

2011 Rate Review Decision Point List¹ - Other Parties Comments Received During Electric Utility Commission (EUC) Review

Provided for Discussion at October 17, 2011 EUC meeting

Issue	Austin Energy Staff Recommendation ²	Residential Rate Advisor	Cyrus Reed, Sierra Club	McCall Johnson, Texas Baptist Life Commission ³	Joshua Houston, Texas Impact	Marilyn Fox, Data Foundry ⁴	Texas Legal Services Center (TLSC) and Texas Ratepayers Organization to Save Energy (TX ROSE)	Tom “Smitty” Smith, Public Citizen
1. Achieve Revenue Requirement	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>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.</p> <p>Concur with the level of Capital Improvement Plan (CIP) funding, although not with the method by which that level was derived.</p> <p>Concur with the level of the General Fund Transfer (GFT) and recognize that AE has properly followed City policy with respect to GFT computation. However, the Residential Rate Advisor (RRA) recommends that the GFT be calculated on a basis that does not include highly variable power supply costs.</p> <p>RRA concurs that the level of Administrative and General (A&G) expense is reasonable.</p> <p>Concur with known and measurable adjustments, except to the extent that Other Revenues should be adjusted for Test Year-end number of customers and Franchise Fees should be adjusted for revised revenue requirement levels.</p> <p>RRA believes that AE has followed City financial policy guidelines for most funding calculations. However,</p>	<p>Concur that Austin Energy must collect sufficient revenues, but:</p> <p>Transfer to Economic Development is not a valid rate case expense</p> <p>Failure to attempt to average off-system sales and their impact on rates is an oversight</p> <p>Some adjustment of General Fund Transfer needed as per RRA recommendation</p> <p>Debt level of 2.0 should be reexamined and a level of 1.5 might be more reasonable;</p> <p>Thus, we believe overall rate revenue could be reduced by some \$50 million but further research needed. Austin Energy should be required to reexamine its revenue requirements and come back with a more reasonable proposal.</p>		Texas Impact understands the General Fund Transfer (GFT) is computed by following City policy and is outside the control of Austin Energy. Our position is that the overall rate structure, designed to make sure there is an adequate GFT, puts a regressive burden on low-income residential and low load factor commercial users. City of Austin is using the GFT for things like economic development and the arts. The City should not be making low-income customers subsidize economic development or the arts.	<p>Data Foundry (“DF”): Summary: DF’s recommendation results in debt service coverage at a target of 2.02 times and falls within the target stated in AE’s Financial Policies. AE’s request is 2.24 times debt service. This target leaves \$170,241,889 of unrestricted fund balance at the end of the rate year. This recommendation results in a \$45,775,519 decrease to AE’s request and a system-wide increase of 6.51% instead of 11.07% requested by AE. Please see attached statement of position for further explanation.</p> <p>The recommendation incorporates the following:</p> <p>a) The level of CIP funding from equity should be adjusted to \$78,416,700 or a reduction in Revenue requirement of \$32,674,311. The recommended amount is AE’s CIP spending plan for 2012, adjusted by removing one half of non-utility spend and one half of Holly decommissioning. AE averaged the 2012 CIP spending estimate with the previous two years amount expended to arrive at the requested \$111,091,011 as a</p>	<p>AE must achieve its revenue requirement but only after the revenue requirement is amount is fully studied and verified.</p> <p>The revenue requirement may be too high because of economic development expenditures not related to the provision of electric service such as funding the Chamber of Commerce, a high level of debt service coverage, excessive reserve fund contributions caused by overlapping of the funding purposes, general fund transfer based on fuel revenue, under reporting of off system sales revenues, and other amounts that deserve more evaluation prior to approval.</p> <p>1.a Determine revenue requirement for CAP (Customer Assistance Program). The need for the program should drive the revenue requirement. Instead AE has identified a budget without a plan for how it will be spent. According to its response to CB2.1 test year benefits totaled \$1.45 million and</p>	<p>We believe overall rate revenue could be reduced by some \$50 million but further research needed. Austin Energy should be required to reexamine its revenue requirements and come back with a more reasonable proposal</p> <p>Transfer to Economic Development is not a valid rate case expense</p> <p>Failure to include to average off-system sales and their impact on rates hides some \$35 million of anticipated revenue</p> <p>We concur with Commissioner Days analysis that debt level of 2.0 should be reduced and a level of 1.5 might be more reasonable and would save money.</p> <p>We question the need for 50% debt t funding and think 25% might be more the norm</p> <p>Too much is being set aside for reserves- and this increases the revenue</p>

¹Comments submitted by Trevor Lovell, Solar Austin attached.
² Preliminary; to be finalized for final proposal to the Austin City Council following evaluation of public input and input from the EUC during the EUC review process.
³ Additional comments attached
⁴ Statement of position attached

