

Austin Energy Rate Review Residential Rate Advisor Revenue Requirement Recommendations

1

OCTOBER 17, 2011

Electric Utility Commission

Residential Rate Advisor

Revenue Requirement Recommendations

2

Summary

AE Proposal RRA Proposal

Proposed Revenue Requirement	\$1,136,020,803	\$1,110,776,075
Test Year Adjusted Rate Revenue	<u>1,004,133,897</u>	<u>1,004,133,897</u>
Increase (\$)	\$131,886,905	\$106,667,126
Increase (%)	13.1%	10.6%
Debt Service Coverage	2.37	2.23

Less:

Required Increase from Contract Customers	<u>\$20,751,131</u>	<u>\$20,751,131</u>
Increase to Non-Contract Customers (\$)	\$111,135,774	\$85,915,995
Increase to Non-Contract Customers (%)	11.1%	8.6%
Debt Service Coverage	2.24	2.10

RRA Proposed Revenue Requirement Adjustments

3

Fund Adjustments

- 45 days funding of Contingency Reserve Fund - data supporting 60 days funding is lacking. However, reserves are necessary to ensure coverage of normal operating contingencies, but not at the level proposed by AE.
- 45 days funding of Emergency Reserve Fund - same as Contingency Reserve Fund.
- Zero funding for Rate Stabilization Fund - Power cost recovery factor provides better cost transparency and allows consumers to better weigh costs and benefits of actions. In addition, advanced recovery of costs of future generation resources overstates today's costs of power and understates future power costs. Finally, the fund provides for "inter-generational income transfers" with today's consumers paying the costs of tomorrow's consumers.

RRA Proposed Revenue Requirement

Adjustments

4

Other Adjustments

- Zero Cash Working Capital - consumers provide funding prior to AE payments.
- Decommissioning Reserve funding for Decker and FPP since both plants are older than their depreciable lives and a decommissioning reserve must be funded prior to retirement of these plants. In contrast, Sand Hill's retirement is sufficiently far in the future that decommissioning studies can readily be completed prior to the need to begin collecting it for Sand Hill.
- Adjust Franchise Fee downward to reflect RRA's recommended level of revenues.
- Adjust Miscellaneous Service Revenues to reflect customer growth.

Residential Rate Advisor

Revenue Requirement Recommendations

5

Future Requirements

- AE should undertake a Cash Working Capital study to determine its daily working cash requirements.
- AE should undertake a cash flow analysis of reserve funding requirements to quantify the funding requirements of the Contingency Reserves and Emergency Reserves. Such a study should employ known contingencies and emergencies as well as reasonably anticipated events that would be met by each of the funds.
- AE should undertake decommissioning studies to identify its Decker and FPP decommissioning requirements.

Austin Energy
Electric Cost of Service
Residential Rate Advisor Summary of Recommendations with Alternative Scenarios

