

Austin Energy Rate Review Comments by the Residential Rate Advisor

1

OCTOBER 3, 2011

REVIEW OF:

REVENUE REQUIREMENTS – GARY GOBLE

**TIME-OF-USE RATES & NET METERING ALTERNATIVE
(SOLAR RATE) – BOB WITTMAYER**

POSTED TO WEB SEPTEMBER 30, 2011

Issue Where RRA Disagrees with AE

2

Issue	Austin Energy Staff Recommendation	Residential Rate Advisor Original Recommendation	Residential Rate Advisor Revised Recommendation	Reason for Change
Reserve Funding	Austin Energy believes that its proposed reserve funding levels are reasonable.	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). However, RRA does not support AE's proposed funding levels. 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.	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 placed into effect consistent with the City's financial policy guidelines.	AE has not applied City financial policy in a manner that reflects the timing of non-nuclear decommissioning costs and has not satisfactorily supported its proposed funding levels for non-nuclear generation decommissioning.

RRA Suggestions

3

Issue	Residential Rate Advisor Revised Recommendation
Revenue True-Up through “Known and Measurable” period of 2011	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.
Return	RRA believes that AE has made a reasonable attempt to provide this information.

Issues Where RRA Now Agrees with AE

4

Issue	Reason for Change
Operating and Maintenance Costs Including Administrative and General Expense	AE has provided information that results in changes to RRA's survey. In addition, AE has provided additional support for the level of A&G expenses.
Level of CIP	AE has provided credible evidence that the levels of CIP are reasonable.

Areas of Continued Agreement

5

Issue

Revenue Requirement Methodology (Cash Flow)

Debt Service Coverage (DSC)

Internally Generated Funds – Construction Improvement Program (CIP)

Calculation of General Fund Transfer (GFT)

Time-Of-Use

6

- As suggest by the EUC at the September 19 meeting, I have met with AE Staff and received a clarifying report from SAIC.
- Upon review I conclude that other customers will not be harmed by some customers participating in the TOU pilot and therefore consistent with previous recommendations I believe AE should proceed with a pilot TOU rate, this offering is a reasonable start.
- The TOU rates proposed are based on the assumption AE would be providing energy from its resources. I suggest AE consider market supplied energy and look for ways to lower the proposed off-peak prices in its TOU offering. This could be done before or in conjunction with this offering.

Net Metering Alternative

7

- Under AE's new proposed approach [since Aug 29 report] of gross metering, a customer is paid for all solar production and is charged for all consumption. There is no netting of load and generation.
- This new approach has the advantage in that it will fully recover any fixed costs which are embedded in the energy rate.
- A disadvantage of this approach is that high use customers will be paying more for energy than they receive from AE for their generation thereby potentially discouraging solar adoption for high use customers.
- The ability of a high use customer to move to a lower tier was a key discussion point in the development of the Residential PIC members recommendation for a 5-tier inclining block rate structure.

Value of Solar

8

- The fundamental problem I have with either approach is the rate that AE is proposing to pay solar customers.
- As outlined in my write up, the 12.8 cents/kWh rate that AE is proposing to pay for solar energy, based on an annual update to the analysis developed in a 2006 study that does not take into consideration the nodal market, is excessive.
- A rate of 8-9.5 cents/kWh to solar customers would be just and reasonable, for both solar and non-solar customers.

ERCOT AE 2011 Load Zone value	7.8-8.2 cents/kWh
AE TOU	8.5-9.7 cents/kWh
<u>Remote Solar</u>	<u>< 10 cents/kWh</u>
AE proposal	12.8 cents/kWh