

**COMMENTS
OF
LANETTA COOPER
ON BEHALF OF
TEXAS LEGAL SERVICES CENTER**

INTRODUCTION

TLSC wants to preface its comments with an acknowledgement that Austin Energy provides good service to its customers. The 311 system initiated by the City of Austin has been experienced by the undersigned to be an exemplar of how consumers should be treated by their public service providers.

This preface having being said, the contested issues before you are not about the quality of service or customer communication but the issues are about the fairness of the rate request presented by Austin Energy (“AE”). TLSC has several concerns starting with its request for what appears to be a large increase in revenues. For residential customers, the unfairness of the rate request continues with a proposed cost of service study that does not mirror how costs are incurred by Austin Energy in the nodal market but allocates and therefore charges costs to residential customers that they did not cause. In addition, AE upends a residential rate design that was innovative at the time established and now mirrors

recommended rate design principles for energy conservation. Lastly, AE is proposing to create separate charges for certain elements of its business operations updated annually without providing refund protections established in the Texas electric retail market.

TLSC will start with a short discussion concerning AE's continuing statement that AE hasn't had a rate case in seventeen years. Next they will turn to the revenue requirement. Cost of service will be next followed by rate design. TLSC has not had the benefit of discovery in this case. TLSC has had outstanding discovery requests since July 18, 2011. Answers to those questions would have allowed TLSC the opportunity to ascertain whether the inferences they have made in their examination of AE's ratefiling are accurate.

The recommended adjustments will not be cumulative. The revenue requirement reductions will not flow through to proposed adjustments commentators will make in the cost of service ("COS"). If the EUC recommends revenue requirement reductions, then commentators' proposed COS adjustments will be greater.

WHY HAS THERE BEEN SEVENTEEN YEARS SINCE THE LAST RATE CASE.

AE commences its discussion of this rate case with a statement that AE hasn't had a rate case in seventeen years. This statement implies that the inevitable increase in expenses is causing this rate case. But AE has made major changes in its financial policies that play a substantial part in the requested increase in revenues. In the recent past, AE had a policy of maintaining a debt/service coverage ratio of 1.5. As AE noted in its rate case, the current rates—that is no rate increase-- would allow AE to maintain a little over 1.5x debt/service coverage ratio. AE's proposed 2x debt/service coverage ratio has a substantial impact on AE's request for more revenues. Another issue involves the increase in the percentage of cash used in AE's capital improvement program. AE is requesting that its rates be priced high enough to put in \$100 million cash contribution to a \$200 million capital improvement program. Reducing the cash contribution to 30% from the 50% proposed -cash contribution would result in a substantial reduction to AE's proposed rate increase. Lastly, the rise of significant AE funding of economic development is also a major contributor to the revenue increase, comprising 8% of the \$131 million AE alleges it needs in increased revenues. Just these three changes alone would negate a rate increase.

The question that commentators have is why AE did not reduce residential customer rates in the past seventeen years. In this seventeen year time period, AE

paid cash for a 500 MW gas plant instead of reducing residential rates. Over this same time period, AE was reducing rates to its large customers below cost, and shifting that cost responsibility onto the residential and other customer classes. Also, since 2007 AE has over collected fuel revenues by about \$80 million¹ without these monies being refunded to the customers who were overcharged the fuel costs. AE has also failed to put the last rate case into context. In 1994, AE had far fewer customers who had fewer kWh sales to spread over the cost of South Texas nuclear power plant. The nuclear power plant is the most expensive capital investment AE has ever made². That huge capital cost spread over substantially fewer kWh produced a rate that should have over recovered going forward as additional customers and therefore sales were used to recover ensuing costs that on an incremental basis should have been lower.

The fact that there has been no rate increase over seventeen years really begs the question about how fair residential customer rates have been over this time period. The current rate request is asking residential customers to continue to subsidize AE's large commercial customers and to almost completely fund AE's contribution to COA's economic development. It would seem that residential

¹ See Austin Energy Performance Report (Draft July 2011), p. 8.

² The nuclear investment may still not be the most expensive investment if inflation is not considered. If inflation is considered the nuclear power plant is still the most expensive.

customers should continue to question the fairness of the residential rate increases AE is seeking in this case.