Line No.	Description	FY 2009	AE	RRA	----- Sensitivity Analysis -----		
		Actual	Proposed	Proposed	Scenario 1	Scenario 2	Scenario 3
	A	B	C	D	E	F	G
1	Working Capital Reserve Func	\$51,343,997	\$51,667,404	\$0	\$0	\$0	\$0
2							
3	Strategic Reserve Fund						
4	Contingency Reserve Fund	\$68,458,663	\$68,889,872	\$51,667,404	\$68,889,872	\$68,889,872	\$0
5	Emergency Reserve Fund	68,458,663	68,889,872	51,667,404	68,889,872	68,889,872	0
6	Rate Stabilization Fund	109,030,479	97,958,754	0	97,958,754	97,958,754	0
7	Sub-Total Strategic Rese	\$245,947,805	\$235,738,498	\$103,334,808	\$235,738,498	\$235,738,498	\$0
8							
9	Repair and Replacement Func	\$57,085,861	\$13,316,073	\$13,316,073	\$13,316,073	\$13,316,073	\$13,316,073
10							
11	Non-Nuclear Decommissionin	0	\$6,716,995	\$5,557,782	\$6,716,995	\$0	\$0
12							
13	Revenue Requirement	\$1,156,396,406	\$1,136,020,803	\$1,110,776,075	\$1,134,432,107	\$1,127,691,698	\$1,036,254,776
14							
15	Test Year Rate Revenue	1,054,881,935	1,004,133,897	1,004,133,897	1,004,133,897	1,004,133,897	1,004,133,897
16							
17	Debt Service Coverage Ratio	1.73	2.37	2.23	2.37	2.33	1.78
18							
19	Increase (\$)		\$131,886,905	\$106,667,126	\$130,396,803	\$123,582,749	\$32,219,473
20	Increase (%)		13.1%	10.6%	13.0%	12.3%	3.2%
21							
22	Change from AE Proposed Increase		\$0	(\$25,219,779)	(\$1,490,102)	(\$8,304,156)	(\$99,667,432)
23							
24							
25	NOTES: RRA recommendation is no Cash Working Capital Reserve Fund, 45 day Contingency Reserve Fund, 45 day Emergency Reserve Fund, no						
26	funding of Rate Stabilization Fund, funding of Non-Nuclear Generation Decommissioning Reserves on Decker and FPP only.						
27	Scenario 1 is no Cash Working Capital Reserve Fund, AE recommendations for Other Funds and Non-Nuclear Gen Decommission Costs.						
28	Scenario 2 is no Cash Working Capital Reserve Fund, no Non-Nuclear Generation Decommissioning Costs.						
29	Scenario 3 is zero balance on all Funds and no Non-Nuclear Generation Decommissioning Costs.						
	Required Increase from Contract Customers		\$20,751,131	\$20,751,131	\$20,751,131	\$20,751,131	\$20,751,131
	Increase to Non-Contract Customers (\$)		\$111,135,774	\$85,915,995	\$109,645,672	\$102,831,618	\$11,468,342
	Increase to Non-Contract Customers (%)		11.1%	8.6%	10.9%	10.2%	1.1%
	Rev Available for Debt Service after removal of Cont		\$376,134,256	\$352,451,742			
	Increase after Removal of Contract Customers		11.1%	8.6%			
	DSC after removal of Contract Customers		2.24	2.10			

Austin Energy
Electric Cost of Service
Residential Rate Advisor Test Year Development

