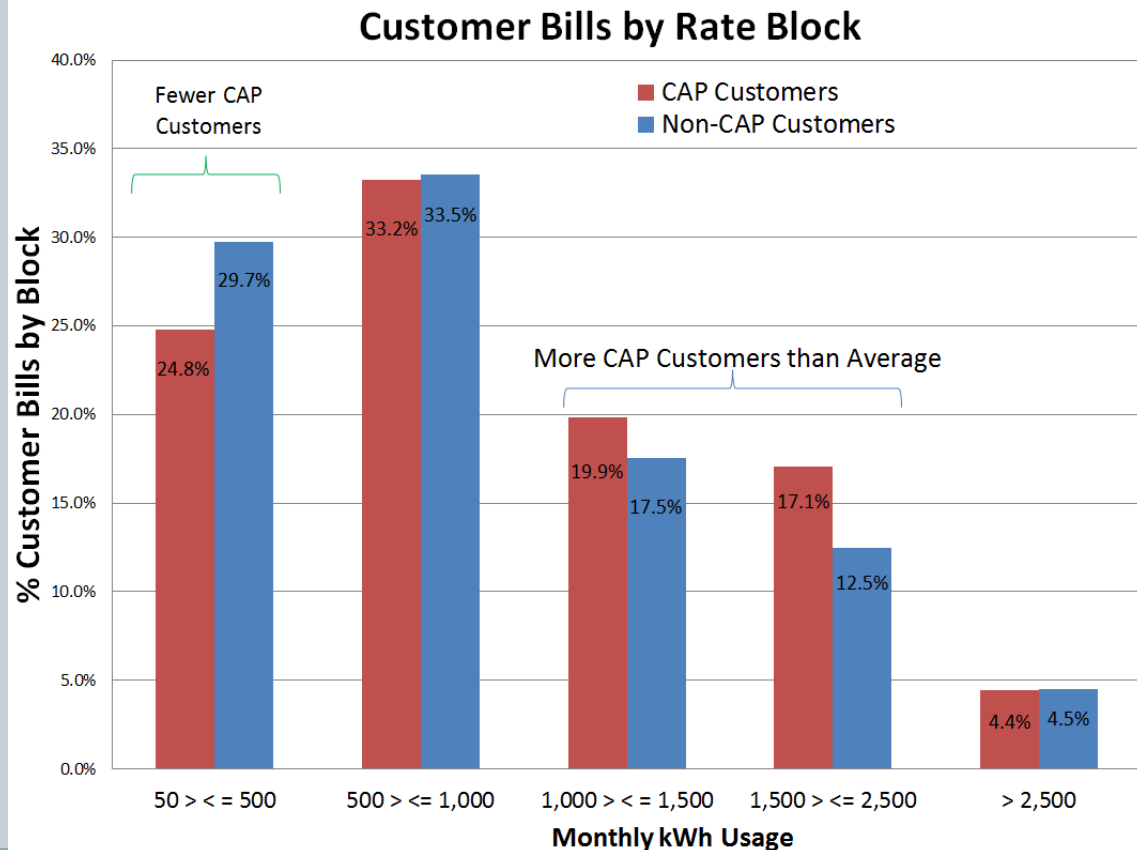
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You have heard a lot from people regarding fixed charges vs. energy charges.

Issues to consider:

Data from Austin Energy Customer Assistance Program (CAP) suggest that low income customers are not low use customers. If this is true beyond just the CAP participants then a shift to more energy related costs will be detrimental to low income customers.

It's the bottom line cost (the bill) that harms low income customers



Fixed Charges

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Issues to consider:- cont

- As AE achieves its goals of more energy efficiency, zero net energy homes, the costs of wires (Electric Delivery) and Customer service will be inappropriately transferred to customers unwilling or unable to make these investments
- ✦ Production Cost Savings are achieved when Austin Energy can reduce customer demand and consumption. **These cost should be consumption related.**
- ✦ Electric Delivery and Customer Service costs are nearly unaffected by customer consumption. **These cost should not be consumption related.**

Fixed Charges

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Issues to consider:- cont

- In the Joint Recommendations by the Residential Members of the PIC, we recommended AE consider community solar projects where people can own a share of a neighborhood solar project. If the electric delivery charge is collected as a fixed charge, then all customers are paying their delivery charges.
- Installing solar on the homeowners roof top is no longer required to receive the wires charge savings currently embedded in the energy charge.
- All customers can now benefit from distributed solar installations without concern for Homeowners associations, trees, or poor orientation.