DOES AE NEED ADDITIONAL REVENUES?

AE's revenue requirement should be reduced by no less than \$40 million.

1. AE's rates should be set on using a debt/equity ratio for capital improvement funded programs of 70:30 instead of 50:50. This adjustment would reduce the cash portion by approximately \$40 million. Given, that this amount of funding will still have a "debt" cost to be included in the cost of service, TLSC estimated the revenue requirement reduction amount to be \$30 million.
2. The economic development costs ("EGRSO") currently included in the COS should be excluded. Under the PUC Substantive rules, utilities are limited to three tenths of one percent of gross revenues for advertising, including advertising for energy efficiency, donations, and contributions. TLSC has estimated that AE has approximately \$14.788 million of these costs included in the COS. Three tenths of one percent of AE's requested revenue requirement of \$1,136,020,803 is \$3,408,062.40. Consequently, even with the most liberal calculation of gross revenues, AE has included excessive

amounts for these types of costs. Therefore, TLSC's recommendation to exclude the economic development costs is conservative. This reduces the revenue requirement by \$10,140,552.³

3. The \$1 million dollar adjustment to uncollectible expenses should be excluded from the COS. AE has increased bad debt expenses by \$1 million based on increased rates. AE has provided no workpapers to justify this adjustment. Further, it is higher than the adjustment AE made in its 2011-2012 budget to council. In that budget, AE claimed the increase was due to increased hot weather. AE sales are normalized for weather for rate setting purposes. Since sales are normalized to exclude sales related to extreme weather, then the corresponding bad debt expense should also be excluded. This reduces the revenue requirement by \$1 million.
4. The rate case expenses should be excluded from the COS. AE has estimated that it will incur approximately \$4 million. This is a nonrecurring item; that is, it is not a normal business expense, but is an extraordinary one that is being included for recovery assuming a three year payback. AE has already stated its intent to not have another rate case for a number of years. This means that in year four into the new rates, this annual amount will still be

³ See Appendix C: Known and Measureable Changes, page 3, Line147, FERC account No. 911.

recovered in the rates but will not have any costs attached to it. This is a cost that should be recovered in a surcharge, if at all. However, the extreme weather this summer created excess sales that could be used to pay for this expense. This reduces the revenue requirement by \$1.29 million.

5. The debt/service coverage ratio should be reduced to 1.7. TLSC's proposed adjustment to the debt/equity funding ratio of AE's capital investment may affect the debt/service coverage ratio. AE has provided no economic analysis to support its ratio of 2x debt/service coverage. The City of San Antonio uses a 1.4x debt/service coverage ratio. The COA's water/wastewater utility uses a 1.5x debt/service coverage ratio. A 1.7x debt service coverage ratio is conservative. Without considering any adjustment that may have already been made by TLSC's recommended debt/equity ratio for financing its capital improvements program, this adjustment reduces the revenue requirement by \$50 million dollars.⁴

Has AE fairly allocated its costs of operating the utility among the customer classes?

⁴ TLSC multiplied the amount identified on p. 20 of 296 of Appendix D: Cost of Service, Line 176 by 30%.

1. Production plant costs should be allocated on the BIP⁵ method. AE concedes that among the three proposed COS production cost methodologies, this cost allocation methodology most accurately tracks how costs are incurred by AE in providing electric service to its various customer class customers throughout the operating day. The Average Excess method utilized by AE is not the methodology that has been used by Texas utilities. This is because it AE used customer classes off-system peak maximum usages (non- coincident peaks—“NCP”) in its methodology instead of system peaks (“coincident peak). The resulting allocation factors turn out to place higher costs onto residential customer classes than the 4CP method that just allocates on system peak responsibility, thereby showing the illogic nature of AE’s application. Further, AE advocates rate designs to shift usage off of system peaks. AE’s use of a NCP in the Average and Excess method is inconsistent with this advocacy. The best example of this is the lighting class whose costs skyrocket under AE’s average and excess peak method. Yet, this is because AE is using the lighting class NCP which occurs usually at night when there is no fear that it will contribute in any significant way to AE’s system peak. AE’s proposed Average and Excess methodology is flawed