Line No.	Description	FERC Account	FY 2009 Actual	AE Proposed Adjustment	Test Year	RRA Proposed Adjustment	Test Year
	A	B	C	D	E	F	G
1	Total Power Production Expenses	500-557	\$547,333,150	(\$4,217,099)	\$543,116,051	(\$4,217,099)	\$543,116,051
2	Total Transmission Expenses	560-573	66,913,260	10,906,062	77,819,322	10,906,062	77,819,322
3	Total Distribution Expenses	580-598	39,157,987	9,884,532	49,042,519	9,884,532	49,042,519
4	Total Customer and Information Expenses	901-916	67,341,767	(21,685,757)	45,656,010	(21,685,757)	45,656,010
5	General and Administrative Expenses	920-935	135,795,362	(31,394,553)	104,400,809	(31,394,553)	104,400,809
6	Total Operations and Maintenance Expenses		\$856,541,526	(\$36,506,815)	\$820,034,711	(\$36,506,815)	\$820,034,711
7							
8	Depreciation & Amortization of CIAC						
9	Depreciation Expense	403	\$114,171,721	\$8,223,622	\$122,395,343	\$8,223,622	\$122,395,343
10	Amortization of CIAC		(5,180,831)	0	(5,180,831)	0	(5,180,831)
11	Total Depreciation & Amortization of CIAC		\$108,990,890	\$8,223,622	\$117,214,512	\$8,223,622	\$117,214,512
12							
13	Debt Service		\$176,919,813	(\$8,849,523)	\$168,070,290	(\$8,849,523)	\$168,070,290
14							
15	General Fund Transfer	421.5	95,000,000	8,000,000	103,000,000	8,000,000	103,000,000
16							
17	Margin (as defined below)		26,277,668	(17,320,250)	8,957,418	(40,952,868)	(14,675,200)
18							
19	Sub-Total Revenue Requirement		\$1,263,729,897	(\$46,452,966)	\$1,217,276,931	(\$70,085,584)	\$1,193,644,313
20							
21	Other Expenses		16,358,459	(12,805,709)	3,552,750	(12,830,657)	3,527,802
22							
23	Other (Non-Rate) Revenue		123,691,950	(38,883,072)	84,808,878	(37,295,910)	86,396,040
24							
25	Total Revenue Requirement		\$1,156,396,406	(\$20,375,603)	\$1,136,020,803	(\$45,620,331)	\$1,110,776,075
26							
27	System Retail Sales (MWH)		12,076,915	(262,976)	11,813,939	(262,976)	11,813,939
28	Average Rate (\$/MWH)		\$95.75		\$96.16		\$94.02
29							
30	Comparison to Rate Revenue - AE Proposed FY 2009 Rate Structure						
31	Base Revenue		\$614,797,276	(\$10,540,448)	\$604,256,828	(\$10,540,448)	\$604,256,828
32	Recoverable Fuel		408,401,366	(17,503,790)	390,897,576	(17,503,790)	390,897,576
33	Green Choice		31,683,294	(21,626,212)	10,057,082	(21,626,212)	10,057,082
34	Remove Service Area Street Lighting Fuel Costs		0	(1,077,588)	(1,077,588)	(1,077,588)	(1,077,588)
35	Total Revenues		\$1,054,881,936	(\$50,748,038)	\$1,004,133,898	(\$50,748,038)	\$1,004,133,898
36							
37	Over / (Under) Recovery		(\$101,514,470)	(\$30,372,435)	(\$131,886,905)	(\$5,127,707)	(\$106,642,177)
38							
39	Required Increase / (Decrease) in Rate Revenue		9.62%		13.13%		10.62%
40							
41							
42	Recoverable Fuel Cost						
43	Fuel	501	\$299,909,760	(\$168,380,271)	\$131,529,489	(\$168,380,271)	\$131,529,489
44	Nuclear Fuel Expense	518	16,866,183	2,480,877	19,347,060	2,480,877	19,347,060
45	Fuel	547	4,206	122,424,961	122,429,167	122,424,961	122,429,167
46	Purchased Power	555	78,830,176	17,681,726	96,511,902	17,681,726	96,511,902
47	System Control and Load Dispatching	556	12,791,041	8,288,917	21,079,958	8,288,917	21,079,958
48	Sub-Total Recoverable Fuel Cost		\$408,401,366	(\$17,503,790)	\$390,897,576	(\$17,503,790)	\$390,897,576
49							
50	Off-System Sales		\$21,657,426	(\$21,657,426)	\$0	(\$21,657,426)	\$0
51							
52	Net Cost to AE		\$386,743,940	\$4,153,636	\$390,897,576	\$4,153,636	\$390,897,576
53							
54							
55	NOTES: See AE Rate Analysis Recommendations Report: C-3.						

Austin Energy
Electric Cost of Service
Residential Rate Advisor Test Year Development