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		<p>the RRA is concerned that AE has not fully supported the levels required by that policy. RRA believes that AE should be allowed only 60 days of O&M expense funding for the Rate Stabilization Fund. RRA agrees with funding of non-nuclear generation decommissioning reserves for Decker and FPP, but not for Sand Hill. RRA recommends that AE undertake decommissioning studies for Decker and FPP.</p> <p>RRA agrees that the AE has provided support for using a rate base approach to revenue requirement determination that supports the level derived from AE's cash flow approach.</p>				<p>use of funds. This represents 50% funding from equity and 50% from debt. DF's recommendation of \$78,416,700 represents funding of CIP at 37% from equity which is within the range targeted by AE's Financial Policies.</p> <p>b) AE's adjustment for Strategic Reserves was calculated by taking an adjusted 2011 fund balance and projecting the reserve requirements to arrive at a deficiency of \$47,881,599 (See WP 29- Reserves, page 261 of 296, Appendix D). The deficiency was then divided by 3, anticipating another rate case in 3 years. The Financial Policies allow for a target of 5 years to achieve the desired reserves. DF's recommendation is to use the target of 5 years which reduces AE's request by \$6,384,213 leaving \$9,576,320 to reach the desired reserve balances. DF recommends that, in the future rate requests, AE perform a lead lag study to support its Financial Policy requiring 45 days of O&M for Working Capital. AE should also produce a study of annual Repairs and Replacements that exceed amounts included in either the CIP spending plan or operations and maintenance expenses allowed in rates.</p> <p>c) DF recommends eliminating funding the non-nuclear decommissioning fund because AE has not provided a study to substantiate the requirements in this case. This adjusted</p>	<p>increased to \$2.402 million in FY 2010. In response to CB2.11 AE estimates collecting revenues of \$7,658,466 for CAP with the new community benefits pass-through. AE should identify the eligible population and commit to a program design to fully expend the revenue collected for the purpose of reducing the bills of low-income customers.</p> <p>1.b. Should the amount of the CAP benefit per household be decreased? The amount of CAP benefit in individual households should increase by a percentage that is greater than or equal to the percent increase system wide.</p>	<p>requirement</p>

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						reduces the reserve deficiency by \$6,716,955. AE requested that one tenth of the estimated amount for all units be funded. AE’s Financial Policies anticipate that the funding be complete prior to 4 years before the unit is removed. The decommissioning study should also include the anticipated salvage cost that can offset the decommissioning costs and how AE has considered net salvage in depreciation expense. The decommissioning costs should also consider the value of the reclaimed land. d) DF recommends that only unpaid rate case expenses at 9/30/2011 be included as unamortized expense in rates. AE’s revenue requirement is based on cash flow. As such, most of the cash for rate case expenses have already been paid and have reduced AE’s ending fund balance. We are waiting on AE’s response to quantify this adjustment. e) All adjustments made to implement fuel and purchased power should be reversed.		
2. Align Rates by Customer Class with Cost of Service (minimize subsidies across customer classes)	No customer class should pay greater than 105% or less than 95% 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% and 95% are calculated, defines the true impact. The Average and Excess Demand (AED) method places 20% more production cost on residential customers than the Baseload, Intermediate, Peak (BIP) method. I do concur with statements made by AE that selection of 95% AED	We agree generally but believe it could be more flexibly interpreted to mean 90% to 110% to adjust for policy considerations. This would give more flexibility to adjust rates whether BIP or AED is ultimately used. Generally, we think there is more support for BIP.		Disagree with Austin Energy’s use of the Average and Excess Demand (AED) method. It disproportionately shifts the burden to both residential customers and low, load factor small commercial users as compared to using the Baseload, Intermediate,	DF concurs with this recommendation only if the Average and Excess Demand (AED) method is adopted.	AE should recognize that this goal cannot be met in regard to contract customers until 2015 when existing contracts expire. Our preference would be to correct this inequity in this rate case. At a minimum AE should commit to a timetable and plan for amending the contracts so	We support for BIP. It would lower costs for residential customers by as much as 20% and additionally is the method approved by the Council and the PUC in the last rate cases We believe that a range of

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		equates to 100% BIP, from the perspective of residential customers.			Peak (BIP) method.		that new rates will go into effect immediately when the contracts expire.	90% to 110% would allow the council and A/E to make adjustments for policy considerations. We think that the commission and the council should debate the rate discounts given to a few large consumers in the confidential contracts that are set to expire in 2015 and set explicit rates for consumers in that class so that there will be less opportunity to continue to provide energy services below cost to these politically powerful customers.
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% of cost of service and set all other customer classes at 104% of cost of service.	Concur with this metric. See Issue #2, regarding cost allocation differences between the BIP method and the AED method.	Again, we believe residential could be lowered to 90 percent with more flexible guidelines.		No Comment	DF concurs with this metric with the caveat expressed in Issue #2.	AE should recognize that this goal cannot be met in regard to contract customers until 2015 when existing contracts expire. Our preference would be to correct this inequity in this rate case. At a minimum AE should commit to a timetable and plan for amending the contracts so that new rates will go into effect immediately when the contracts expire.	Again, we believe residential could be lowered to 90 percent with more flexible guidelines.
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 AE. (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		Disagree. Commercial customers under 10 kW have no demand charges in the deregulated market. Demand charges will hurt all nonprofits and houses of worship, and will hurt the smallest of those with low load factors disproportionately.	DF concurs with this metric with the caveat expressed in Issue #2.	No residential customer’s bill should increase by more than the percent of the system wide rate increase granted to AE.	Concur
5. Select a Production Demand Cost Allocation	Apply the Average and Excess Demand Method to 1) recognize that customers benefit from both capacity and energy produced	Disagree – Apply the BIP Method. Consistent with the Public Utility Commission of Texas (PUCT)-ordered nodal market. Recognizes	BIP method has more support though AED method could be tempered by mitigating impacts through		Use BIP Method for reasons in #2.	DF concurs. If the BIP method is adopted, fuel and purchased power costs should be allocated using the	Apply BIP Method.	We support for BIP. It would lower costs for residential customers by as much as 20% compared to