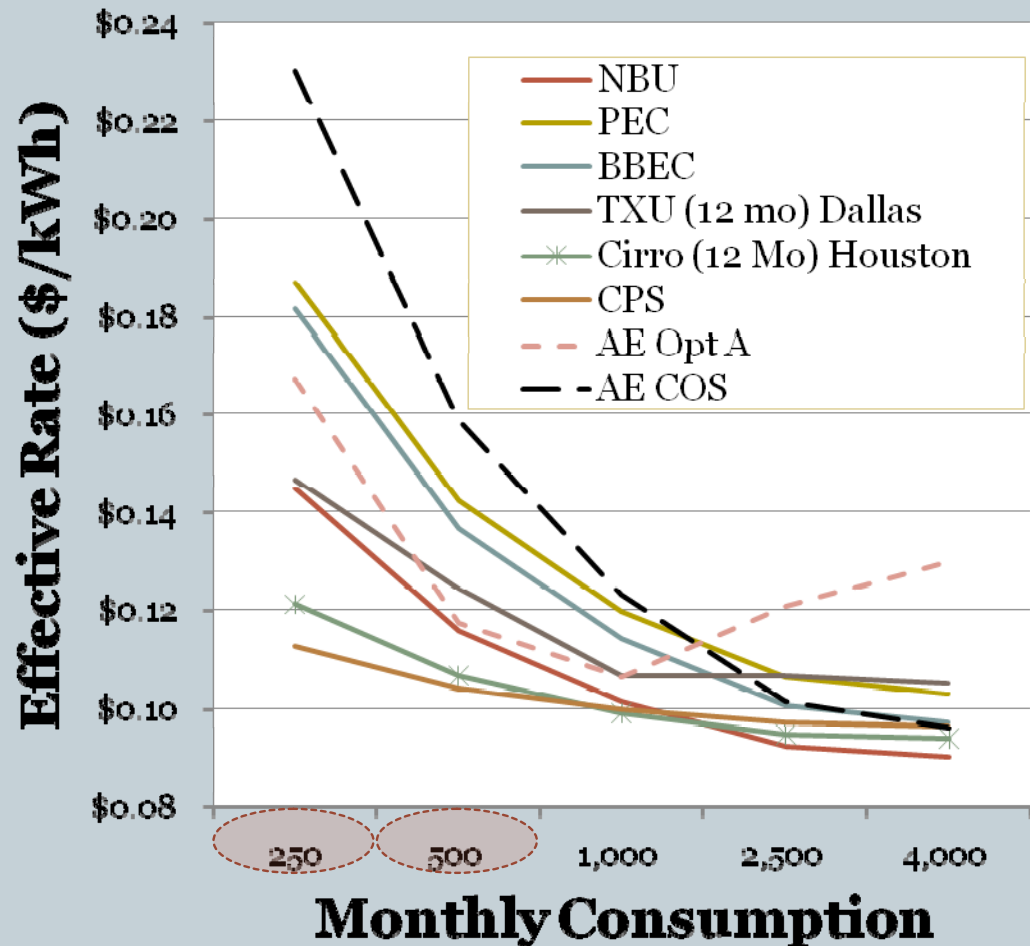
If wire charges (fixed charges) are removed from the energy charge, AE can be more creative in offering new programs and services than they can if revenues must be collected via energy consumption.

Effective Summer Rates in ERCOT Market

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The AE Proposed Rates (Option A) for low consumption customers are on the high end of the range of current rates in the local area.

(Rates reflect current rates obtained on Aug 22, 2011. Rates for competitive areas are from well known and respected companies with a 12 month price lock. Compared against AE proposed rate Option A).