⁵ Baseload, Intermediate, and Peaking

and does not accurately track cost causation as well as the BIP method.⁶

Further, it punishes customer classes who shift their usage off of system peak. Using the BIP method to allocate production costs should reveal, without any other cost adjustments, a proposed residential rate that is above costs.⁷

2. AE has inappropriately allocated certain costs on customers, in whole or in part.

a. Assuming the costs related to the economic development are included in AE's COS, these costs should not be allocated among the customer classes based on customer. AE's allocation of economic development costs based on customers means that the residential customer class is picking up 86% of these costs.

Economic development is about attracting new business and therefore sales to AE business operations. As such, these costs should be allocated either on average demand or on revenues.

Taking the most conservative estimate, this means that instead of

⁶ TLSC notes that under the BIP, the lighting class is allocated more costs than under a 4CP. This is because the BIP method rightfully acknowledges that production costs are being incurred in serving the lighting class even if that service is provided at night.

⁷ See Page 12 of AE handout presented to the EUC on July 18, 2011.

the approximate \$8.6 million dollars being allocated to the residential class, the amount allocated would be \$4.23 million, a difference of \$4.37 million. Further, AE has inappropriately placed this cost in the customer charge. It is clearly a cost connected with revenues, not number of customers. As such, it should be recovered in the energy charge.

- b. AE has done some kind of functional unbundling of the general fund transfer that has the effect of allocating an excessive level of this cost onto the residential customer class. The general fund transfer is calculated by taking a percentage of sales that are based on a three year rolling average of AE's gross revenues. The costs of the general fund transfer are therefore directly driven by AE's sales revenues. If AE had allocated this cost based on revenues, residential customers would have been allocated \$43.5 million. Instead, because of its "unbundling", AE allocated \$58.03 million⁸, a difference of \$14.5 million. Many regulators view the general fund transfer as a substitute for the lost franchise tax revenues the city would have received if the utility was an investor-owned one.

⁸ Source, Page 20 of 296 Appendix D: Cost of Service, Line 178, Table 4.15, P. 90 Rate Analysis Package; and Table 4.17, p. 91 Rate Analysis Package.

Franchise fees are allocated based on revenues and recovered as a surcharge on sales, much like a sales tax. Sales taxes and franchise fees, by nature, are considered regressive taxations that more negatively impact low income consumers. AE's apparent proposal to recover a greater level of costs from residential customers than if it had been allocated based on revenues makes AE's proposed cost of service even more regressive than a sales tax or franchise fee. Yet, the regressive nature of AE's proposal does not stop there. A substantial portion of the general fund transfer cost allocated to residential customers is being recovered in AE's proposed customer and wires charges. Placing any of this cost in the customer or wires charge is anathema to cost causation and exacerbates the recessive nature of AE's requested rate recovery of this cost. It inequitably is asking those customers who use the least to pay more than their fair share of a cost that was incurred by sales volume, not number of customers.

- c. Bad debt expense should not be allocated on customer. Bad debt expense is driven by sales volume. Further, paying customers did not cause the bad debt. This fact is the reason bad debt is generally

considered an overhead expense that should be borne by all customer classes. Bad debt should be allocated on revenues.⁹ This is how this cost was allocated in AE's last rate case and how this cost is traditionally allocated at the Texas Public Utility Commission ("PUC") in the setting of utility rates. If this had been done, residential customers would have been allocated \$1.96 million in bad debt expense instead of \$4.01, a difference of \$2.05 million. In addition, this cost is being sought by AE to be recovered in the customer charge. Bad debt expense is a function of revenues and should be priced out in the rate design accordingly. As such this cost should be recovered in the energy charge.