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Method	from generation assets; 2) to reward high load factor and energy efficient customers; 3) to be consistent with methodologies commonly used in Texas and around the country.	that 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 the 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 AE’s generation resources by the Electric Reliability Council of Texas (ERCOT). [This recommendation must be considered in conjunction with Item #2; if BIP is chosen than 95-105 cost of service would need to be narrowed/eliminated]	policy bounds. Overall, we believe picking BIP is a much fairer method.			same method. If this is not done, the fuel and purchased power costs associated with base load customers unjustly penalizes those customers with high load factors.		projected costs increases if we were to use ante AED method. Additionally is the method approved by the Council and the PUC in the last rate cases .
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.	Agree		Disagree. The current worship facility customer class was developed for a reason. Usage is not the same as other commercial customers. Worship facilities are “off peak” which negates the need for demand charges. Consolidation hits worship facilities as a class with a 45% rate increase.	DF concurs.	No comment at this time.	Agree
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 AE’s transparency principle and the Texas deregulated market.	Disagree – Sierra Club has proposed a modified rate structure at the September 17 th presentation with a base flat fee of \$10, either three or five rate blocks and some volumetric increases of fixed fees based on levels of energy use. In any case, the levels of those energy charges can not be determined until Austin Energy reexamines its rate revenue requirements for residential, commercial and industrial.		Disagree because of the large flat fees that regressively effect low-income customers. Would agree if everyone below 200% of federal poverty were exempted from flat, fixed fees as part of the CAP.		Continue the existing residential rate design. Any attempt to unbundle rates should be postponed until a separate rate ordinance is adopted defining how a cost pass-through would be implemented defining allowable costs and monitoring and review procedures that include public input.	Before any cost pass-through is approved to unbundled and shift made to establish a series of fees the city council should debate the changes and establish the process for determining how muc these fees are, a process for monitoring the funds and assuring that they are used only for their intended purposes.

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			Before any cost pass-through is approved to unbundle rates the city should set standards for monitoring the funds and assuring that they are used only for their intended purposes. A separate rate ordinance must be adopted to define how a cost pass-through would be implemented defining allowable costs and monitoring and review procedures that include public input.					We concur with Sierra club position that these fees should be progressive, and thus increase with consumption.
8. Update Rate Structure for Commercial and Industrial Customers	Unbundle rates and apply a customer charge, electric delivery charge, energy charge, demand 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 AE’s transparency principle and the Texas deregulated market.	Concur but generally think there should be a fairer split between commercial, industrial and residential. Current proposal hits residential customers too hard		Disagree. Current proposal leads to a 45% increase for worship facilities as a class. Disagree with ever doing demand charges for less than 10kW commercial customers consistent with the deregulated market. Customers above 10 kW should be allowed to retain their current choice of residential or commercial class. Would also be open to an “El Paso solution” presented by the Texas Baptist Christian Life Commission where no worship facility was increased more than 20%.	DF concurs with the RRA	AE should recognize that this goal cannot be met in regard to contract customers until 2015 when existing contracts expire. Our preference would be to correct this inequity in this rate case. At a minimum AE should commit to a timetable and plan for amending the contracts so that new rates will go into effect immediately when the contracts expire.	Concur but generally think there should be a fairer split between commercial, industrial and residential. Current proposal hits residential customers too hard At a minimum AE should commit to a rate, timetable and plan for amending the contracts so that new rates will go into effect immediately when the contracts expire
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.	Disagree – Rates are more transparent and GreenChoice® Program is easier to understand if fuel and energy discrete line items. For purposes of clarity, “Energy Charge” should be called “Fuel and Purchased Power Cost.”	Not strong opinion but Green Choice should be used to go beyond 35% goal currently adopted by utility, not subsidize.		No Comment	DF strongly concurs with the RRA. AE should allow at least one year’s experience with the Nodal market before making this change. Also, greater transparency for comparison to the restructured market could be achieved if AE would develop a generation rate in which all generation costs were included.	Continue the existing residential rate design. Any attempt to unbundle rates should be postponed until a separate rate ordinance is adopted defining how a cost pass-through would be implemented defining allowable costs and monitoring and review procedures that include	Disagree- having fuel charges, purchased power and energy charges separated on the bill makes the cost easier to understand Green Choice should be used to go beyond 35% goal currently adopted by utility, not subsidize.

