



YOUR ELECTRIC RATES

# **Residential Rate Advisor Report to the Electric Utility Commission:**

**Detailed Decision Point List for Revenue Requirement, Time-of-Use Rates,  
and Residential Solar Rate and Updated Decision Point List for Discussion**

**September 30, 2011**

**Revenue Requirement, Time-of-Use, and Residential Solar Rate Detailed Decision Point List –  
Areas of Agreement and Disagreement between the Residential Rate Advisor and Austin Energy  
September 30, 2011**

Issue	Austin Energy Staff Recommendation <sup>1</sup>	Residential Rate Advisor Areas of Agreement	Residential Rate Advisor Areas of Disagreement	EUC Position
<b>Revenue Requirement</b>				
1) Revenue Requirement Methodology	Use the cash flow methodology for the following reasons: <ul style="list-style-type: none"> <li>• Required by Financial Policy</li> <li>• Approved by the Public Utility Commission of Texas (PUCT)</li> <li>• Used and approved in a contested Austin Energy (AE) Transmission Cost of Service (TCOS) case (Docket 31462)</li> </ul>	Residential Rate Advisor (RRA) agrees that the use of cash flow methodology is fair and reasonable and accurately reflects AE’s appropriate revenue requirements.		
2) Debt Service Coverage	Use a debt service coverage (DSC) of 2.0X for the following reasons: <ul style="list-style-type: none"> <li>• 2.0 DSC does not drive the revenue requirement value, but rather is a minimum test of revenue adequacy</li> <li>• Supported by AE financial policy</li> <li>• Embedded in revenue</li> </ul>	Concur with AE that 2.0X DSC is reasonable.		

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

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	<p>requirement financial policy to support credit rating</p> <ul style="list-style-type: none"> <li>• Well within the range of similarly rated (AA-) electric utilities as evidenced in the following peer benchmarking studies on median DSC: <ul style="list-style-type: none"> <li>○ 2.48X average per Fitch Ratings, Inc. report dated June 2011</li> <li>○ 2.54X average per American Public Power Association (APPA) report dated November 2010 for utilities for greater than 100,000 customers</li> </ul> </li> </ul>			
3) Internally Generated Funds – Construction Improvement Program (CIP)	<p>Use an average of 50% cash funding for yearly routine plant additions for the following reasons:</p> <ul style="list-style-type: none"> <li>• Within the range of AE’s financial policy of 35% to 60% cash funding</li> <li>• Consistent with AE capital structure</li> <li>• Used and approved in a contested AE TCOS case (Docket 31462)</li> <li>• 50/50 debt to equity ratio is</li> </ul>	Concur with AE that 50% cash finding for CIP is reasonable.		

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	common in the industry for fully integrated utilities.			
4) Level of CIP	<p>Use a three-year average using the Test Year 2009 actual costs net of adjustments (non-electric and Holly decommissioning) and forecasted years 2010 and 2011. The CIP represents the yearly plant additions. In total, the CIP expenditures over this period of time represent a reasonable level of expenditures that are expected to continue into the foreseeable future. The three-year average recognizes that there is variability in specific project expenditures from year to year, but in total the overall CIP expenditures has been and will remain at about \$222 million annually. AE provides to maintain reliable electric delivery and quality customer service. The three-year average totals about \$222 million and is less than the nearly \$240 million actually spent during the Test Year. Because AE has experienced operating losses in recent years, current CIP projections are not a good measure of utility construction needs and the CIP programs have been reduced below normal levels in order to slow the</p>	<p>Historical CIP does not necessarily reflect the level of CIP funding needed during the period new rates will be in effect. However, while the RRA does not necessarily support the methodology used by AE to calculate the CIP balances to be included in revenue requirement, RRA believes that the end result of AE's methodology appears to be reasonable.</p>		

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	<p>current depletion of reserves.</p> <p>In AE's most recent TCOS case (Docket 31462), the PUCT approved using AE Test Year actual spending.</p>			
5) Calculation of General Fund Transfer (GFT)	<p>Austin Energy proposes no change to the existing GFT calculation policy which is based on a three-year average of 9.1% of the utility's revenues including base revenue, fuel revenue, transmission revenue, infrastructure rental, product sales, customer fees, bilateral sales, other miscellaneous revenues such as lab fees, rental, and scrap sales, and interest income.</p>	<p>RRA agrees that AE has calculated the GFT as required by the City.</p>	<p>Although RRA takes no position with respect to the level of the transfer, RRA believes that by including power supply costs in the basis upon which the GFT is calculated the GFT becomes an unstable amount and introduces an additional and unnecessary burden upon consumers during periods of rising power costs. RRA believes that GFT should be calculated either on base rate revenues or upon plant in service levels.</p>	
6) Operating and Maintenance Costs Including Administrative and General Expense	<p>Austin Energy believes that its operating, maintenance, and administrative and general expense are reasonable for the following reasons:</p> <ul style="list-style-type: none"> <li>• APPA benchmarking study dated November 2010 on electric utilities with greater than 100,000 customers shows that these costs (all-in) are consistent with the APPA average.</li> <li>• Results of benchmarking</li> </ul>	<p>RRA, after further analysis of A&amp;G expenses, concurs with AE that the level of A&amp;G expenses is reasonable. RRA takes no position with respect to AE's adjusted O&amp;M expenses, excluding A&amp;G.</p>		

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	analysis shows that AE's A&G expenses only are 3% to 7% greater than averages of other utilities.			
7) Revenue True-Up through "Known and Measurable" period of 2011	<p>Austin Energy believes that its known and measurable adjustments are reasonable for the following reasons:</p> <ul style="list-style-type: none"> <li>• Austin Energy relied on Fiscal Year (FY) 2009 audited financial results adjusted for normal weather, and discreet and measurable changes to expenses and revenues that have occurred since 2009. All known and measurable adjustments reflect services and infrastructure that will be used and useful to customers as of the implementation date of the proposed rates.</li> <li>• AE did not rely on a projected test year in accordance with PUCT rule making. AE did not make wholesale changes to costs as reflected in the FY 2009 audit.</li> <li>• Austin Energy adjusted revenue for Test Year-end customer count and normalized weather to reflect conditions of a typical</li> </ul>	RRA agrees that known and measurable adjustments are generally supported by credible evidence. RRA has not examined the weather normalization adjustment and takes no position with respect to that adjustment.	Other revenue has not been adjusted to year end levels. Although AE claims that the adjustment is so small as to be inconsequential, such an adjustment is fair and reasonable and should be calculated.	

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	<p>operating year</p> <ul style="list-style-type: none"> <li>• Since 2009, miscellaneous revenues associated with new customers added to the system have been de minimis</li> <li>• Since 2009, load growth on the system has been minimal. In 2010 AE even experienced a loss of load. Load growth adjustments related to certain known and measurable items would be de minimis.</li> </ul>			
8) Reserve Funding	<p>Austin Energy believes that its proposed reserve funding levels are reasonable for the following reasons:</p> <ul style="list-style-type: none"> <li>• Operating deficits have depleted cash over the past 2 years</li> <li>• Reserve deficits threaten AE’s credit rating</li> <li>• Austin Energy currently has no provision for non-nuclear decommissioning</li> <li>• Liquidity mitigates risks and provides for operational flexibility</li> <li>• Reserve funding is included in the requested “Return” amount</li> </ul>	<p>RRA concurs that AE has followed City Financial Policy guidelines in establishing most fund balance requirements (with the exception of non-nuclear generation decommissioning costs).</p>	<p>RRA believes that AE has not provided sufficient evidence to support the requested levels of each of its funds. RRA believes that AE has proposed funding reserve levels to the maximum extent permitted by City ordinance even though lower funding levels may be sufficient to meet funding needs. RRA believes that the funding levels must be supported by a more detailed analysis of funding levels.</p> <p>RRA does not believe the Non-nuclear generation decommissioning funds have been supported by evidence, nor is the 10 year decommissioning period beginning at the time new rates are</p>	