3. The number of kWh sold should be adjusted upward to reflect the number of residential customers AE had in 2010. Looking at the known and measureable adjustments AE made in this rate case, it appears that AE essentially increased all of its costs to incorporate 2010 costs. Yet, it failed to increase its revenues due to the change in the number of

⁹ Allocating costs among the customer classes shifts more costs onto the residential customer class than if the allocation was on kWh because the residential class, in general have higher rates per kWh. Therefore, the higher kWh prices lead to a higher allocation factor to the residential customer class.

customers. If AE had accounted for its increased residential customer count as it had for its 2010 increased expenses, AE would have shown an increase in revenues attributable to the residential customer class of \$3.985 million.¹⁰

TLSC's proposed COS adjustments reflect that AE has been over allocated almost \$20 million in costs that should fairly be allocated to other customer classes. In addition, the failure to include 2010 customer additions in the COS causes the revenue requirement deficiency for the residential class to be overstated. Further, the application of a more accurate and fair COS model in addition to adjusting the \$20 million in unfair costs result in residential customers moving from AE's alleged 95% COS to substantially over their COS. The proposed twenty per cent increase to the residential class is excessive and should be significantly reduced.

SHOULD AE'S DESIGN ITS RESIDENTIAL RATES TO PROMOTE ENERGY EFFICENCY ?

TLSC has previously addressed this issue and will be filing a separate rate design paper. In addition, Ms. Biedrzycki has filed comments on this issue. TLSC agrees with those comments.

¹⁰ Source: Austin Energy Performance Report (Draft July 2011), p. 9; Table 2.9, p. 39 Austin Rate Analysis Package.

HAS AE PRESENTED ADEQUATE RATE CASE MATERIALS TO
ENACT ITS RIDERS?

AE has proposed several riders. Riders are separate charges made for specific operating cost elements. The classic rider is the fuel charge that AE has historically used. Surprisingly and at a time AE is arguing a need for rate transparency, AE chooses to stop the use of a separate fuel charge. Instead, it seeks to mingle these costs in with other operating costs. Instead of a fuel charge, AE is recommending riders for recovering transmission costs, its CAP program and its energy efficiency program. Unfortunately, AE did not separate these costs out of its total cost of service. Instead these costs are co-mingled with other costs leaving the EUC and other parties with no ability to verify whether the proposed rider rate is fair and equitable and is correctly recovering the costs sought to be unbundled. Further, riders, which are interim rates, should have a tariff or procedural rule requiring reconciliation. Specifically, overearnings from a rider should lead to refunds applied as credits to utility bills. TLSC is also very concerned that money recovered for a specific purpose will not be used for that purpose. The system benefit fund is a classic example of this dilemma. In the deregulated market, consumers are surcharged a system benefit fund fee whose purpose was to help with low income bills. These collected revenues were

transferred to the legislature who addresses the PUC's budget and activities. Instead of passing these monies on to the PUC for the purpose of the system benefit fund, these funds have been trapped at the legislature for purposes of balancing the state budget. For several years, low income residential customers received diminished help with these monies in paying their bills. Today, the amount of assistance is greatly reduced.

TLSC questions the rider relating to the CAP program and the rider relating to the Energy Efficiency Program. Ms. Biedrzycki has discussed this issue extensively in her comments filed in this case. TLSC's concerns are mirrored in Texas ROSE's comments, and, for brevity purposes, refers the EUC to these comments. TLSC is urging the EUC to require AE to unbundle the costs relating to these riders from the cost of service, provide the workpapers to ensure that the costs are properly removed and not double counted, and to establish a proposed tariff for each of these riders that:

- Establishes the rate formula;
- Does not provide for an increase in the rider if the utility is overearning;

- Provides for billing credits if AE has a revenue balance involving the rider;
- Ensures that the program elements underlying the rider are properly laid out and the correlating costs are identified;
- That the public has an opportunity to address the program elements and verify that the costs are reasonable and necessary;
- That sales or customer growth is taken into consideration in the setting of any new rate; and
- Such other criteria to ensure riders are not used as substitutes for needed rate cases.

CONCLUSION

TLSC believes AE is requesting excessive revenues by the use of questionable financial policies and the inclusion of inappropriate costs. AE exacerbates this problem unreasonably allocating costs to the residential customer class. AE's COS and rate design proposals result in an excessive and extremely regressive rate design for residential customer classes.