Line No.	Description	FERC Account	FY 2009 Actual	AE Proposed Adjustment	AE Proposed Test Year	RRA Proposed Adjustment	RRA Proposed Test Year
	A	B	C	D	E	F	G
1	Margin Calculation						
2	Cash Sources						
3	Depreciation Expense	403	\$114,171,721	\$8,223,622	\$122,395,343	\$8,223,622	\$122,395,343
4	Amortization of CIAC		(5,180,831)	0	(5,180,831)	0	(5,180,831)
5	Interest and Dividend Income	519	17,401,562	(9,804,953)	7,596,609	(9,804,953)	7,596,609
6	Sub-Total Cash Sources		\$126,392,452	(\$1,581,331)	\$124,811,121	(\$1,581,331)	\$124,811,121
7							
8	Cash Uses						
9	Capital from Current Revenue		\$152,670,120	(\$41,579,109)	\$111,091,011	(\$41,579,109)	\$111,091,011
10	Required Contributions to Decommissioning Reserves		0	6,716,995	6,716,995	5,557,782	5,557,782
11	Required Contributions to Reserves		0	15,960,533	15,960,533	(6,512,872)	(6,512,872)
12	Sub-Total Cash Uses		\$152,670,120	(\$18,901,581)	\$133,768,539	(\$42,534,199)	\$110,135,921
13							
14	Required Margin		\$26,277,668	(\$17,320,250)	\$8,957,418	(\$40,952,868)	(\$14,675,200)
15							
16							
17	Debt Service Coverage Ratio (DSCR)						
18	Rate Revenue (assuming required rate increase in Test Year)		\$1,054,881,936	\$81,138,867	\$1,136,020,803	\$55,894,139	\$1,110,776,075
19	Other Operating & Non-Operating Revenue		123,691,950	(38,883,072)	84,808,878	(37,295,910)	86,396,040
20	Sub-Total Revenue		\$1,178,573,886	\$42,255,795	\$1,220,829,681	\$18,598,229	\$1,197,172,115
21							
22	Total Deductions						
23	Operation & Maintenance Expenses		\$856,541,526	(\$36,506,815)	\$820,034,711	(\$36,506,815)	\$820,034,711
24	Other Expenses		16,358,459	(12,805,709)	3,552,750	(12,780,761)	3,577,698
25	Non-Revenue Bonds at 1.0X DSCR		337,085	19,748	356,833	19,748	356,833
26	Sub-Total Deductions		\$873,237,070	(\$49,292,776)	\$823,944,294	(\$49,267,828)	\$823,969,242
27							
28	Balance Available for Revenue Debt Service		\$305,336,816	\$91,548,571	\$396,885,387	\$67,866,057	\$373,202,873
29							
30	Revenue Debt Service		176,582,728	(8,869,271)	167,713,457	(8,869,271)	167,713,457
31							
32	Revenue Debt Coverage Ratio		1.73	0.64	2.37	0.50	2.23
33							
34	Additional Funds Required to Meet 2.0X DSCR Financial Policy		\$47,828,640	(\$47,828,640)	\$0	(\$85,604,599)	(\$37,775,959)
35							
36							
37	Required Reserve Fund Balance		\$442,237,000	(\$141,515,026)	\$300,721,974	(\$141,515,026)	\$300,721,974
38	(excludes restricted reserves for decommissioning and debt as well as deposits)						
39							
40	Working Capital Reserve Fund		\$51,343,997	\$323,407	\$51,667,404	(\$51,343,997)	\$0
41	AE Target: 45 days of O&M less fuel and purchased power						
42							
43	Sub-Total Reserves Funds after Working Capital Reserve Fund		\$390,893,003	(\$141,838,433)	\$249,054,570	(\$90,171,029)	\$300,721,974
44							
45	Strategic Reserve Fund						
46	Contingency Reserve Fund (RRA @ 45 days)		\$68,458,663	\$431,209	\$68,889,872	(\$16,791,259)	\$51,667,404
47	AE Target: 60 days of O&M less fuel and purchased power						
48	Emergency Reserve Fund (RRA @ 45 days)		\$68,458,663	\$431,209	\$68,889,872	(\$16,791,259)	\$51,667,404
49	AE Target: 60 days of O&M less fuel and purchased power						
50	Rate Stabilization Fund		\$109,030,479	(\$11,071,725)	\$97,958,754	(\$11,071,725)	\$0
51	AE Target: 90 days of Power Cost (Net of ERCOT Fees)						
52	Sub-Total Strategic Reserve Fund		\$245,947,805	(\$10,209,307)	\$235,738,498	(\$44,654,243)	\$103,334,808
53							
54	Sub-Total Reserves Funds after Strategic Reserve Fund		\$144,945,198	(\$131,629,125)	\$13,316,073	(\$45,516,786)	\$197,387,166
55							
56	Repair and Replacement Fund		\$57,085,861	(\$43,769,788)	\$13,316,073	\$4,111,811	\$13,316,073
57	AE Target: 1/2 of annual depreciation						
58							
59	Sub-Total Reserves Funds after Repair and Replacement Fund		\$87,859,337	(\$87,859,337)	(\$0)	(\$49,628,597)	\$184,071,094
60							
61	Total Reserves		\$442,237,000	\$4,111,811	\$300,721,974	(\$184,071,094)	\$116,650,880
62	Total Reserve Requirements		354,377,663	(53,655,689)	348,603,573	(91,886,429)	164,532,479
63	Undesignated/Unrestricted Reserve		\$87,859,337	(\$87,859,337)		(\$92,184,664)	
64	Reserve Deficiency			\$47,881,599	\$47,881,599	(\$19,538,615)	(\$19,538,615)