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	<p>which is consistent with industry standards</p> <ul style="list-style-type: none"> <li>• Future rate stabilization is of paramount importance to AE. Rate stability is achieved through the 2 percent affordability cap and the implementation of the proposed fuel adjustment mechanism in coordination of the rate stabilization fund. Without adequate reserves, AE cannot commit to long-term stable rates.</li> </ul>		<p>placed into effect consistent with the City's financial policy guidelines.</p>	
<p>9) Return</p>	<p>Austin Energy believes that its revenue requirement proposal is reasonable for the following reasons:</p> <ul style="list-style-type: none"> <li>• Austin Energy has benchmarked to return on rate base and an investor-owned utility (IOU) return on equity and found that its “return” is consistent with industry standards</li> <li>• This “return”, not to be confused with the “Return” listed in 8) above, includes debt service, GFT, internally generated funds for CIP, reserve funding, less depreciation expense and</li> </ul>	<p>RRA concurs.</p>		

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	<p>interest income</p> <ul style="list-style-type: none"> <li>The PUCT has approved higher returns on transmission rate base in TCOS proceedings. Austin Energy's generation business operates in a much riskier business environment than the transmission function. Therefore, AE believes that its return on rate base for the generation, distribution, and customer service business functions in aggregate are reasonable.</li> </ul>			
<b>Time-of-Use Rates</b>				
10) Implement Time-of-Use Alternative Rates	<p>Implement a time-of-use (TOU) alternative rate for residential customers with a 2,000 customer enrollment cap and implement TOU rates for each commercial and industrial customer class with an enrollment cap of the higher of 10 percent of the customers in the class or 10 customers for each class.</p> <p>Austin Energy's TOU rates maintain the incentive for customers to conserve energy and invest in energy efficiency consistent with the 5-tier inclining block rate structure proposed for the</p>	<p>Austin Energy should experiment with TOU rates. The rates as designed will not harm customers not on the program, and will reward customers on the program for changes in behavior. Suggest preference be given to enrollment of residential customers with solar PV and/or an electric vehicle to ensure AE understands the impact these customers can have on future rates and customer demand profiles.</p>	<p>I am concerned the pricing of the upper tiers in the off-peak periods is too high, and recommend AE experiment with lower the off-peak TOU rates with the goal of knowing exactly how to take advantage of low off-peak prices in anticipation of market impacts of the transmission lines to the West Texas wind farms, in 2014.</p>	

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	<p>residential class. The TOU rates are also representative of AE’s cost to produce energy during each time period in the TOU rate structure.</p> <p>The proposed TOU rate structure rewards customers that shift power usage to off-peak periods. The TOU rate design does not provide unintended benefits to customers shifting from an inclining block rate structure to a TOU rate structure that do not change behavior. Therefore, the applicable TOU rate structure varies depending upon customer usage levels.</p>			
<b>Residential Solar Rate</b>				
11) Residential Solar Rate [replaces the net metering rate proposal (issue no. 23 of the August 29 DPL list)]	Credit all solar PV distributed generation at the “value of solar” [12.8 cents/kWh (2011)] and charge residential customers the standard rate for all consumption.	If AE is not allowed to collect fixed cost (wires charges) as a fixed charge, this is the only acceptable concept. Current rate of 3.105 cents/kWh is too low and needs to be increased.	<p>Recommend 7.44 – 8 cents/kWh net to grid payment.</p> <p>This proposal favors small use residential solar photovoltaic (PV) customers and discourages large use residential PV customers. This is counter to the intended benefits of the 5-tier inclining block rate structure.</p>	
12) Value of Solar	The methodology of the value of solar rate was developed by a study completed in 2006 and the value is updated on an annual basis. The	Distribution losses should be included at 5%.	The study being used by AE is outdated and was conducted before we had a nodal market in ERCOT which could determine the value of	

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	<p>value of solar includes local job creation, green emissions free energy, capital cost, transmission losses, and distribution losses.</p>		<p>energy at a specific location at a specific time.</p> <p>The value of “green” local jobs and capital cost was/is included in the AE funded solar rebates.</p> <p>Any proposal must consider rebate programs which have already funded a portion of the solar value; otherwise other customers fund the capacity twice. At the Sept 19 EUC meeting during the citizens panel Solar Austin (unnumbered slide 6) reported current rebates by AE are worth 8 cents/kWh. The cost of solar produced at the 30 MW Webberville solar plant is around 16 cents per kWh. Equating the cost of Webberville about 16 cents minus the residential rebates of 8 cents/kWh leaves a remaining value of about 8 cents/kWh.</p> <p>As stated by AE at the Sept 19, 2011 EUC meeting, the price for remote solar is under 10 cents/kWh.</p> <p>Using AE Recommended TOU rates and applying that rate to solar production results in a value of 8.5 to 9.6 cents</p> <p>In ERCOT’s calculation of the</p>	

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			<p>value of energy at the AE Load Zone, transmission costs are inherently embedded in the calculation so they have already been accounted. In an energy-only market the value of capacity is also inherent in the energy price but there is no reasonable way to extract it. While there is some double counting of capacity payments between ERCOT prices and the solar rebates that is unavoidable.</p> <p>Assuming that the value for local green power was included in justification of the rebates, this is now just energy being injected at the Austin Energy Load Zone and an appropriate price is determined by ERCOT four times per hour.</p> <p>As of September 15, 2011, the average value for net to grid solar for calendar year 2011 at distribution voltage was 8.2 cents/kWh.</p> <p>Given all of these factors, a payment of <b>8-9.5</b> cents per kWh would be appropriate. Not the outdated 2006 AE study which results in payments of 12.8 cents/kWh</p>	

## **Addendum to Decision Point List on Time-of-Use Rates and Residential Solar Rate**

### **Review of Proposed Time-of-Use Rates and Net Metering Distributed Generation Alternative Rate by the Residential Rate Advisor**

#### **Time of Use Rates**

I have met with, and reviewed the Proposed Time-of-Use (TOU) rates with Austin Energy (AE) and SAIC. I was initially concerned about a subsidy from Non-TOU customers to TOU customers for no change in behavior. Upon clarification that concern was unwarranted.

Consistent with my recommendation that AE be given broad latitude regarding implementation of “pilot” rate programs, I have no objection from the perspective of residential customers of AE implementing the proposed TOU rates.

I note. However, that AE seems to have rushed to get a TOU rate included in this rate filing package. The method employed by SAIC in developing these rates was to assume that AE was providing the energy from its resources. In a regulated environment that is a reasonable assumption, however as discussed previously, AE is a regulated utility in a deregulated market. As recently as September 20, 2011, Dan Jones, the Electric Reliability Council of Texas (ERCOT) Independent Market Monitor, warned the ERCOT Board that with the completion of the Competitive Renewable Energy Zones (CREZ) lines (transmission lines to west Texas wind farms) late in 2013, ERCOT is likely to have significant deliverable excess wind generation in off-peak periods. The result of this deliverable excess wind will be very low prices throughout the ERCOT region during off-peak periods. Under the method used by AE in its TOU analysis, the cost to serve off-peak load by AE generation will remain unchanged despite the low market prices for off-peak energy. If prices do drop as expected, all AE customers can benefit from shifting consumption from on-peak/mid-peak hours to off-peak hours.

I recommend AE investigate these policy issues and develop a more aggressive TOU pilot program (lower off-peak rates or fewer off-peak tiers) which strongly encourages shifting consumption to off-peak periods. The intent of the pilot should be to have a range of solutions, which would allow for rapid deployment of a full-scale TOU program in conjunction with the completion of the CREZ transmission lines currently under construction.

