



YOUR ELECTRIC RATES

Rate Review Responses to Requests for Information and Questions

**For Questions Received following the Electric Utility Commission Meeting on
October 3, 2011 and before the 1 Week Deadline**

Released: October 12, 2011

**Rate Review -
Responses to Questions and Requests for Information**

REQUEST NO.: AM4

REQUESTED BY: Andy MacFarlane, Data Foundry

DATE REQUESTED: 10/5/2011

RESPONSE FILED: 10/12/2011

AM4.1. Please provide in-service date and retirement date for each of the assets listed on WP 29.1.

Response: Please see Table AM4.1 below for in-service dates of assets listed in Work Paper (WP) 29.1. Each generation component has a depreciable life of 30 years.

Table AM4.1

Unit	In-Service Date
Decker Power Plant	
Plant Unit 1	1970
Plant Unit 2	1977
Plant Gas Turbine 1	1988
Plant Gas Turbine 2	1988
Plant Gas Turbine 3	1988
Plant Gas Turbine 4	1988
Sand Hill Energy Center	
Gas Turbine 1	2001
Gas Turbine 2	2001
Gas Turbine 3	2001
Gas Turbine 4	2001
Gas Turbine 6	2010
Gas Turbine 7	2010
Combined Cycle 5A & 5C	2004
Fayette Power Plant	
Unit 1	1979
Unit 2	1980

AM4.2. Please provide updated estimate as of September 30, 2011 for 2011 Required Reserve Fund Balance shown in column G on WP 29 - Reserves.

Response: Actual Reserves as of August 31, 2011 are \$290,333,150. Please see AM4.3 for further detail. Financial information as of September 30, 2011 is not available at this time.

AM4.3. Provide updated estimate at September 30, 2011 for Fund balance available for designation to each of the funds listed in Column C on WP 29 – Reserves.

Response: Please see Table AM4.3 below. Table AM4.3 reflects an additional \$10,688,825 reserve shortfall as compared to WP-29, due to the cash balance updated to August 31, 2011.

Table AM4.3

	(\$)
Operating Cash	99,302,091
Construction Cash	49,508,819
Strategic Reserve Fund	141,458,169
Repair and Replacement Fund	64,071
Reserve Funds Balance - Actual as of 8/31/2011	290,333,150
(excludes restricted reserves for decommissioning and debt as well as deposits)	
Working Capital Reserve Fund from WP-29	51,667,404
Subtotal Reserves Funds after Working Capital Reserve Fund	238,665,746
Strategic Reserve Fund from WP-29	
Contingency Reserve Fund	68,889,872
Emergency Reserve Fund	68,889,872
Rate Stabilization Fund	97,958,754
Subtotal Strategic Reserve Fund	235,738,498
Subtotal Reserves Funds after Strategic Reserve Fund	2,927,248
Repair and Replacement Fund from WP-29	61,197,672
Subtotal Reserves Funds after Repair and Replacement Fund	(58,270,424)
Total Reserves	290,333,150
Total Reserve Requirements	348,603,574
Undesignated/Unrestricted Reserve	
Reserve Deficiency	(58,270,424)
Years to Resolve	3
Annual Contribution	19,423,475

AM4.4. Please provide a copy of SD 39 showing the date it was prepared.

Response: Please see Table AM4.4 below.

Table AM4.4 (SD 39)

Forecast Using FY 09 Change since summer temperatures similar	
	(\$)
Operating Cash Bal @ 3/31/11	136,344,008
Fuel Over Collection @ 3/31/11	(48,668,731)
Cash w/o over collection	87,675,277
Change in Op Cash for 6 months in 2009	12,857,170
Estimated Op Cash Balance	100,532,447
Fuel Over Recovery Estimate	11,775,118
Total Op Cash	112,307,565
Strategic Fund	142,000,000
Construction Fund bal @ 3/31/11	46,414,409
Estimated FY 2011 Ending Balance (9/30/2011)	300,721,974

AM4.5. Was SD 39 updated for the year estimates and factored into the rate request?

Response: Source Document (SD) 39 was updated from historical Fiscal Year (FY) 2009 as noted in the document. Please see response to AM4.4.

AM4.6. Please provide debt-service coverage for FY 2010-2011 using estimated FY 2010-2011 numbers shown in AE's budget proposal.

Response: The approved budget resulted in a projected debt service coverage for FY 2010-11 of 1.80x.

AM4.7. Please provide debt-service coverage for the as-adopted Budget Year 2011-2012 assuming AE requested rate increase is approved.