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							public input.	
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 AE’s control.	Concur		No Comment	DF does not see the necessity of including charges associated with ERCOT with transmission costs. In the restructured market, QSEs representing REPs pass ERCOT fees to customers through the generation cost.	Continue the existing residential rate design. Any attempt to unbundle rates should be postponed until a separate rate ordinance is adopted defining how a cost pass-through would be implemented defining allowable costs and monitoring and review procedures that include public input.	Concur
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 energy charge.	Concur as the entire community benefits from these programs. Change makes rates more transparent.	<p>Concur but suggest that Community Benefit Charge cover CAP and free weatherization and raise sufficient funds— Amend the CAP eligibility guidelines to include customer households receiving SNAP (Supplemental Nutrition Assistance Program, i.e., Food Stamps) and customers eligible for Lifeline telephone benefits.</p> <p>Design the CAP to assure that the amount of the monthly CAP benefit in individual households increases by a percentage that is greater than or equal to the percent of the increase system wide.</p> <p>Consistent with the generation resource plan adopted by city council we recommend a minimum expenditure of \$2.9 million</p>		Agree there needs to be one. Disagree that it is enough money. Disagree that it is based on kWh usage because this punishes low-income customers for energy efficiency. This charge is one that should be a flat rate and a rate that should be high enough to cover the 70,000 or so customers below federal poverty guidelines and high enough to exempt people at 200% of poverty from flat fee increases. Also needs a guarantee that it will not be “swept” away from low-income people to cover other expenses as the State does with System Benefit Fund. There should also be a commitment to low-income weatherization. Even in the dereg market, they guarantee 10% of all EE expenditures go to weatherize low-income houses.	DF disagrees with charging ratepayers with the cost of street lighting. This is a general government expense and should be paid for by general government funds. DF concurs with funding energy efficiency and CAP programs but would like to see more specificity of the types of programs and how funds will be track and accounted for before agreeing on the level of funding.	<p>Continue the existing residential rate design. Any attempt to unbundle rates should be postponed until a separate rate ordinance is adopted defining how a cost pass-through would be implemented defining allowable costs and monitoring and review procedures that include public input.</p> <p>11.a Should the eligibility requirements for CAP be amended? Yes, customers on SNAP (Supplemental Nutrition Assistance Program, i.e., Food Stamps) and customers eligible for Lifeline telephone benefits should be eligible for CAP.</p> <p>11. b. What level of funding should be provided for the low-income weatherization program? Consistent with the generation resource plan adopted by City Council we recommend a minimum expenditure of \$2.9 million</p>	<p>Concur but suggest that Community Benefit Charge cover CAP and free weatherization and raise sufficient funds— Amend the CAP eligibility guidelines to include customer households receiving SNAP (Supplemental Nutrition Assistance Program, i.e., Food Stamps) and customers eligible for Lifeline telephone benefits.</p> <p>Consistent with the generation resource plan adopted by city council we recommend a minimum expenditure of \$2.9 million per year for weatherization.</p> <p>In addition, following an ordinance on how additional fees are charged, collected and spent, AE should also add a Energy Savings Account to fund energy efficiency programs, such as</p>

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			<p>per year for weatherization.</p> <p>In addition, following an ordinance on how additional fees are charged, collected and spent, AE should also add a Energy Savings Account to fund energy efficiency programs, such as greenbuilding, rebates and solar incentives. The amounts raised should be consistent with the Generation Plan, and the upcoming energy efficiency potential study. Consistent with the generation resource plan adopted by city council AE should develop energy efficiency programs for renters and for households with incomes between 200 and 400% of the federal poverty guideline.</p>				<p>per year or 20 percent of the energy efficiency budget whichever is greater.</p> <p>11.c. What level of funding should be provided for energy efficiency for renters and those with income between 200 and 400% of the federal poverty guideline. Consistent with the generation resource plan adopted by City Council AE should develop energy efficiency programs for renters and for households with incomes between 200 and 400% of the federal poverty guideline. We recommend that a minimum of 20 percent of the energy efficiency budget be dedicated to programs for these target populations.</p>	<p>greenbuilding, rebates and solar incentives. The amounts raised should be consistent with the Generation Plan, and the upcoming energy efficiency potential study. Consistent with the generation resource plan adopted by city council AE should develop energy efficiency programs for renters and for households with incomes between 200 and 400% of the federal poverty guideline.</p>
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 (PIC) process.	Concur		No Comment	DF concurs	Agree.	Concur
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 PIC meeting process, the residential representatives on the PIC recommended a \$12 customer charge as part of their joint recommendations.	Concur, but only raise it to \$10		Disagree because of the large flat fees that regressively effect low-income customers. Would agree if it were applied progressively and everyone below 200% of federal poverty were exempted from flat, fixed fees as part of the CAP.	DF would like to see the adjusted revenue requirement before finalizing an opinion.	AE’s proposal to increase the customer charge should be denied. High fixed charges are not used in Texas regulated or deregulated markets because they do not place the cost where is originates. Higher fixed charges require low-use customers to pay more than	Concur, but only raise it to \$10