#### **Net Metering Distributed Generation Alternative Rate**

The methodology AE is proposing for the residential solar rate has changed from what was presented in the August 29, 2011 Rate Analysis and Recommendations Report. In that report AE recommended continuing with a net metering approach, similar to what is done today, but with a

higher payment (12.6-12.8 cents/kWh) for energy based on their value of solar study. I reviewed that proposal in conjunction with the wholesale market. Based on prices of power in the Austin Energy Load zone and the hourly production potential of a solar PV, the value of delivered energy for 2011 year to date, is 7.8 cents/kWh.

At the September 19, Electric Utility Commission (EUC) meeting, AE presented a revised proposal using a gross metering approach. Under this approach, AE would purchase all of the solar PV generation from a residential customer at the annual value of solar (12.8 cents/kWh in 2011) and charge the customer for all of their consumption at the standard residential rate.

There are advantages and disadvantages to either the net metering or the gross metering approach. Net metering historically undervalues the energy provided to the utility during on-peak high priced periods, but somewhat compensates the owner through lower wires, or electric delivery, charges. Both AE and I are in agreement that AE should pay the value of energy delivered during the on-peak period, however we disagree on how to calculate that value. A key equality element in deciding between a gross metering or net metering approach is the handling of fixed charges. If fixed charges for electric delivery and customer service sufficiently recover those costs then net metering is an equitable solution. However, if all or a portion of those costs are recovered through a consumption charge, then gross metering may be a more equitable solution.

Throughout the public involvement process during AE's rate review, including the selection of the 5-tier inclining block rate structure, a fundamental assumption of AE's was that a high usage customer could become a low usage customer through installation of net metered distributed generation. The proposed rates offer a strong incentive for high use customers to install solar in order to fall in a lower priced tier. Under the gross metering concept, the economic incentive for these customers is greatly reduced. Austin Energy is proposing to charge a customer who consumes more than 2,500 kWh/month 14.5-17.5 cents/kWh for the Energy Charge, but only pay 12.8 cents for their energy production, while at the same time a customer using less than 500 kWh/month will be paid the same 12.8 cents/kWh but only charged 5.514 cents/kWh for the Energy Charge.

The fundamental area of disagreement between me and AE is in the calculation of the value of solar amount and determining how much, if any, of that calculated amount has already been paid for in AE solar rebates. AE currently offers rebates of \$2.50-\$3/watt and the lesser of \$15,000/year or 80% of the invoiced cost of solar PV. According to information presented at the last EUC meeting that equates to about 8 cents/kWh<sup>2</sup> over the life of the project. Austin Energy will argue that that is simply an investment hurdle they are helping customers overcome. There are benefits from local job creation, emissions free energy, and capacity costs associated with distribution system upgrades. I readily accept that these values exist. However, I believe they have been compensated in the solar rebates provided. Austin Energy will argue that transmission and distribution losses

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<sup>2</sup> Slides 5 and 6 of the un-numbered Solar Austin slides (\* assumption noted is 1 kW system produces 1500 kWh annually).

should be considered. I agree that distribution losses are an added benefit and should be included. However, the method ERCOT uses to calculate the Load Zone Prices includes transmission losses to the AE Load Zone.

Because ERCOT runs an energy-only market in which the prices for capacity are included in the energy price suppliers charge, the proper price to pay is the price at which AE could replace the energy within the local area at the time of delivery. This number is easy to calculate either on a net-to-grid basis or on a gross basis. I have calculated that number both ways, using the ERCOT Real-Time prices as delivered to the AE Load Zone and using a “typical”<sup>3</sup> distributed solar PV system on an average year against prices at the Austin Energy ERCOT load Zone for January 1, 2011 through September 15, 2011. For a net metered system the price is 7.44 cents/kWh and for a gross metered system that price was 7.80 cents/kWh through the same period.

Considering adjustments for distribution losses at 5 percent, prices of 7.8 cents/kWh for net metering or 8.2 cents/kWh for gross metering would be reasonable proxy values for 2011.

I then conducted a second analysis using the AE proposed Time-of-Use prices to determine the value of Solar using the gross metering approach. This analysis turns out to be much simpler. I used the 1001-1500 kWh/ month as the base rate upon which I would calculate all prices. The prices for the non-summer peak and mid-peak are charged at a rate 8.48 cents/kWh. Since all solar energy produced in the non-summer months is during this uniform pricing period the proper value for solar in non-summer months is 8.536 cents. To determine the value of solar in the summer I used the same 1500-2500kwh/month tier with a summer peak rate is 13.5 cents mid-peak rate is 10 cents. As a simplifying assumption we will assume that half of the energy is produced at 13.5 cents and the other half at 10 cents. Therefore the summer value of solar is  $(13.5+10)/2$  or 11.75 cents per kWh. To determine the annual value of solar it is simply the number of non-summer months (8) times the value of solar in those months (8.536 cents/kWh) plus the number of summer months (4) times the value of summer solar (11.75 cents/kWh) or  $[(8.536*8+11.75*4)/12]$  or 9.6 cents/kWh. No adjustment is needed for losses since the TOU rates already have all costs included. A table of the Time of Use Rates and the potential value of Solar for all those tiered rates is show on the following page.

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<sup>3</sup> Production data obtained from National Renewable Energy Lab tool (IMBY), for a 10 KW system installed in Austin with generation profile of a average production year. Since all calculations were on a per KWh basis system size becomes immaterial, however system was sized to roughly equal overall daily summer consumption thereby insuring that measureable net to grid power was available.

Tier	% Annual Bills (unrelated to TOU)	Cost of Service	Non-Sum TOU ¢/kWh	Sum Peak TOU ¢/kWh	Sum mid- peak ¢/kWh	Simple Average*	Solar Production adjusted Value
<500 kWh	32%	Below	3.2	10.5	7.5	5.1	5.2 ¢/kWh
501-1000	33%	Below	4.892	11.75	8.685	6.7	6.7 ¢/kWh
1001-1500	18%	Near	7.1	12.76	9.5	8.4	<b>8.5 ¢/kWh</b>
1501-2500	13%	Above	8.536	13.5	10	9.6	<b>9.7 ¢/kWh</b>
>2500 kWh	4%	Above	12	17.5	12	12.9	13.0 ¢/kWh
* Simple average equals (Sum Peak TOU * 6 hours + Sum Mid-Peak * 6 hours)/12 hours * 4 months + Non-Sum TOU * 8 months)/12 months							
Solar Production Value considers differences in Solar Radiation during hours of the day and seasons.							

While some may argue that the highest tier would be the proper one to use to promote solar PV given the low number of customers in that tier (4%), it is unknown if many of these customers would participate in a TOU rate structure. Furthermore under the tiered rate structure AE is using funds from these customers to offset costs of other customers. Revenue AE receives must not be double counted.

In my opinion, given these two independent methods of calculating the value of Solar, a fair price for some customers to pay and for other customers to receive are on the order of 8 to 9.5 cents/kWh. This is substantially current payments and understandable to both solar and non-solar customers (“they are paid the TOU rates for their production”).

I have been approached by some solar PV customers who have tax concerns related to the proposed gross metering proposal. They believe the gross metering proposal looks like a feed-in tariff (sales for resale) and that could have both negative federal tax and federal rebate implications for them. I am not a tax attorney and as such have no opinion on the topic. I suggest, AE investigate any potential residential tax implications that could negatively impact the program.