Response: The approved budget resulted in a projected debt service coverage for FY 2011-2012 of 1.61x. The budget for FY 2011-2012 did not include the requested rate increases since the amount and timing of the increase could not be determined at that time.

AM4.8. Was the compliance status of Financial Policy 6 based on the proposed budget for Budget Year 2011-2012? Did the proposed budget include amounts for any rate increase?

Response: Austin Energy was not in compliance with Financial Policy 6 in FY 2010 and FY 2011. The compliance status is based on the prior year's Comprehensive Annual Financial Report (CAFR). The proposed FY 2011-12 budget did not include a projected rate increase.

AM4.9. Please provide a schedule of coverage achieved each year from FY 2005 through FY 2011 (unaudited).

Response: Table 17 in the 2010 CAFR lists the actual historical debt service coverage and is found on page 209. Unaudited FY 2010-11 is not available at this time. The FY 2009-10 CAFR is located at: <http://www.ci.austin.tx.us/controller/downloads/cafr2010.pdf>

AM4.10. Please provide a schedule of budgeted coverage each year from FY 2005 through FY 2012.

Response: Austin Energy's final fiscal year results differ from budgets. Approved budgets resulted in the following debt service coverage ratios:

FY 2004-2005 – 2.08x
FY 2005-2006 – 2.09x
FY 2006-2007 – 2.08x
FY 2007-2008 – 2.10x
FY 2008-2009 – 1.73x
FY 2009-2010 – 1.77x
FY 2010-2011 – 1.80x
FY 2011-2012 – 1.61x

AM4.11. In AE's response to CmB1.4, AE responded that "Currently, Austin Energy is not in compliance with the DSC policy." Was this response based on the budgeted year 2011-2012 or the results of FY 2010-2011?

Response: The response was based on FY 2009-10 audited financial statements.

AM4.12. AE's response to CmB 1.4 states "Austin Energy's revenue requirement is calculated using the cash flow methodology and, as a result, debt service coverage does not impact the revenue requirement unless the calculated debt service coverage is less than 2.0X DSC." Could

the revenue requirement be calculated to match the Council target of 2 times instead of 2.24 times as AE is requesting? And if not, why not?

Response: No. Per the financial policy, the intent of the cash flow methodology is not to meet a specific debt service coverage, but rather to fully recover Austin Energy's costs. Additionally, Austin Energy's financial policy prescribes that the cash flow methodology recover revenues sufficient to ensure a minimum 2X debt service coverage. Austin Energy's financial policy states the following:

"Electric rates shall be designed to generate sufficient revenue, after consideration of interest income and miscellaneous revenue, to support (1) the full cost (direct and indirect) of operations including depreciation, (2) debt service, (3) General Fund transfer, (4) equity funding of capital investments, (5) requisite deposits of all reserve accounts, (6) sufficient annual debt service requirements of the Parity Electric Utility Obligations and other bond covenant requirements, if applicable and (7) any other current obligations. In addition, Austin Energy may recommend to Council in the approved budget directing excess net revenues for General Fund transfers, capital investment, repair and replacement, debt management, competitive strategies and other Austin Energy requirements such as working capital.

In addition to these requirements, electric rates shall be designed to generate sufficient revenue, after consideration of interest income and miscellaneous revenue, to ensure a minimum debt service coverage of 2.0x on electric utility revenue bonds."

AM4.13. Are there any legal or policy prohibitions against AE from changing its rates annually?

Response: No

AM4.14. How much of the rate case expenses were paid during FY 2010-2011? Was this amount subtracted from the amount included to be amortized over a three year period?

Response: For the 11 months of expenses through August 31, 2011 for FY 2010-11, Austin Energy paid approximately \$1 million in rate case expense. This amount was not subtracted from the amount included to be amortized over a three-year period.

AM4.15. In AE first proposal to use BIP for production costs and since AE has proposed including fuel in base rate, did AE allocate fuel to customer classes using the same BIP demand allocator since the BIP method is intended to mimic generation dispatch and the nodal market? In jurisdictions where POD and/or BIP have been approved, has fuel also been allocated based on the methodology?

Response: Fuel is allocated on energy. Production demand costs were allocated using the Baseload, Intermediate Peak (BIP) method in the Rate Review Public Involvement Committee (PIC) presentations, and using the Average and Excess Demand (AED) method in the Rate Analysis and Recommendations Report. At the Public Utility Commission of Texas (PUCT), fuel is typically allocated on energy.