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							they should and discourages a customer’s attempts to lower usage to save money. AE has justified this change because some distribution costs will not be recovered with increased distributed generation such as solar photovoltaic systems. Options other than the increased customer fee that should be considered are a fixed fee for distributed generation customers only, line extension and new service connection fees.	
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.	Partly Disagree – There is a cost of meter reading systems, meter drops, tree trimming, etc. that is unrelated to energy consumption. Therefore, consistent with the Joint Recommendations of the Residential PIC members, I agree with the \$10 per month fixed electric delivery charge. 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 AE’s transparency and understandability principles. It also allows comparisons to be made with the deregulated market.	Disagree – Before any cost pass-through is approved to unbundle rates the city should set standards for monitoring the funds and assuring that they are used only for their intended purposes. A separate rate ordinance must be adopted to define how a cost pass-through would be implemented defining allowable costs and monitoring and review procedures that include public input. If an additional fixed fee were applied as a delivery charge, we would base it on volume of energy used. Thus if you were below 500 KWh you would pay only the base \$10, but that amount would increase to \$15, \$20 or \$25 depending upon the energy used.		Disagree because of the large flat fees that regressively effect low-income customers. Would agree if it were applied progressively and everyone below 200% of federal poverty were exempted from flat, fixed fees as part of the CAP.	DF would like to see the adjusted revenue requirement before finalizing an opinion.	AE’s proposal to create a new electric delivery charge should be denied. The costs of the distribution system are collected as part of the per kWh charge therefore customers who use the most electricity pay more than those who use the least. Also see 13 above.	Disagree – Before any cost pass-through is approved to unbundle rates the city should set standards for monitoring the funds and assuring that they are used only for their intended purposes. A separate rate ordinance must be adopted to define how a cost pass-through would be implemented defining allowable costs and monitoring and review procedures that include public input. If an additional fixed fee were applied as a delivery charge, we would base it on volume of energy used. Thus if you were below 500 KWh you would pay only the base \$10, but that amount would increase to \$15, \$20 or \$25 depending upon the energy used.
15. Implement	Expand existing residential	Concur – This will be one of the	Concur – though we would		No Comment.	DF would like to see the	Maintain the existing	Concur – though we

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Residential Inclining Block Tiered Rate Structure for Energy Charge	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.	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 AE’s strategic goal of incentivizing energy efficiency. I believe more weight should be given to goals than principles and, therefore, this change is appropriate.	be happy with either a three or five-tier system. Most importantly, we would suggest easy to understand block rates such as 5 cents, 10 cents, 12.5 cents, 15 cents and 17.5 cents			adjusted revenue requirement before finalizing an opinion.	residential rate structure.	support the five-tier system. Most importantly, we would suggest easy to understand block rates such as 5 cents, 10 cents, 12.5 cents, 15 cents and 17.5 cents
16. Fund Customer Assistance Program	Fund the Customer Assistance Program with a Community Benefit Charge sub-component of \$0.00065/kWh to all customers.	Disagree – 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. This will provide a stable funding source throughout the year, and will scale with the number of residential customers served by AE. Concur with the proposed funding mechanism for non-residential customers. These recommendations are consistent with the joint recommendations by the Residential PIC members.	Concur Should fund weatherization program as well. Also, add Energy Savings Trust to fund other energy efficiency and solar projects as needed to meet 800 MW goal (and help meet 200 MW solar goal). Could be charged as flat fee or KWh charge.		Disagree that it is enough money. Disagree that it is based on kWh usage because this punishes low-income customers for energy efficiency. This charge is one that should be a flat rate and a rate that should be high enough to cover the 70,000 or so customers below federal poverty guidelines instead of the paltry 10,000 it currently covers and high enough to exempt people at 200% of poverty from flat fee increases. Also needs a guarantee that it will not be “swept” away from low-income people to cover other expenses as the State does with System Benefit Fund. There should also be a commitment to low-income weatherization. Even in the dereg market, they guarantee 10% of all EE expenditures go to weatherize low-income houses.	DF concurs that the Community Assistance Programs are desirable but see response to #11 above.	A pass through or fee is one way to collect revenue for CAP. We prefer that the CAP be funded as a per kWh charge. If pass-through is approved, support \$1 per mo. with increase to \$3 at 2500kWh. See 1a.	Concur If pass-through is approved, support \$1 per mo. with increase to \$3 at 2500kWh Should fund weatherization program as well. Also, add Energy Savings Trust to fund other energy efficiency and solar projects as needed to meet 800 MW goal and help meet 200 MW solar goal. Should be charged as KWh charge.
17. Apply Commercial and Industrial Customer Charge	Apply customer charge at or near cost of service for commercial and industrial customers.	Concur	Concur	Austin Energy should offer charitable off peak users, such as houses of worship, a solution similar to El Paso Electric. El Paso Electric implemented a rider for low-load factor charitable organizations that primarily operate during off peak hours. The rider sets a kilowatt hour cap on the	No Comment	DF would like to see the adjusted revenue requirement before finalizing an opinion.	No comment at this time. Also see 3.	Concur