## 2011 Rate Review Decision Point List

Discussion for October 3, 2011 EUC meeting

Issue	Austin Energy Staff Recommendation <sup>1</sup>	Residential Rate Advisor	Other Parties	Draft: EUC	Draft: Barbara Day
1. Achieve Revenue Requirement	<p>Collect revenues from all customer classes sufficient to fund core functions and the utility's strategic objectives. Increase overall revenues based on the Test Year 2009 results from \$1,004,133,897 to \$1,111,135,775, or an 11.1% increase.</p>	<p>Concur as Austin Energy (AE) must collect its revenue requirement. Agree that cash flow methodology is reasonable to use to calculate revenue requirement. Concur with use of 2.0X Debt Service Coverage (DSC). Concur with the use of 50% debt funding assumption. Concur with the level of Capital Improvement Plan (CIP) funding, although not with the method by which that level was derived. Concurs with the level of the General Fund Transfer (GFT) and recognize that AE has properly followed City policy with respect to GFT computation. However, Residential Rate Advisor (RRA) recommends that the GFT be calculated on a basis that does not include highly variable power supply costs.</p>		<p>Concur, subject to removing the following from revenue requirement:</p> <ol style="list-style-type: none"> <li>1. EGRSO and all other non general fund transfers to COA (See annual EUC resolutions since 2007);</li> <li>2. Any portion of the general fund transfer based on fuel revenues (See annual EUC resolutions since 2007);</li> <li>3. PLACEHOLDER (Awaiting discussions between RRRA and EU)</li> </ol>	<p>Agree with PHS proposal to remove economic recovery as a regulated rate recovery expense. Also agree with removal of all non general fund transfers from rates. Propose the following additional adjustments to AE's requested revenue requirement.</p> <p><b>Off-System Sales Revenues</b></p> <p>Reverse AE's adjustment. The test year level of the energy component [not including fuel] of off-system sales revenues must be added back in to the calculation of the revenue requirement consistent with the matching principle. Rates are set to include all capital costs and O&amp;M costs to produce energy. To exclude the energy portion of the revenues received from off-system sales would cause AE customers to subsidize the production and operating costs of such sales, and create a mis-match between revenues and expenses in violation of the accepted principles of rate regulation. AE customers would be paying all the capital and O&amp;M costs associated with the production of the energy sold off-system unless this adjustment is reversed. AE has adjusted the test year to remove recognition of</p>

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

Issue	Austin Energy Staff Recommendation <sup>1</sup>	Residential Rate Advisor	Other Parties	Draft: EUC	Draft: Barbara Day
		<p>RRA concurs that the level of Administrative and General (A&amp;G) expense is reasonable.</p> <p>Concurs with known and measurable adjustments, except to the extent that Other Revenues should be adjusted for test year-end number of customers.</p> <p>RRA believes that AE has followed City financial policy guidelines for most funding calculations. However, the RRA does not believe that AE has provided sufficient evidence to support the levels required by that policy.</p> <p>RRA does not believe that the funding of non-nuclear generation decommissioning costs is reasonable.</p> <p>RRA agrees that the AE has provided support using a rate base approach to revenue requirement determination that supports to level derived from AE's cash flow approach.</p>			<p>those revenues based on an assumption that energy and fuel will be merged. Both the RRA and PHS's draft answers to the decision point list reject merging fuel and energy. I agree with that position. Therefore, AE's adjustment removing those revenues must be reversed so off-system sales revenue for the energy portion of the off-system sales is recognized. The adjustment to recognize the energy portion of off-system sales lowers AE's requested revenue requirement by \$35,130,256. <i>See</i>, rate filing, section 3, Table 3.1, at page 52. <sup>2</sup></p> <p><b>Normalization of Load and Resources</b></p> <p>Reject AE's proposed adjustment as not known and measurable. AE claims that its revenues were <u>higher</u> in test year 2009 than normal. <i>See</i>, Rate Package, Section 3, page 55. So in its calculation of revenue requirement it <u>removes</u> revenues thus increasing its claimed need for a rate increase. This claim does not withstand scrutiny. During the public process of evaluating the need for this rate increase request, Councilmember Laura Morrison requested information from AE showing the percentage change year over year in retail kWh sales in each year since the last rate case (1994). The graphs that AE produced for Councilmember Morrison show that usage <u>dropped</u> in 2009, not that it was higher than normal.</p>

<sup>2</sup> This does nothing with the fuel portion of off-system sales revenues which remains in the fuel component of rates and will be recognized as a credit against fuel costs, as is appropriate and as it is currently done.

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					<p>AE's rationale for removing some revenues is that the weather was anomalous in 2009, i.e. a hot summer with a peak usage in June. <i>See</i>, rate filing, section 3, page 55. Now that we are coming to the end of 2011 as the hottest summer on record, this claim that the test year adjustment is warranted is unsupportable. Recently AE has provided City Council with additional revenues based on the increase in revenues associated with the hot summer of 2011. 2009 should not be adjusted as showing too much revenue. 2009 usage is not anomalous. Indeed, 2009 usage looks moderate compared to 2011.</p> <p>AE's adjustment in the amount of \$9,661,881 should be rejected. The <i>normalization</i> to remove revenues, thus raising the alleged deficiency due to claimed anomalous weather should be rejected.</p> <p><b>Reserve Fund Contributions</b></p> <p>Remove \$22,677,528 for “<i>reserve funds</i>”. The \$22.7 million number includes various funds such as working capital reserve, repair and replacement reserve, contingency reserve, emergency reserve, rate stabilization reserve. RRA has recommended -0- working capital for the reason that working capital is actually negative, meaning AE makes money from the lag between receiving income and payment of bills. The requested reserves are already funded by building into rates debt service coverage of <u>twice</u></p>

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					<p>debt service costs. Recommend accepting 2 X coverage which provides sufficient cushion for AE to set aside whatever reserve funds it wishes from that revenue cushion. However, an <i>additional</i> expense for reserves is double charging or double counting such expense. AE already receives depreciation expense (either directly or through the margin calculation), funding for an additional reserve for repair and replacement would double collect). Reserve funds are not required by bondholders. <i>See</i>, 2010 Bond issuance, page 8.</p> <p>The 2010 bond covenant showed AE's actual debt service coverage for 2009. It is 2.78 X. AE produced net revenues adequate to meet and surpass the City's policy goal of 2X DSC by 72%. The point of the City policy of collecting double the DSC is to provide a cushion, or reserve, if you will. How the city wishes to denominate such cushion/reserve into various additional component reserve funds is its prerogative. Adding \$22,677,528 as expense in this rate case double collects a cushion for reserve from ratepayers. It is not plausible that the PUC would accept recognition of expense funding for these various reserve accounts. These are not recognized reserve accounts like decommissioning expense. Instead, the reserves AE uses are already funded by the choice to set rates sufficient to double collect, or collect 200% of debt service costs. Indeed, if AE's rates are appealed</p>

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					<p>to the PUC AE could defend its choice to provide 2 X debt service costs as providing a cushion sufficient to fund the various reserve accounts it chooses to establish. However, these are not expenses to be built into rates, and would double collect costs.</p> <p><b>Interest and Dividend Income</b></p> <p>AE requests that ratepayers fund \$9,661,881 for hypothetical interest because AE projects it will not make as much interest in the future as in the test year. Recommend removing this expense as not known and measurable. Further, ratepayers are not required to provide or guarantee a specific level of interest as a recognized cost of producing electricity.</p> <p><b>Rate Review Expenses</b></p> <p>Remove \$1,292,907 attributable to rate review expenses as non-recurring. The correct and accepted method of collecting such expense is through a surcharge on customer bills that ends at a set time when the expense is collected. Inclusion of non-recurring items in rates assures that the amount will be over-collected from customers. The Public Utility Commission has adopted the specific, term defined surcharge and that should be done in this case as well.</p> <p><b>General Fund Transfer (GFT)</b></p> <p>The amount of GFT should be calculated on <u>net</u> revenues, not gross revenues</p>