TLSC urges the EUC to ask tough questions of the AE staff , to adopt its recommendations, to request AE to make the adjustments accordingly to its ratefiling package. TLSC additionally requests the EUC to direct the adjusted rate filing package be proffered to the council with a recommendation that the council adopt it.

Respectfully Submitted

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RATE DESIGN

What is rate design? Rate design is simply deciding how to price your product. Pricing for electricity for regulated, public utilities in Texas is based on apportioning the costs based on an economic analysis among the different types of customers such as residential, industrial and commercial. Once the economic analysis¹ calculates the costs to serve residential customers, a rate specialist designs a rate, a price to charge residential customers. Rate design has several objectives: to be equitable and fair, to be easily understood by the consumer, to recover the costs to serve residential customers, to be based on costs², to send a pricing signal about future costs, to encourage conservation, energy renewal, and carbon reduction, and to have essential electric service affordable. Some of the objectives are competing making the final decision one based on public policy considerations.

Is AE proposing new residential rate designs? Yes, AE is proposing a substantial change in COA's current residential rate design. There is a steep price increase for essential electric services, and the addition of open ended pricing components³ whose purpose is to focus in on one small part of electric operations without determining whether AE is making more than enough money overall to fund its electric operations. AE is proposing this new rate design arguing energy efficiency measures have made revenue unstable based on the current rate design; AE further argues that its proposed rate design is mirroring the unbundled retail electric market where the production, transmission, and selling of electricity is separated into separate entities. Lastly, AE argues that the proposed rate design recognizes the fixed cost nature of electric operations.

Hasn't energy efficiency created a need to change AE's rate design for its residential customers? Not at this time. *First*, AE argues that energy efficiency has made AE's revenues less stable. This argument is a non sequitur. The fact that AE has not had a rate case in sixteen years negates this argument. AE's operating revenues are cyclical in nature, much like farming and retail. Utility operating revenues have never been assumed to have a year to year and season to season consistency with little variance. In general, utility rates are set to ensure sufficient revenues over the course of several years, and not just one. The rates set in 1994 have allowed AE to have revenues sufficient enough to make a \$500 million dollar capital investment funded entirely with cash. In addition, AE is anticipating a huge increase in

¹ An economic analysis that is performed is not an analysis that provides scientific certainty. It depends upon many assumptions that have for each assumption used, opposing or alternative assumptions based on economic and public policy considerations. For ratemaking purposes this economic analysis is called a "cost of service study."

² The "costs" to serve residential customers vary widely depending upon the economic analysis performed. Usually the range is a plus or minus 10 to 15 per cent.

³ AE is recommending a power cost adjustment factor, a regulatory charge and a community benefit charge.

residential electricity usage brought on by the advent of electric cars in response to green environment initiatives. So any concern about insignificant residential sales caused by energy efficiency efforts will be more than offset by this increased usage. There may be some renewable energy programs such as solar power that should be considered on separate rate schedules. This is because of the potential for a dynamic shift in electric usage caused by the emergence of a new type of energy user. AE and other utilities have historically designed rates for such unique usage situations. Examples are interruptible rates for industrial customers, all-electric rates for residential customers, electric water heater rates for residential customers, and stand by rates for industrial customers. In this cost of service study AE is proposing special discount rates for electric cars⁴. Creating a separate rate for electric cars as well as rates for direct generation, electric customers are better rate design solutions than AE's current residential rate proposal.

Second, AE argues that a new rate design is needed to address the unbundling nature of the retail electric industry. AE's argument does not mirror the reality of the marketplace. Yes, the transmission and distribution utilities have been, under the guise of unbundling, seeking approval to drastically increase their customer charges. The Public Utility Commission of Texas, the state agency that regulates utilities in Texas, has soundly rejected these attempts. The retail electric providers (REP), the resellers of retail electricity to residential and commercial customers in the deregulated Texas retail electric market, in general maintain a flat rate pricing. This means, the REPs aren't even charging a customer charge.⁵ Attached to this comment are sample REP pricings as well as a summary of transmission and distribution utility prices provided by AE's rate consultant and a tariff sheet for a fully integrated private, investor-owned public utility in Texas.