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				energy and demand charges in order to provide a safety net. Houses of worship in the EPE service territory that were recently reassigned to a class with demand charges will see an increase of no greater than 20% from their previous bills, with the exception of one facility. (PUC Docket # 39647)				
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		No Comment	DF would like to see the adjusted revenue requirement before finalizing an opinion.	No comment at this time. Also see 3.	Concur
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 current non-demand customers.	Concur – This phased-in approach will reduce the rate shock on these customers as they transition to demand rates.	Concur		Disagree. Current proposal leads to a 45% increase for worship facilities as a class and disproportionately effects low, load factor users. Disagree with ever doing demand charges for less than 10kW commercial customers consistent with the deregulated market. For those above 10 kW, the average load factor for a worship facility is 15%. Something needs to be worked out so those below 15% load factor are not hit so disproportionately. Worship facilities are off-peak users and create no grid stress to justify demand charges. With regard to the 3 year phase-in of demand charges, this only delays the inevitable. There are only so many ways to conduct worship services that efficiency cannot off set.	DF would like to see the adjusted revenue requirement before finalizing an opinion.	No comment at this time. Also see 3.	Concur -with the exemption outlined by Texas Impact of churches
20. Apply Power Factor Adjustment for Commercial and Industrial Customers	Apply a power factor adjustment of 90% to all commercial and industrial customers with the exception of current non-demand customers during the phase-in period and customers	Concur – Austin Energy is required by ERCOT to maintain a power factor of 97% so this is a good first step. The costs for AE to correct power factor to 97% are currently placed on all customers. Following	Concur		No Comment	DF suggests AE consider a phase of 3 years to allow commercial and industrial customer to implement and pay for the facility requirements to comply.	No comment at this time.	Concur

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	with demand less than 10 kW.	this change, AE should continue to monitor the cost to correct the distribution power factor and determine if a greater adjustment is warranted.						
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% 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 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.	Concur		Intriguing idea. Worship facilities would be ideal candidates for time of use rates. Solar is increasingly looking more attractive as well. We would like Austin Energy to consider ways to put solar on nonprofits. Nonprofits cannot take advantage of tax incentives the same way others can, but can educate the community due to our high visibility, the increase in community benefit by saving us money on our electric bills, and peak demand production with worship facilities.	DF suggests that AE set a time limit on the pilot and provide the results of the pilot before AE’s next rate case.	Time of use rates should be objectively and fairly studied. The 2,000 customer programs should be evaluated by an independent third party. We recommend that customers with medical problems and customer household swith a family member home all day be ineligible for the rate.	Concur
22. Update Renewable Energy Alternative Rate (GreenChoice®)	Maintain the existing GreenChoice alternative rate for customers who wish to receive a 100% renewable energy product price that is locked in for an extended term (e.g., 10 years). Use a bundled portfolio approach that prorates the GreenChoice adjustment to account for system-wide renewables.	Disagree – Adjustment should continue to be shown as offsetting fuel charge. Program as described is unnecessarily complex and confusing. The 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 AE’s transparency and “simple and understandable” principles.	Partially Agree – but GreenChoice should be used to go beyond 35% level in current generation plan and go beyond. Agree on portfolio approach but should have a specific community solar option, as below.		No Comment	DF concurs with the RRA.	Agree with RRA.	GreenChoice should be used to go beyond 35% level in current generation plan and go beyond. Agree on portfolio approach but should have a specific community solar option, as below. We suggest that Green Choice be offered as the first rate plan when a new customer calls in or requests service transfer and other options offer later. Recently when initiating new service at a rental property we own Green Choice was not offered. This is clear indication that Austin Energy stated priorities are not being implemented on the front lines where the customers sign up for service.

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23. Residential Solar Rate (replaces the net metering rate proposal)	Credit all residential solar PV distributed generation at the annually re-calculated “Value of Solar Rate” [12.8 cents/kWh (2011)] and charge residential customers the applicable charges for the standard rate for all consumption.	<p>Concur – With the concept, disagree on price suggested by AE as too high, Recommend price between 8 and 9.5 cents/kWh, consistent with the hourly production potential applied to the AE recommended time of use rates. I suggest moving to a solar rate which considers the hourly value of energy as expeditiously as possible. At rate of 8 to 9.5 cents/kWh solar customers are fully compensated for the value of generation in the AE Load Zone for 2011 or the proposed TOU rates. Solar customers are also receiving rebates of up to 80% of the cost of solar installations. Providing additional compensation, as AE recommends, to solar customers beyond the above 180% is unfair to non-solar customers.</p> <p>RRA is indifferent as to the applicability of net or gross metering. Key issue is the price being paid and how “wires” charges are collected from solar customers. Based on my analysis, beyond the “wires” charges, non-solar customers should be indifferent on the selection of gross or net metering.</p>	<p>Concur with the concept and price is reasonable</p> <p>Add Community Solar option, similar to Bright Tucson Community Solar Program</p> <p>It’s the largest concentrated solar photovoltaic array in the country.</p> <p>Tucson Electric Power (TEP) – customers buy up 150 kw-hr “blocks” of solar energy (\$3 per block).</p> <p>Purchasing six blocks would cover the average household’s annual electricity use, at an additional cost of only \$18 per month.</p> <p>Amonix – leader in solar photovoltaic power; installs and runs the actual array of panels.</p> <p>If excess kilowatts are left over, they roll over and reduce the cost of next month’s electricity bill.</p> <p>Participation is limited by the availability of energy from local TEP solar power systems.</p> <p>It is currently slightly more expensive than traditional energy but....</p> <p>...there is a rule in place</p>		We like the high value of solar. As off-peak users, houses of worship that install solar would like to be given the value of when the power was produced since most of our facilities will be producing during peak demand when the prices are highest.	DF would like to see the adjusted revenue requirement before finalizing an opinion.	Agree with RRA and Draft EUC position.	<p>We agree with Austin Energy and with Sierra Clubs proposal as outlined below.</p> <p>We think the solar rate offered by Austin Energy is a fair price set based on a comprehensive analysis of the benefits of solar to the system</p> <p>In addition – we believe the “lease the panel” option avoids the tricky question of third party ownership while giving the customer the benefit of the deal.</p> <p>Add a Community Solar option, similar to Bright Tucson Community Solar Program. It’s the largest concentrated solar photovoltaic array in the country. Tucson Electric Power (TEP) – customers buy up 150 kw-hr “blocks” of solar energy (\$3 per block).</p> <p>Purchasing six blocks would cover the average household’s annual electricity use, at an additional cost of only \$18 per month.</p> <p>Amonix – leader in solar photovoltaic power; installs and runs the actual array of panels. If excess kilowatts are left over, they roll over and reduce the cost of next month’s electricity bill. Participation is limited by</p>