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					including fuel. Fuel is a dollar for dollar pass-through. City Council should not collect a profit on fuel.
2. Align Rates by Customer Class with Cost of Service (minimize subsidies across customer classes)	No customer class should pay greater than 105 percent or less than 95 percent of its cost of service in the implemented new rates, with the condition that the utility achieve its total revenue requirement through implemented rates with the exception of contract customers.	Concur with this metric. However, the selection of the cost of service model upon which the 105 percent and 95 percent are calculated, defines the true impact. The Average and Excess Demand (AED) method places 20% more cost on residential customers than the Baseload, Intermediate, Peak (BIP) method.		Concur, but as 95% and 105% are arbitrary, consider adjusting and expanding, to perhaps 92.5% and 107.5% as means to alleviate impact on lowest income customers and alleviate impact of selecting AED cost allocation method over BIP. Also, remove (a) GFT, (b) economic development and (c) bad debt from residential fixed costs and allocate them to (a) all classes, (b) Commercial and Industrial only and (c) all customer classes.	Delete this item from the Decision Point List or, at most, state it as a guideline that has been applied; not a policy. As the question and AE's answer is stated it implies that no judgment is involved, that this is an objective task, and that no disagreement is possible. An excellent example that aligning rates by class and cost to serve is a subjective task is the economic development expense. In the functionalization process, AE has functionalized the entire \$10 million as a customer cost. <sup>3</sup> This is a judgment call on AE's part to functionalize 100% of the economic development costs as "customer". Approximately 90% of the customer costs are allocated to the residential class. So an expense that benefits the commercial or industrial classes is functionalized in such a way that almost the entire cost is imposed on the residential class.  This example vividly illustrates that costs allocated to various customer classes are subject to judgments made by AE that are not accepted by all, or even valid. Questions #2 and #3 on the decision point list invite the inference that class costs are an objective, uncontested assignment, when this is clearly not the case. Recommend deleting questions #2 and 3, or at least re-stating them as a goal

<sup>3</sup> Rate filing, Schedule D, pg. 11 of 296, line 147 shows \$10,140,552 called "supervision" which AE identified to me as the economic development expense.

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					that has been used in classification.
3. Set Policy Bounds on Customer Class Alignment with Cost of Service	Set the Residential, Secondary Voltage <10 kW, and Lighting customer class target revenues at 95 percent of cost of service and set all other customer classes at 104 percent of cost of service.	Concur with this metric. See Issue #2, regarding cost allocation differences between the BIP method and the AED method.		See 2 above; Open question: why is lighting at 95% and not 100%	Delete question for the reasons stated above to #2.
4. Mitigate Impacts Within Customer Classes	(a) No residential customer electric bill below 1,500 kWh should increase by more than \$20 a month on average. (b) Transition non-demand secondary commercial customers to demand rates.	(a) Concur with Austin Energy. (b) Concur – Rate shock will be reduced with a transitional plan for non-demand customers, as they are brought up to cost of service.		Concur. While the fixed costs on residential customers will increase as a necessary consequence of “unbundling”, this is offset by charging LESS under the proposed rates for energy for the two lowest user classes (under 500kWh and 500 kWh – 100 kWh. In the summer season, those users represent 55% of all residential customers and in the winter they represent 77% of residential customers). It is very unique that after no rate adjustment since 1994, the cost of energy for low energy users will actually decline. These benefits are coupled with the substantial increase in funding for the CAP, which is targeted specifically at low income customers.	Placeholder subject to the size of the revenue requirement recommended and the recommendations on unbundling.
5. Select a Production Demand Cost Allocation Method	Apply the Average and Excess Demand Method to 1) recognize that customers benefit from both capacity and energy produced from generation assets; 2) to reward	<b>Disagree</b> - Apply the BIP Method. Consistent with the Public Utility Commission of Texas (PUCT)-ordered nodal market. Recognizes that		Concur with AE, subject to #2 above	No position until after commercial and industrial hearing.

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	high load factor and energy efficient customers; 3) to be consistent with methodologies commonly used in Texas and around the country.	customers benefit from both capacity and energy produced from generation assets; and is consistent with methodologies used around the country. The BIP method is a simplified version of the Probability of Dispatch method previously approved by PUCT and the City of Austin. The PUCT has not made any determination regarding cost allocations in a nodal market. Furthermore, the BIP method is consistent with the use of Austin Energy's generation resources by the Electric Reliability Council of Texas (ERCOT).			
6. Consolidate Customer Classes	Consolidate current customer classes from 24 to 9 classes and develop classes based on cost of service differentials, including unique service requirements and electricity usage characteristics.	Concur with the reduction in classes and recommend that AE continue to monitor differences in consumption within the secondary and primary customer classes and seek future reductions in the number of customer classes.		Concur, but either include in this rate adjustment or set a goal to adopt within three years, two additional rate classes: <ol style="list-style-type: none"> <li>1. Residential all electric homes (and institute Option B on all other residential customers at that time); and</li> <li>2. Apartment dwellers with lower tiered fixed costs (wires and electric delivery) costs</li> </ol>	Concur with S. Fath's position on all electric homes.

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7. Update Rate Structure for Residential Customers	Unbundle rates and apply a customer charge, electric delivery charge, energy charge, regulatory charge, community benefit charge, and energy adjustment.	Concur with the direction and suggest complete unbundling of the electric delivery charge from the energy charge to be consistent with Austin Energy's transparency principle and the Texas deregulated market.		Concur. It is necessary to unbundle rates in order to fully achieve the benefits of a utility company that does not depend on the sale of energy to recoup its fixed costs. Once the business model is shifted in this manner, the utility will have less incentive to promote the sale of additional energy and will have more incentive to encourage both energy efficiency and distributed generation. It is this type of change that will allow Austin Energy to preserve its role as a leading innovator in the electric utility industry. There will never be a "good" or "easy" time to make such a change, so we may as well do it now – those who follow us will thank us for having the courage to make this change so they may reap the benefits later. We cannot today fully anticipate what benefits may be unleashed from such a fundamental change in the utility's business model, but we can expect them to be profound, especially if they trigger growth in distributed generation.	<p>Disagree. AE's request to change its entire rate structure to move collection of revenues to fixed charges should be rejected. Fixed charge structure may be used in the de-regulated market, but it is not accepted or correct for regulated monopolies. Fixed charge structure actually <i>prevents</i> conservation based on price signals. AE hasn't even identified a rationale for considering such a radical change that de-couples pricing from use. Since there are basically three components to the change that AE proposed, each is addressed separately in #13, 14, 16.</p> <p>The fixed charge form of recovery is inconsistent with regulatory principles of cost causation and sends incorrect pricing signals to customers. Fixed charges are punitive to low-use customers and negate conservation principles. Finally, AE has padded certain of these costs so much that the entire plan must be rejected. <i>See</i>, response to #13 <i>infra</i>.</p>
8. Update Rate Structure for Commercial and Industrial	Unbundle rates and apply a customer charge, electric delivery charge, energy charge, demand charge, regulatory	Concur with the direction and suggest complete unbundling of the electric delivery charge from the		Concur, subject to C&I rate hearing. See prior response.	See comments to #7 above. The principles are the same. Not ready to take a final position on this until after the Commercial and Industrial hearing