Third, AE argues that certain costs are fixed and shouldn't be recovered using variable pricing. This argument is a reworking of an old cost of service method called the minimum customer distribution system that has been recently and is being currently rejected by the Public Utility Commission. The Public Utility Commission has rejected the argument that these costs vary by customer. Yet, AE's proposed rate design implicitly contains this assumption. AE recognizes that the distribution system costs were caused by the usage characteristics of the various customer classes.⁶ Even though AE allocates distribution costs between the customer

⁴ We have concerns about the level of discount given the huge savings electric cars would have in relation to gas consumption costs.

⁵ Many times, the REPs charge a "minimum bill" if usage for the month doesn't reach a certain level. This minimum bill generally acts as a customer charge.

⁶ See White Paper No. 3, p. 35, "Distributions systems are designed and built on the demand of the areas they serve. . . .For instance, a service transformer must be built to serve the highest peak of the individual customer or customers it serves." Demand means how much energy a utility has to provide at a certain time(s) of the

classes based on usage, AE simply fails in its proposed rate design to bring this type of cost allocation analysis down into the residential customer class. Instead it designs the rates based on number of customers and ups the residential fixed customers charges (made up on two components—customer charge and wire charge) from \$6.00 to \$33.00. If AE did bring its cost of allocation analysis down to the residential customer class level, AE would design rates based on usage, not number of customers. Unlike the proposed residential rates, the rates AE currently charges its residential customers are based on usage.

What is a customer charge? Historically and currently COA and other Texas utilities have used customer charges in their pricing structures to recover the variable cost of serving an additional residential customer. The type of costs typically recovered in a customer charge are billing and collecting, meter reading, meters, and service drops to the resident's home. These costs are incurred because of an additional residential customer is added as an AE utility customer. AE is proposing to add additional costs that don't vary with the addition of one customer. For instance, electric poles, transformers, and distribution lines are not increased when a renter calls AE to start electric service or if a garage apartment is added to an electric customer's lot. These costs are already there and do not increase because a new customer has entered the system.

What is a wires charge? A wires charge is an attempt in the electric industry to change how the distribution system is priced out. The wires charge represents a per customer unit charge for the utility's distribution system. While AE relies upon usage to allocate this cost among the customer classes, it prices this cost to residential customers on a per capita basis assuming each residential customer's usage characteristic is identical to every other residential customer. This is not the case. In the past utilities have readily acknowledged that some part of the distribution system costs has been incurred because of the usage characteristics of the customers. So, with that acknowledgement, utilities had created a fictional "minimum distribution system" carving a certain amount of costs out of the distribution system costs that supposedly had a direct cost relationship to the number of customers on the system. The remainder of the distribution system costs was allocated on usage. The Texas Public Utility Commission, the state agency that oversees electric utilities in Texas, has soundly rejected attempts in recent years to allocate **any** of the distribution system costs—including any fictional "minimum distribution system" based on the number of customers. AE is proposing to design its rates to recover distribution costs assuming that usage characteristics within the residential class are irrelevant. This is contrary to recent PUC regulatory action. It is also contrary to cost responsibility underlying the reasons utilities incurred these costs.

operating year. For instance, the term "highest peak" in the quote above means when the residential class is using the most electricity over a single time period. Electric demand is measured in megawatts of electricity used.

What is an energy charge? An energy charge is a confusing term. Some utilities have and may still use this term for recovering their fuel costs. Other utilities use this term to recover their operational expenses on a cents-per kilowatt hour basis for residential customers. Another name for this charge is base rates. This charge is reflecting cost responsibility based on usage; that is, the utility recovers costs from this energy charge based on how much you use.

Why should we price on usage? Pricing on usage is a fair and equitable way to distribute the costs of serving residential customers. Historically and currently, usage characteristics have been used to allocate the fixed costs of the utility. In this case, the AE consultant has looked at three different ways to allocate production fixed costs among the various customer classes, and each methodology is based on usage characteristics of the various customer classes. Transmission costs are allocated among the customer classes based on usage. Usage characteristics reveal the underlying cost responsibility for building the utility system—both as to its size and to the type and numbers of production plants, transformers and other parts of the utility system. Basically, pricing on usage is based on the doctrine that one should pay in relation to the use one makes of the system, implicitly recognizing that usage, not number of customers, has caused costs to be incurred and why certain amounts of costs are shifted to the residential customer class for recovery under a cost of service analysis.