Austin Energy
Electric Cost of Service
Residential Rate Advisor Test Year Development

Line No.	Description	FERC Account	FY 2009 Actual	AE Proposed Adjustment	Test Year	RRA Proposed Adjustment	Test Year
	A	B	C	D	E	F	G
1	Recoverable Fuel Cost						
2	Fuel	501	\$299,909,760	(\$168,380,271)	\$131,529,489	(\$168,380,271)	\$131,529,489
3	Nuclear Fuel Expense	518	16,866,183	2,480,877	19,347,060	2,480,877	19,347,060
4	Fuel	547	4,206	122,424,961	122,429,167	122,424,961	122,429,167
5	Purchased Power	555	78,830,176	17,681,726	96,511,902	17,681,726	96,511,902
6	System Control and Load Dispatching	556	12,791,041	8,288,917	21,079,958	8,288,917	21,079,958
7	Sub-Total Recoverable Fuel Cost		\$408,401,366	(\$17,503,790)	\$390,897,576	(\$17,503,790)	\$390,897,576
8							
9	Billed Green Choice		\$34,699,836		\$10,057,082		\$10,057,082
10							
11	Non-Recoverable Fuel		6,162,310	0	6,162,310	0	6,162,310
12							
13	Total Fuel Related Costs		\$449,263,512	(\$17,503,790)	\$407,116,968	(\$17,503,790)	\$407,116,968
14							
15	ERCOT Administration Fee (1)		7,084,346	2,755,452	9,839,798	2,755,452	9,839,798
16							
17	Total Power Costs net of ERCOT Fees		\$442,179,166	(\$20,259,242)	\$397,277,170	(\$20,259,242)	\$397,277,170
18	AE Target 90 days of Power Cost (Net of ERCOT Fees)		\$109,030,479	(\$11,071,725)	\$97,958,754	(\$11,071,725)	\$97,958,754

Austin Energy
Electric Cost of Service
Residential Rate Advisor Test Year Development
Franchise Fee Adjustment

Line No.	Description	----- Revenues -----			----- RRA Proposed -----		
		FY 2009 Actual	AE TY Estimated	AE Estimated Franchise Fees	RRA TY Estimated	RRA Estimated Franchise Fees	RRA Change to AE Est. Fees
	A	B	C	D	E	F	G
1	Bee Caves	\$8,489,799	\$9,604,883	\$288,146	\$9,391,653	\$281,750	(\$6,397)
2	Cedar Park	14,056	15,902	477	15,549	466	(11)
3	Lakeway	8,365,227	9,463,949	283,918	9,253,848	277,615	(6,303)
4	Mustang Ridge	713	806	24	789	24	(1)
5	Pflugerville	673,123	761,533	22,846	744,628	22,339	(507)
6	Rollingwood	2,637,117	2,983,487	89,505	2,917,253	87,518	(1,987)
7	Sunset Valley	3,003,470	3,397,958	101,939	3,322,523	99,676	(2,263)
8	West Lake Hills	8,233,566	9,314,995	279,450	9,108,201	273,246	(6,204)
9	Village of the Hills	1,693,346	1,915,756	57,473	1,873,227	56,197	(1,276)
10	Total	\$33,110,417	\$37,459,269	\$1,123,778	\$36,627,670	\$1,098,830	(\$24,948)
11							
12	Notes:	(1) Franchise Fees estimated at 3.0% of revenues.					
13		(2) RRA TY Revenues estimated based upon revenue increase of 10.6%					