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Customers	charge, community benefit charge, and energy adjustment.	energy charge to be consistent with Austin Energy's transparency principle and the Texas deregulated market.			
9. Update Fuel and Energy Market Costs Recovery Mechanism	Recover Test Year fuel-related costs in the energy charge and apply an energy adjustment in future years to account for future fluctuations in fuel-related and energy market costs.	<b>Disagree</b> – Rates are more transparent and GreenChoice® Program is easier to understand if fuel and energy discrete line items.		Disagree with AE and Agree with RRA for the reasons stated by the RRA	<p>Disagree with AE; agree with RRA, S. Fath and PHS, with additional rationale. AE's revenue requirement request must be adjusted to reflect the energy portion of off-system sales revenue consistent with the matching principle. <i>See, supra.</i> At #1. [\$35 million revenue] AE's filing excludes recognition of this revenue due to AE's assumption that its proposal to merge fuel and energy charges will be adopted. Consistent with the recommendation that energy remain separate from fuel, the test year revenues for the energy portion of off-system sales must be recognized consistent with the matching principle as well as the test year principle.</p> <p>AE's proposal to add an energy adjustment should be rejected as an impermissible pass-through mechanism for items other than fuel and purchased power. AE seeks to use the new energy charge to evade regulatory scrutiny in a rate case and make it a pass-through of much more than variable costs. Further, AE would avoid any future rate cases and would pass-through individual items that it has not recovered while ignoring expenses that have decreased or revenues that have increased. In other words to engage in <u>single issue ratemaking</u> outside a rate case and with little scrutiny.</p>

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					<p><i>“Additionally, the energy charge includes the unrecovered <u>fixed costs from the customer, electric delivery, and/or demand charges.</u>”</i> [emphasis added]</p> <p>AE's Executive Summary, dated August 29, 2011, at page 22.</p> <p>AE seeks approval to simply “adjust” its energy charge to flow through fixed charges that it claims might not be recovered in the customer, delivery, or demand charges. This is inconsistent with regulation and would facilitate cross-subsidization among classes.</p>
10. Apply Regulatory Charge	Add a regulatory charge to recover costs associated with transmission and ERCOT fees and remove these costs from the energy charge.	Concur as these charges are beyond Austin Energy’s control.		Concur. Also, by ordinance, funds received for this program must be spent on this program with annual reconciliation.	Disagree. <i>See</i> , response to #7, above. This expense should be collected in the energy component, not as a surcharge. When investor owned utilities were regulated in Texas by the PUC, nuclear decommissioning expenses were rolled into rates for collection purposes, but set aside in a reserve or trust fund for expending and accounting for separately. This is the appropriate way to handle the community benefit expenses and regulatory; not as additional surcharges.
11. Apply Community Benefit Charge	Add a community benefit charge to recover costs associated with the Customer Assistance Program, service area lighting, and energy efficiency programs and remove these costs from the	Concur as the entire community benefits from these programs. Change makes rates more transparent.		Concur, but designate energy efficiency as “Energy Savings Fund”. Also, by ordinance, funds received for this program must be spent on this program with annual reconciliation and a designated percentage must	Disagree. <i>See</i> , response to #7, above. These charges can be set aside in a reserve fund with reconciliation and accountability that all dollars approved in this case are set aside, accumulated, and used only for the special purpose.

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	energy charge.			be allocated to low income weatherization/energy efficiency.	
12. Update Summer Rate Period	Shorten summer rate period from six (May – October) to four months (June – September) so that stronger pricing signals can be provided during the summer time period and to align with ERCOT.	Concur as this was one of my recommendations during the Rate Review Public Involvement Committee process.		Concur	Agree.
13. Apply Residential Customer Charge	Raise the current residential customer charge from \$6 to \$15 and remove this portion of residential customer-related costs from the variable energy charge.	Concur as the need to contact customer service is not a function of electric delivery. During AE’s Rate Review Public Involvement committee meeting process, the residential representatives on the PIC recommended a \$12 customer charge.		Concur, but develop a plan that increases the flat fee based on volumetric usage, so lowest users pay a slightly lower fixed cost than the higher users. For example, a user at 500 KWh may pay \$12.50 while a user at 2500 KWh would pay a \$25 customer charge. We should not have a regressive method of allocating fixed costs and need to introduce some element of progressiveness in how fixed costs are allocated.	Disagree for the reasons stated above in response to #7. The customer component of a bill has a very limited definition: meter reading, billing, customer service. This has been the regulatory definition for 100 years. AE hasn’t identified new categories that it believes should be added or why. 50% of the \$30 million AE seeks to recover in a fixed customer charge is the economic development expense and uncollectibles. Neither is appropriate in the customer charge as set out below. AE has padded customer costs by putting in costs that either are not accepted rate expenses or costs that have been and should be collected based on usage. For example, AE included \$10 million in economic development cost in customer costs by putting the amount in FERC account 911, labeled “supervision”. See, Rate filing, Schedule D, page 11 of 296, line 147. Economic development is not a customer cost. Another illustration is that AE has put “uncollectible” expense of \$4,669,787 in FERC account 904, labeled as a customer cost when it has

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					<p>always been collected based on usage and is not a cost to be recovered as a fixed customer cost. <i>See</i>, Rate Filing, Schedule D, page 11 of 296, line 138. Moreover, demonstrating and selling expense, advertising expense, and miscellaneous sales expense are now all functionalized to “customer” when these are not customer costs and indeed, are likely not even recoverable expenses under the Public Utility Regulatory Act. This group of costs totals \$4.2 million. <i>See</i>, Rate Filing, Schedule D, page 11 of 296, lines 148-150.</p> <p>Thus, of the \$15,165,448 total in “Customer service and information Expense” costs” that AE requests in this case, \$14.2 million are not recoverable as customer costs because they are comprised of economic development expense, advertising, and selling. <i>See</i>, Rate Filing, Schedule D, page 11 of 296, lines 142-150. Another \$4,669,787 is uncollectible expense which is a cost of all customers based on usage. <i>See</i>, Rate Filing, Schedule D, page 11 of 296, lines 138-139.</p> <p>A customer charge should not be a number pulled out of the air. It should be related to the very narrow range of items which are recognized as fair to be recovered on a fixed basis. AE has demonstrated no evidence to change its customer charge from \$6 per month. Indeed, \$19 million of the \$30 million total AE includes as customer charge are not expenses which may be</p>

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					functionalized as “customer”. <sup>4</sup>
14. Apply Residential Electric Delivery Charge	Move distribution costs from the energy charge to an electric delivery charge for residential customers set at \$10 and remove this portion of residential distribution costs from the variable energy charge.	<p><b>Partly Disagree</b> – There is a cost of meter reading systems, meter drops, tree trimming, etc. that is unrelated to energy consumption. Therefore we agree with the \$10 per month fixed electric delivery charge.</p> <p>However, there are other electric delivery costs that are driven by demand (a measure of consumption). I recommend adding a second electric delivery charge to be consistent with deregulated areas and removing all electric delivery charges from the energy charge. This change is consistent with Austin Energy’s transparency and understandability principles. It also allows comparisons to be made with the deregulated market.</p>		Concur with AE, but develop plan that increases the flat fee based on volumetric usage, so lowest users pay a slightly lower fixed cost than the higher users. For example, a user at 500 KWh may pay \$8 while a user at 2500 KWh would pay a \$20 customer charge. We should not have a regressive method of allocating fixed costs and need to introduce some element of progressiveness in how fixed costs are allocated.	<p>Disagree for the reasons stated above in response to #7.</p> <p>AE's request to have a fixed charge for distribution costs should be rejected. This request would represent a drastic change. Currently distribution costs are collected based on usage. If certain customer classes use less of distribution lines for reasons of voltage level, that is accounted for in the functionalizing process, i.e. less of those costs are assigned to those classes or customers. But after the functionalization, distribution costs are collected on a per kWh basis. The impact of changing to a fixed charge is that it sends incorrect pricing signals and punishes low use customers. Distribution costs have been collected on usage and function consistent with the City's goals of price signals to encourage conservation; fairness based on the idea that rates be aligned with usage; and long-standing regulatory principles in the monopoly electric market. The change that AE proposes also would cause rate shock to low use customers.</p> <p>AE has demonstrated no need for or even rationale for such a radical change. However, general statements have been made indicating a fear that in the future with more alternative energy available</p>

<sup>4</sup> This does not even question the “meter reading” expense of \$14 million that AE shows on Schedule D, page 11, line 136. This amount is unbelievable for a utility that has remote metering and smart meters.