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			<p>stating that the current price paid by a current customer will remain fixed for 20 yrs. When the cost of traditional energy rises, it will be very beneficial to have joined the Bright Tucson Program.</p> <p>The solar energy is not sent directly to the household or business, instead it offsets the charges of traditional energy. TEP inputs the appropriate amount of solar energy into the general distribution grid, where it cannot be differential from traditional energy, from which is it sent around the community.</p>					<p>the availability of energy from local TEP solar power systems.</p> <p>It is currently slightly more expensive than traditional energy but.....there is a rule in place stating that the current price paid by a current customer will remain fixed for 20 yrs. When the cost of traditional energy rises, it will be very beneficial to have joined the Bright Tucson Program.</p> <p>The solar energy is not sent directly to the household or business, instead it offsets the charges of traditional energy. TEP inputs the appropriate amount of solar energy into the general distribution grid, where it cannot be differential from traditional energy, from which is it sent around the community.</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.	Concur		No Comment	DF would like to see the adjusted revenue requirement before finalizing an opinion.	No comment at this time.	We support A/E’s plan to update thermal energy storage rates to encourage its use and think that the building code should be modified to require new buildings of certain types to be required to include thermal storage
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 lesser of 2,500 customers or 5 megawatts (MW), and less than two years in duration.	Concur		No Comment	DF agrees with RRA.	The purpose of a rate case is to review and approve electricity prices for rates for various rate classes. If AE identifies new pricing for a rate class then the rate proposal should be	Concur

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							approved in a transparent public process.	
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 contract which hedges price risk impact on other customers.	Definitely concur – the rates are being designed as if these customers didn’t exist and they do and should pay their fair share		No Comment	DF agrees with Commissioner Day that this item should be removed from consideration in the case.	Our preference would be to correct this inequity in this rate case. At a minimum AE should commit to a timetable and plan for amending the contracts so that new rates will go into effect immediately when the contracts expire.	Concur – the rates are being designed as if these customers didn’t exist and they do and should pay their fair share- and the council and EUC should debate and adopt a plan now for their rates in 2015 to assure that their costs are fairly assessed and revenues included. If we don’t do it now, then let’s postpone the whole rate case until 2015. Otherwise we’ll still be only looking at ¾ of the pie.
27. Adopt Residential Option “A”	No position on this issue at this time.	Concur	Disagree – Adopt a residential option that is closer to B, but includes volumetric fixed charges at different levels, but first assess what the real revenue requirements are, subject to the changes discussed in 1.		No Comment	DF would like to see the adjusted revenue requirement before finalizing an opinion.	No comment at this time.	We prefer “b”- it put the biggest costs on the biggest users

Texas Baptist Christian Life Commission Comments with regard to Proposed Worship Facility Rate Increases

Under the currently proposed rate changes, 619 Austin congregations will be reassigned from the residential to the commercial class and will experience demand charges for the first time. Under this new structure, over 42% of houses of worship being reassigned will experience rate increases of 49% or higher in Phase I. Upon further review of Austin Energy's analysis, over 36% of the 619 houses of worship will see an increase of 147% or higher compared to current rates by Phase III.

Many of the houses of worship have the capacity to adapt to their new customer class and will not experience egregious cost increases compared to average residential and commercial customers. However, those with the least ability to employ energy efficiency measures, often churches without full time staff and buildings only occupied two days per week, will have the most difficult time coping. Sixty-one (61) small, low-load factor houses of worship, will see high percentage increases but low dollar amounts with the on average increase being \$439 a year. Over 20% of the Houses of worship being reassigned (157), which fall into the 10-50 kW range will see an average increase of \$3,166 a year. And 9 houses of worship with a higher peak, yet still a low load factor will experience an average yearly increase of \$36,276.