AE is proposing a radical change based on a misconception of the utility system. AE's capital investments, once made, are fixed costs. But those costs were created in response to AE's best guess of how much electricity would need to be provided to its customers. Pricing a fixed cost based on the number of customers disconnects a utility from why it built the plant system—to meet its various customers assumed usage. But this is what AE's consultant is doing in creating a "wires charge". The consultant's argument could be expanded to power plants, but even the consultant acknowledges that cost responsibility should be recovered in usage charges and not fixed charges.

Why should we keep the current residential rate design? With the addition of two new residential rate designs for electric cars and for self-generation residential customers, the current rate design should be retained. The current residential rate design promotes conservation, is easy to understand, provides a reduced rate for essential household usage, and reflects the usage cost characteristics within the residential customer class which, when aggregated at a customer class level, are used to assign utility costs to the residential customer class. In short, the current rate design meets the objectives for rate design set out above.

What is a surcharge? A surcharge is an additional charge that reflects costs that change often. A classic surcharge is a fuel factor that is utilized to track the costs of the utility's fuel purchases which rise and fall often within a year. AE is proposing to increase not only the number of

surcharges it imposes on residential customers, but to increase the type of costs to be recovered in the current ones.

Does AE need surcharges? No, AE doesn't even need a fuel surcharge. AE does not provide the additional regulatory scrutiny that goes with surcharges. Surcharges are considered temporary rates subject to true-up. AE has not held any reconciliation proceedings to determine whether the surcharge brought in more revenue than estimated or less, or whether the expenses incurred related to the surcharge were reasonable and necessary. Instead, AE has treated surcharges as rates that are changed going forward without any scrutiny over past expenses. If surcharges continue to be a part of AE's residential rates, then reconciliation proceedings should occur.



Texas Impact was established by Texas religious leaders in 1973 to be a voice in the Texas legislative process for the shared religious social concerns of Texas' faith communities. Texas Impact is supported by more than two-dozen Christian, Jewish and Muslim denominational bodies, hundreds of local congregations, ministerial alliances and interfaith networks, and thousands of people of faith throughout Texas.

Recommendations to Strengthen Austin's New Rate Design

Houses of Worship

- Current Policy: Congregations choose residential or commercial class
- Austin Energy Proposal: Classifies all houses of worship as commercial and adds demand charge
- Analysis:
 - It's a "double whammy" not felt by other small commercial customers.
 - Most houses of worship are "off-peak" using peak load on weekends.
 - Congregations provide a community benefit—often assisting with disadvantaged ratepayers' bills
- Recommendation:
 - Keep current residential/commercial choice option for congregations
 - OR
 - Classify congregations as commercial but exempt from demand charge structure similar to state legislation passed in 2011.

Consumer Assistance Program

- Current Policy: Participants are exempt from customer charge and receive reduced fuel charge
- Austin Energy Proposal: Expands the number of participants, funded by a new 0.065/kwh charge.
- Analysis:
 - CAP currently has fewer than 10,000 current participants—only about 1/7 of Austinites living in poverty.
 - Funding CAP with usage-based charge means CAP funds are jeopardized by efficiency.
- Recommendation:
 - Maintain CAP participant exemption from ALL flat fees
 - Fund CAP with a flat, predictable fee not based on kwh usage
 - Set CAP on-bill charge high enough to cover all ratepayers below 100% FPL
 - Provide assurances that CAP fees won't be used for other purposes

Low-Income Weatherization:

- Current Policy: Nothing regarding equitable distribution of renewable and energy efficiency funding
- Austin Energy Proposal: Lacks details on how the EE charge will be distributed
- Analysis:
 - Non-bypassable EE fees disproportionately benefit wealthier ratepayers
 - In deregulated areas, IOUs must weatherize homes of low-income ratepayers
- Recommendation: Commit specific percentage of RE/EE funding to disadvantaged ratepayers.