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					<p>some distribution costs will not be recovered. If that is a true concern, the solution is to evaluate ways to design tariffs to charge customers who are not paying the costs they impose on the system a share of distribution costs. However, no such fact has been demonstrated.</p> <p>More of a concern is that costs are being placed on the system but not recovered from the cost causers associated with line extensions and new connections. AE should evaluate such costs and means of collecting said costs from those who impose them. Two obvious methods to consider in such evaluation are a <u>line extension fee</u> and a <u>new service connection fee</u>. Other methods are also worth considering. But the solution to a problem, if it is even a problem, is not to unfairly charge existing customers. Existing customers are merely causing repair and replacement costs to the delivery system.</p> <p>In sum, the reasons to reject a residential delivery charge are that it causes rate shock; is inconsistent with cost causation; is inconsistent with regulatory principles; and there is no evidence of lack of recovery of delivery costs using usage-based recovery methods currently in rates. If AE actually believes that it will have a problem in the future with cost recovery of distribution costs it should clearly identify the problem and the source and study other methods of cost recovery such as line extension fees</p>

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					and new service connection fees.
15. Implement Residential Inclining Block Tiered Rate Structure for Energy Charge	Expand existing residential inclining block rate structure from two tiers to five tiers to provide stronger conservation and energy efficiency pricing signals to the highest users in the residential customer class.	Concur - This will be one of the most complex rate designs in the country and, therefore, does not follow the AE design principle of “simple and understandable” rates. But it does follow Austin Energy’s strategic goal of incentivizing energy efficiency. I believe more weight should be given to goals than principles and, therefore, this change is appropriate.		Concur	Agree with the principle of inclining block structure. However, there are numerous proposals by AE, and the final revenue requirement is unknown, so agreement with the principle is not necessarily agreement to a final structure and price
16. Fund Customer Assistance Program	Fund the Customer Assistance Program with a Community Benefit Charge sub-component of \$0.00065/kWh to all customers.	<b>Disagree</b> - Recommend a flat fee consistent with survey results for <u>residential customers</u> of \$1/month. A \$1 fee is simple to understand, and transparent and therefore follows those principles. It will provide a stable funding source throughout the year, and will scale with the number of residential customers served by Austin Energy. Concur - with the proposed funding mechanism for non-residential customers.		Agree with RRA. In addition, users above 2500KWh should pay \$3.00.	Agree should be funded, but disagree that it should be surcharged. <i>See</i> , response to # 7 and 11, above.  A final component of AE's request is to add surcharges to the bills for Customer Assistance Program, Street Lighting, Energy Efficiency, Regulatory. Disagree with this proposal. CAP funding, street lighting, energy efficiency expenses and regulatory are all expenses rolled into rates currently. They should remain as expenses funded through rates. It is contrary to monopoly regulation to surcharge items on a bill except in certain narrow situations. The most obvious one is for an expense such as rate case expense which can be a legitimate expense but a non-recurring one. In that situation, a surcharge of a set amount and fixed duration is appropriate so that over-recovery is not built into rates for an item

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					<p>that will not recur in every year rates are in effect.</p> <p>The statements of customers on CAP and energy efficiency can be taken into account by placing the expense approved for recovery in rates into a separate account each year so that the funds are earmarked and carry over from year to year if there are unexpended funds. The savings account idea proposed by Public Citizen can be administered by AE but the amount can still be collected in rates, not as a separate surcharge on the bills. It should be collected as a regular expense item recovered in rates but segregated and held separately for its specific purpose.</p>
17. Apply Commercial and Industrial Customer Charge	Apply customer charge at or near cost of service for commercial and industrial customers.	Concur		Concur, subject to C&I rate hearing and subject to No. 2 above	No position until after commercial and industrial hearing.
18. Apply Commercial and Industrial Electric Delivery Charge	Unbundle rates and apply an electric delivery charge on a \$/kW basis at or near cost of service for all commercial and industrial customers.	Concur		Concur, subject to C&I rate hearing	No position until after commercial and industrial hearing.
19. Apply Commercial and Industrial Demand Charge	Expand use of demand charges to all commercial and industrial customers and implement a three-year phase-in of demand-related charges (electric delivery and demand charge on a \$/kW basis) for the current non-demand customers.	Concur - This phased-in approach will reduce the rate shock on these customers as they transition to demand rates.		Concur, subject to C&I rate hearing	No position until after commercial and industrial hearing.

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20. Apply Power Factor Adjustment for Commercial and Industrial Customers	Apply a power factor adjustment of 90 percent to all commercial and industrial customers with the exception of current non-demand customers during the phase-in period and customers with demand less than 10 kW.	Concur – Austin Energy is required by ERCOT to maintain a power factor of 97 percent so this is a good first step. The costs for AE to correct power factor to 97 percent are currently placed on all customers. Following this change, Austin Energy should continue to monitor the cost to correct the distribution power factor and determine if a greater adjustment is warranted.		Concur, subject to C&I rate hearing	No position until after commercial and industrial hearing.
21. Implement Time-of-Use Alternative Rates	Implement a time-of-use alternative rate for residential customers with a 2,000 customer enrollment cap and implement time-of-use rates for each commercial and industrial customer class with an enrollment cap of the higher of 10 percent of the customers in the class or 10 customers for each class.	Concur - Austin Energy should experiment with Time-of-Use (TOU) rates. The rates as designed will not harm customers not enrolled in the program, and will reward customers enrolled in the program for changes in behavior. Suggest preference be given to enrollment of residential customers with solar PV and/or an electric vehicle to ensure AE understands the impact these customers can have on future rates and customer demand profiles.		Waiting for discussions between RRA and AE	No position at this time.
22. Update Renewable Energy Alternative Rate (GreenChoice®)	Maintain the GreenChoice alternative rate for customers who wish to receive a 100 percent renewable energy price that is locked in and use a bundled portfolio approach that	<b>Disagree</b> –Adjustment should continue to be shown as offsetting fuel charge. Program as described is unnecessarily complex and confusing. The		Agree with RRA	Agree with RRA and PHS. Disagree with AE.

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	<p>prorates the GreenChoice adjustment to account for system-wide renewables.</p>	<p>recommended change to the portfolio approach is fine, but the overall program will be better accepted if credit is given for the fuel charge. If system level renewables were included as part of the fuel and energy charge (as the name implies), the entire program is simplified. That change achieves the AE goal, and meets Austin Energy's transparency and "simple and understandable" principles.</p>			
<p>23. Residential Solar Rate (replaces the net metering rate proposal)</p>	<p>Credit all solar PV distributed generation at the "value of solar" [12.8 cents/kWh (2011)] and charge residential customers the standard rate for all consumption.</p>	<p>Concur with the concept. Disagree on price suggested by AE as it is too high. Recommend price between 8 and 9.5 cents/kWh and suggest moving to a solar rate which considers the hourly value of energy as expeditiously as possible.</p>		<p>Waiting for discussions between RRA and AE. Net metering customers should pay full wires charges without subsidy (\$35 per month). Will this can be seen as discouraging DG customers by assessing the highest fix cost on them, that disincentive is counterbalanced by: (1) by allowing the utility to recover all of its fixed costs from DG customers it incentivizes the utility to attract more DG customers, (2) DG customers tend to be wealthier and should not have their actual expenses subsidized by less affluent customers, and (3) DG customers have a higher customer care cost than regular customers due to the complexities of their bill &amp; the</p>	<p>Disagree as premature. Delete from the Decision Point List. This proposal was first made on Sept. 19, 2011. There has been no time to discuss or consider it. Questions were not taken when the proposal was made due to time constraints. The proposal may have value but it has not been thoroughly vetted or alternatives considered. It should not be adopted in this proceeding. Staff should continue to work on this; take input from interested parties; EUC should be allowed to ask questions about it and thoroughly consider it. It could be considered after the rate case is complete and could be implemented on a trial basis thereafter.</p>