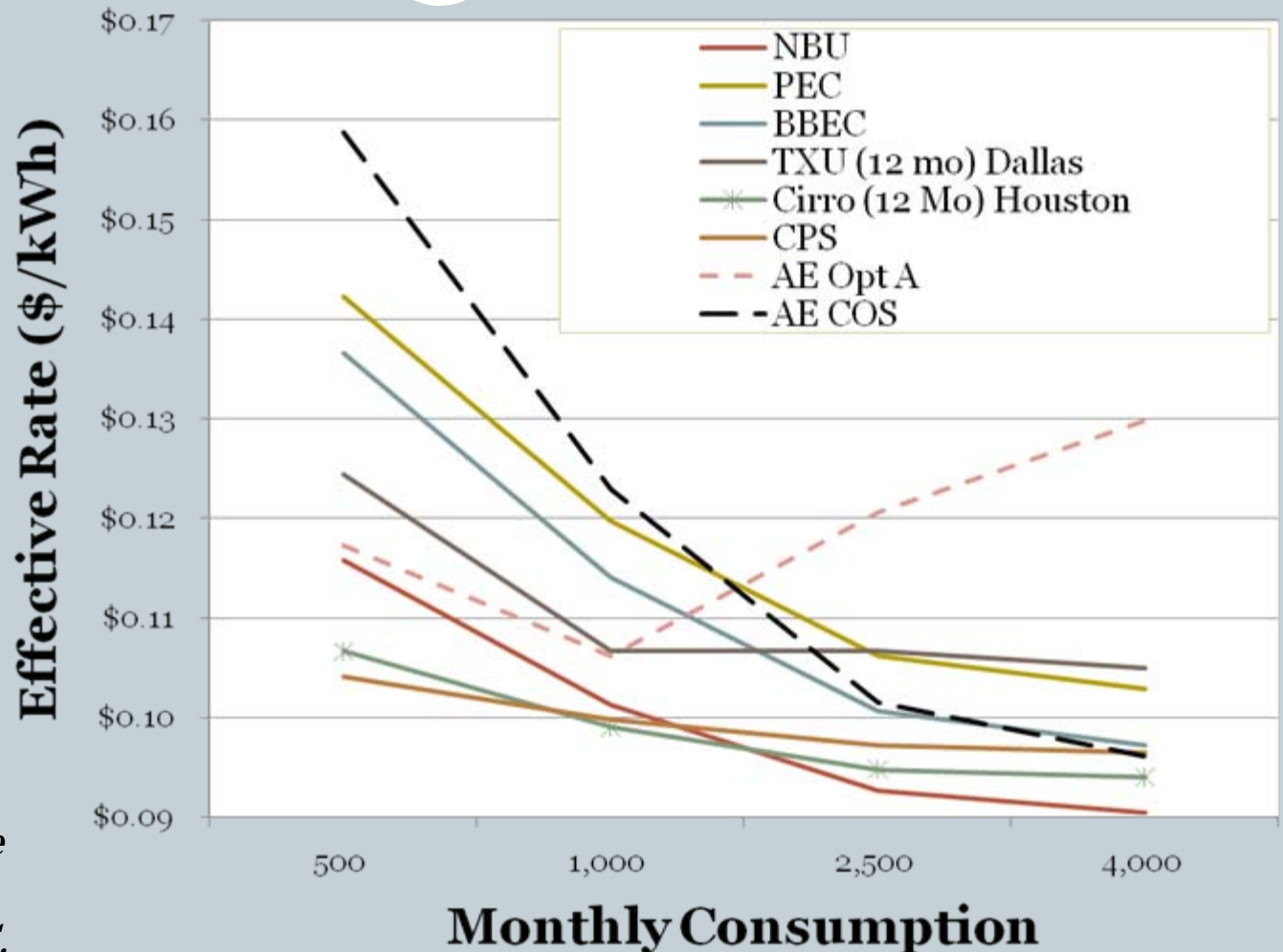


Effective Summer Rates in ERCOT Market

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The AE Proposed Rates (Option A) for high consumption customers are outside the range of rates in both the local area and the ERCOT Market.

Given AE Conservation goals, it should be expected that AE high use customers would have high rates. This may be an issue at the PUC.