Austin Energy
Electric Cost of Service
Residential Rate Advisor Test Year Development
Other Revenue Adjustment for Year End Growth in Number of Customers

Line No.	Description	----- AE Other Revenues -----		----- RRA Other Revenues -----	
		FY 2009 Actual	AE TY Adjusted	Adjustment	RRA TY Adjusted
	A	B	C	D	E
1	Operating Revenue				
2	Late Payment Penalties	\$5,138,023	\$5,138,023	\$76,350	\$5,214,373
3	Facilities Rentals	2,679,724	2,679,724	39,820	2,719,544
4	Meter Damages/Breakage	224,201	224,201	3,332	227,533
5	Electric Meter Damage	42,252	42,252	628	42,880
6	Broken Seal Fee	67,860	67,860	1,008	68,868
7	Labor and Support	176,522	176,522	2,623	179,145
8	Call Center Sales	307,972	307,972	4,576	312,548
9	Emergency Outage/Restoration	57,122	57,122	849	57,971
10	Sales Construction	106,067	106,067	1,576	107,643
11	Sales - Metering: Install Only	6,955	6,955	103	7,058
12	Sales - Reoccur Monthly Charge	82,946	82,946	1,233	84,179
13	Sec Main	68,697	68,697	1,021	69,718
14	Other Operating Revenue	69,668,187	69,668,187	1,035,258	70,703,445
15	Total Operating Revenue	\$78,626,528	\$78,626,528	\$1,168,378	\$79,794,906
16					
17	Non-Operating Revenues				
18	Reinspection Fee	\$13,031	\$13,031	\$194	\$13,225
19	After Hours Turn/On	1,411,572	1,411,572	20,976	1,432,548
20	Area Lighting Prgm	29,585	29,585	440	30,025
21	Green Building Sales	9,270	9,270	138	9,408
22	Green Building Consulting	97,720	97,720	1,452	99,172
23	Accts Rec - Adjustments	8,529	8,529	127	8,656
24	Apt Mgr Initiation Fee	195,080	195,080	2,899	197,979
25	Returned Check Fee	120,359	120,359	1,789	122,148
26	EFT Decline Fee	31,750	31,750	472	32,222
27	New Service Connections	2,866,570	2,866,570	42,597	2,909,167
28	Construction Loop Fee	86,725	86,725	1,289	88,014
29	Other Non-Operating Revenues	23,312,096	23,312,096	346,414	23,658,510
30	Total Non-Operating Revenues	\$28,182,287	\$28,182,287	\$418,784	\$28,601,071
31					
32	Total Other Revenues	\$106,808,815	\$106,808,815	\$1,587,162	\$108,395,977
33					
34	Bill Count Sep 2008		405,859		
35	Bill Count Sep 2009		411,890		
36	Percent Change in Number of Customers		1.49%		

Austin Energy
Electric Cost of Service
Residential Rate Advisor Test Year Development
Non-Nuclear Decommissioning Expense Adjustment

Line No.	Description	--- Decommissioning Costs ---		RRA
		AE Proposed	RRA Proposed	Adjustment
	A	B	C	D
1	Decker Power Plant	\$26,597,496	\$26,597,496	\$0
2	Sand Hill Energy Center	11,592,129	0	(11,592,129)
3	Fayette Power Project	28,980,322	28,980,322	0
4	Total Non-Nuclear Decommissioning Reserve Requirement	\$67,169,947	\$55,577,818	(\$11,592,129)
5				
6	Years to Resolve Deficiency	10	10	
7				
8	Annual Non-Nuclear Decommissioning Reserve Requirement	\$6,716,995	\$5,557,782	(\$1,159,213)