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				<p>reverse charges and those costs should be borne by the DG customers rather than being absorbed by other customers.</p> <p>In connection with this, a plan for promoting community solar projects should be adopted.</p>	
24. Update Thermal Energy Rate Option	Update existing thermal storage rate option to support customer investment in this technology.	Concur – As transmission lines are completed to wind areas in 2014, off-peak prices are expected to fall dramatically and significant savings may be available for devices which can store energy and displace on-peak usage.		?	Disagree as premature. This issue has not been considered in this case. As with the net metering idea, it is just that: an idea. It has not been considered. This does not mean work cannot be done on it after the rate case is completed; brought to the EUC; and on to Council if valid reasons are presented for such an option and full consideration is given to various ideas and proposals.
25. Plan for Pricing Pilot Projects with Pecan Street Project	Austin Energy will work with the Pecan Street Project to pilot new rates for customers. Any pilot project implemented must first be approved by the Austin City Council.	Concur – Suggest that the Austin City Council be very liberal on approving pilot projects with a maximum participation rate of the lessor of 2,500 customers or 5 megawatts (MW), and less than 2 years in duration.		Concur with AE and RRA.	Disagree. Delete from the Decision Point List. There is no such proposal made in this proceeding to consider. Certainly staff will begin such planning; bring proposals to the EUC; and then to City Council. But, there is no plan to consider or decide in this proceeding. Delete from Decision Point List.
26. Plan for Future Pricing of Long-Term Contract Customers	Move long-term contract customers to cost of service-based rates upon expiration of their contracts in 2015.	Concur on move to cost of service-based rates, and further suggest future long-term contract customers be tied to a specific fuel or power purchase contracts which hedges price risk impact on other customers.		?	Disagree. Delete from the Decision Point List. Clearly staff must start doing this activity but it is not an issue in this case and does not belong on the Decision Point List.

Issue	Austin Energy Staff Recommendation <sup>1</sup>	Residential Rate Advisor	Other Parties	Draft: EUC	Draft: Barbara Day
27. Adopt Residential Option "A"	No position on this issue at this time.	Concur		Concur, with goal to adopt Option B within five years following creation of separate rate class for all electric homes. Adopting Option B today, while further incentivizing energy efficiency, would be too punitive to owners of all electric homes and they must first be given a separate rate class. Ultimately, the goal should be to have electric home owners subject to Option A and all other home owners subject to Option B.	Disagree with all rate options presented by AE. Re-structure of rates to adopt fixed charge pricing is unwarranted and inappropriate for pricing for a regulated monopoly. Before rates are established the revenue requirement must be determined. Numerous adjustments need to be made to the rate increase request as stated herein. Once that is done it may be that no increase is warranted, or that the increase is smaller than requested. It is incorrect to select a rate option which incorporates higher revenue requirement than is warranted.

**To:** Toye Goodson Collins  
**Email:** [toye.goodson@austinenergy.com](mailto:toye.goodson@austinenergy.com)  
**From:** Shudde Fath, 442-2718  
**Date:** September 26, 2011  
**Subject:** Austin Energy 2011 Rate Review  
Decision Point List

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**Thanks to Phillip Schmandt for the 09-23-11 Draft: EUC memo. Following are some comments which I ask that you forward to EUC members.**

**Issue 1: I believe we will have to include AE's share of Administrative Support (and hope that someday the allocation methodology is changed to be more fair to AE).**

**Issue 4: Should lines 10-11 be. . . 500 kWh and 501 kWh-1000 kWh?**

**Issue 5: I strongly support the BIP method rather than AED because of (a) the reasons stated by Residential Rate Advisor on the List, (b) the RRA's 08-29-11 Final Report with the pages 6-10 discussion, including a chart showing that AED allocates 20.2% more costs to Residentials than does BIP, and (c) all the pro-BIP advocacy and rationale from AE prior to its late-in-the-game surprising switch from BIP to AED.**

**Issue 6: Puh-leeze do not consider regressing to a separate all-electric residential rate class. It is true that electric resistance heating and resistance water heating use energy inefficiently, but all-electric ratepayers have options to reduce kWh consumption with heat pumps, weatherization, tankless water heaters, and possibly solar. I suspect that the payback on electric tankless water heaters is faster than the payback on gas tankless water heaters.**

Following are my Texas Gas Service and AE electric bills for the past 21 months:

	Gas	Electric	
Dec. 2009	\$106.78	\$23.88	336 kWh Green Choice fuel
Jan. 2010	167.81	20.49	272 kWh
Feb. 2010	135.15	20.70	276 kWh
Mar. 2010	81.21	17.42	214 kWh
Apr. 2010	37.37	14.65	162 kWh
May 2010	15.91	27.37	402 kWh
Jun. 2010	12.78	63.53	822 kWh
Jul. 2010	13.75	66.41	852 kWh
Aug.2010	11.32	99.30	1194 kWh
Sep.2010	13.31	26.10	378 kWh
Oct. 2010	13.21	18.71	235 kWh
Nov.2010	23.70	19.15	243 kWh
Dec.2010	68.92	20.55	269 kWh
Jan.2011	99.25	21.83	293 kWh
Feb.2011	123.78	19.09	242 kWh
Mar.2011	32.29	17.89	174 kWh
Apr.2011	17.87	24.49	271 kWh \$.03105 fuel charge
May2011	14.90	69.21	762 kWh .03105 fuel charge
Jun2011	13.94	122.80	1244 kWh .03105 fuel charge
Jul.2011	12.49	131.80	1325 kWh .03105 fuel charge
Aug2011	<u>13.25</u>	<u>166.70</u>	1639 kWh .03105 fuel charge
	1028.99	1012.07	

Mr. all-electric homeowner does not pay natural gas bills.

My 2184 square foot house has gas heat, water heating, and clothes dryer. In summer 2011 my thermostat was set at 76 degrees 24/7. I had Green Choice batch 1 fuel at \$.017 for 10 years until April 2011.

**Issue 6 (continued): I also oppose a separate rate class for apartment dwellers. I suspect that the spread between low and high kWh consumption for apartment ratepayers is almost as wide as it is for single family homes and condos. With BIP and properly designed rates, we can mitigate bill impact for low kWh users in all types of residences.**

**Issue 7: I strongly oppose a separate Electric Delivery Charge. The profit-making wires charge dollars should be rolled into the profit-making Energy Charge. As AE says in the response to CmDay 1.14 regarding the Electric Delivery Charge: "It is appropriate to recover these costs on either a fixed dollar per month basis or a per kWh basis from customers since these costs do not vary significantly with energy (kWh) usage." And it also makes one less billing component.**

**Issue 9: I strongly support retaining the Fuel Charge as a separate billing component. It is wrong to combine pass-through-at-cost fuel dollars with the profit-making Energy Charge. Over the past 15 years AE has had 15 different fuel charges, enduring from 2 months to 36 months. Future fuel costs likely will continue to be changeable.**

**As previously stated, I believe AE could discontinue the costly hedging program, since AE can change the fuel charge when necessary. And I still believe AE should resume actual monthly fuel charges based on a 3-month moving average as used successfully from January 1988 to April 1997.**

**Issue 11: I prefer the terminology Energy Savings Fund over Community Benefit Charge; it is more descriptive and more positive.**

**Issues 13, 14, 16 and overall: Please review my (complete) one-page 09-06-11 Residential Rate Design request (CmFath1 following CmDay 3.3 in the 09-14-11 Release) and consider that my proposal, including a minimum bill amount, may accomplish results sought by more complex recommendations in the 09-23-11 draft.**

**And AE should move quickly to institute hookup fees for all extensions of new service (new meters).**