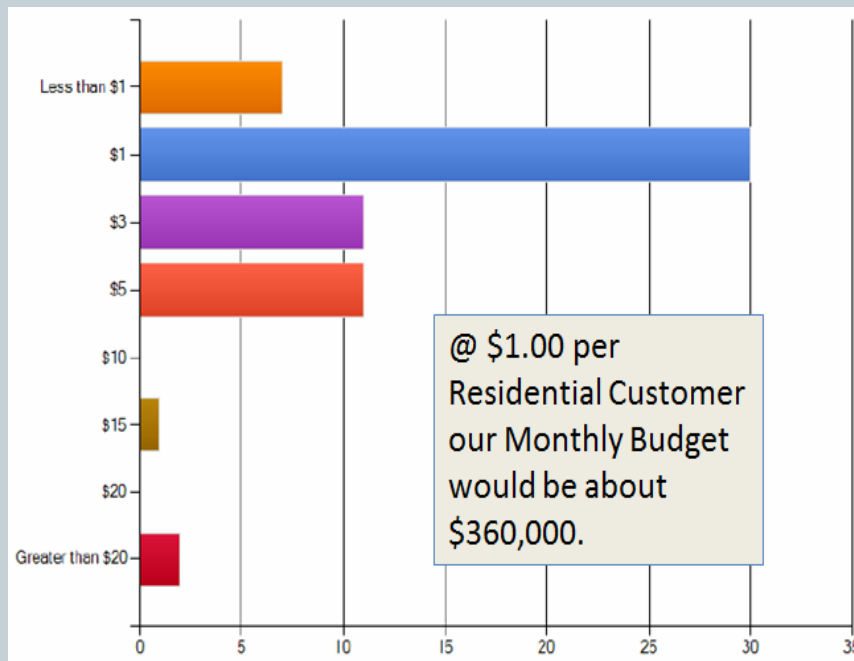


Customer Assistance Program

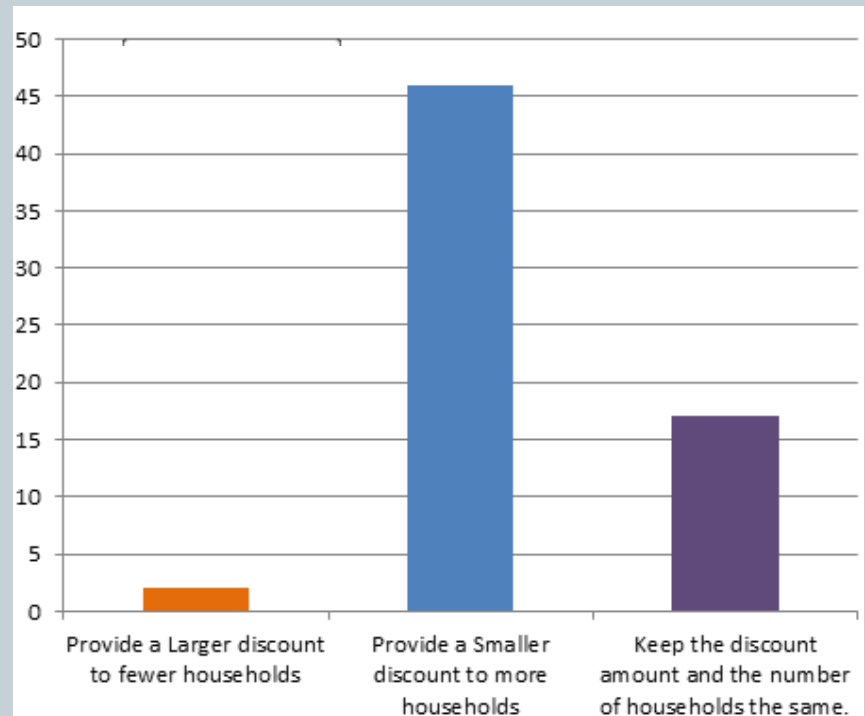
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AE used its in-house Market Research and Product Development Division to conduct a survey regarding the CAP program, the results are shown.

If customers were assessed a fixed amount on there bill to support Low Income customers what would you consider a fair amount.



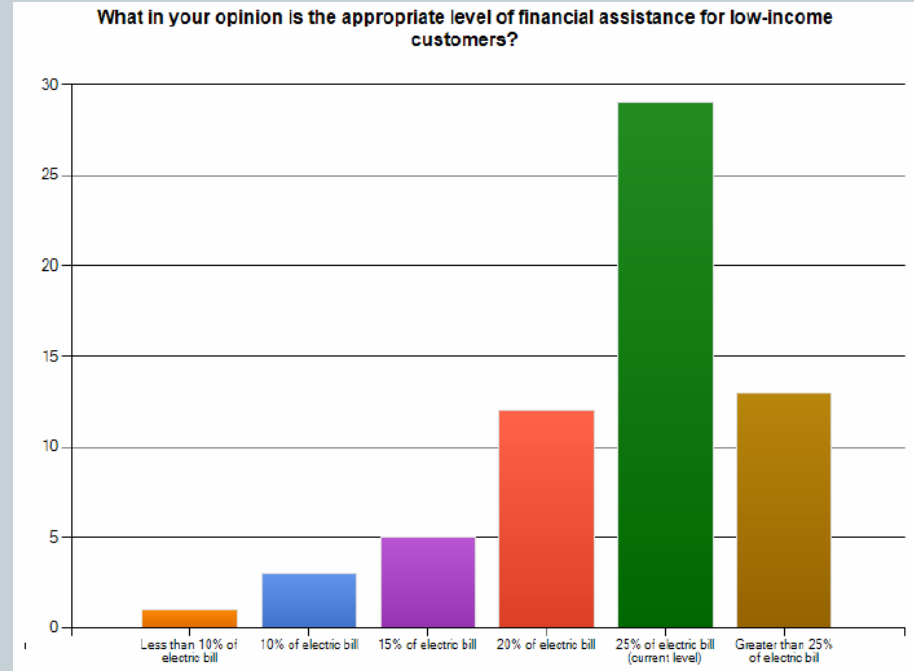
If AE had \$3.1 million to spend on its CAP program how should those funds be distributed?



Customer Assistance Program

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The Residential members of the PIC (including the low income advocate) considered these survey results in conjunction with the desire to encourage energy conservation when making our recommendations to provide a fixed level of funding of \$25/month to CAP customers.



It is inappropriate to provide a percentage discount, so that a handful of few high usage customers could consume most the of available funds at the detriment to other needy customers.

(See Letter from “Fred” in Aug 29 - Residential Rate Advisor Report Appendix I)