As these worship facilities have varying characteristics, the Christian Life Commission understands the need for them to be assigned into multiple classes. We also understand that by making behavioral changes and employing energy efficiency measure, some of these increases can be mitigated. We are however, skeptical that such changes alone can account for all of the enormous cost increases some churches would experience. We recommend that Austin Energy use a similar model to El Paso Electric to treat these unique charitable, off peak users. El Paso Electric implemented a rider for low-load factor charitable organizations that primarily operate during off peak hours. The rider sets a kilowatt hour cap on the energy and demand charges in order to provide a safety net. Houses of worship that were recently reassigned to a class with demand charges will see an increase of no greater than 20% from their previous bills, with the exception of one facility.

El Paso Electric went through their rate case where many worship facilities were assigned to a class that applied demand charges for the first time, and when churches began to receive the bills they were utterly shocked. Due to the complaints filed with the Public Utility Commission in Texas and the New Mexico Public Regulation Commission and the press coverage of these sudden, dramatically increased bills for churches, El Paso Electric became eager to look for a solution that worked for all involved parties. The New Mexico Public Regulation Commission opened an investigation of the matter, and it ordered El Paso Electric and the worship facilities to begin a mediation process. The mediation led to an agreement that created an energy and demand charge cap to protect these unique customers from their rates raising over a certain percentage. El Paso Electric dealt with unintended consequences and the backlash against their rates after implementation. Austin Energy has the opportunity to design solutions to prepare and protect charitable, off peak users, such as the houses of worship that will see up to \$36,000 a year increases by Phase III, in advance of shocked customers, negative press, and filed complaints. The Public Utility Commission recently approved the rider put forth by El Paso Electric, but we encourage Austin Energy to build a solution into the process on the front-end while there is still the opportunity.

Statement of Position
Submitted by Data Foundry
October 10, 2011

Data Foundry (DF) is a leading provider of data center outsourcing, secure collocation and disaster recovery. This summer, we completed the initial phase of our 250,000 square foot data center. Obviously, electricity is a major portion of our cost and we are concerned that dramatic increases in rates will affect our ability to grow and hire additional employees in the Austin area.

We have reviewed the rate increase requested by Austin Energy (AE) and make the following observations that support our recommendation to establish rates that provide for a 2 times coverage for debt service instead of the 2.24 times debt service requested by AE.

AE relies upon its Financial Policies to justify increasing coverage to fund the various reserves levels targeted by the Financial Policies. The reserve policies are intended to mitigate many of the operating risks that may be experienced by AE. AE's proposal to recover its fixed cost through fixed rates also mitigates its risks from operations because the fixed cost recovery is not impacted by weather. DF is of the opinion that the level of certainty requested by AE at this time is not justified because of the economic conditions in the Austin area. The unemployment rate is over 7%, school districts are facing substantial budget shortfalls and businesses are facing the general downturn of the economy.

DF recommends that AE establish rates based on 2 times debt service and monitor its revenue and expenses over the next year in which the rates are in effect. We have heard that the level of coverage is necessary to protect from unforeseen emergencies. DF's recommendation provides approximately \$170 million of revenue in excess of normal expenses. If some catastrophic event occurs there are remedies that AE can explore. AE can request rate relief at any time and it is doubtful that the City Council would turn a deaf ear to such a request during dire emergencies.

It is important to consider that the target reserve levels are designated portions of AE's fund balance at the end of the fiscal year. Changes to fund balance are the product of revenues minus expenses and transfers in and out. By reviewing the fund balance at the end of the fiscal year and adjusting for the fact that new rates will not be in place for the entirety of the fiscal year, AE can assess how the radically new rate structure is functioning. AE should continue to monitor its expenses to increase the fund and delay all but necessary CIP spending.

AE has structured its rate requested assuming that it will seek a rate change after three years. This is a decision entirely within control of AE. Consequently, DF requests that the rates in this case be conservative and consider the impact on the ratepayers to accomplish the rate phase in that many of the participants in the proceeding have requested.

Attached is a schedule of DF's Recommendation.

<u>AE Cost of Service</u>	<u>Adjustments to</u>			<u>Adjustments to</u>	
	<u>AE Request</u>	<u>AE Request</u>	<u>Proposed</u>	<u>AE Request</u>	<u>Proposed less Fuel</u>
Operation and Maintenance	\$ 820,034,711		\$ 820,034,711	\$ (390,897,576)	\$ 429,137,135
Depreciation and Amortization	\$ 117,214,512		\$ 117,214,512		\$ 117,214,512
Debt Service	\$ 168,070,290		\$ 168,070,290		\$ 168,070,290
General Fund Transfer	\$ 103,000,000		\$ 103,000,000		\$ 103,000,000
Margin	\$ 8,957,418	\$ (45,775,519)	\$ (36,818,101)	\$ (45,775,519)	\$ (36,818,101)
		\$ -	\$ -		
Subtotal Revenue Requirement	\$ 1,217,276,931	\$ (45,775,519)	\$ 1,171,501,412	\$ (436,673,095)	\$ 780,603,836
Add other expense	\$ 3,552,750		\$ 3,552,750		\$ 3,552,750
Less Other revenue	\$ 84,808,878		\$ 84,808,878		\$ 84,808,878
Total Revenue Requirement	\$ 1,136,020,803	\$ (45,775,519)	\$ 1,090,245,284	\$ (436,673,095)	\$ 699,347,708
Less Test Year Revenue	\$ 1,004,133,897	\$ -	\$ 1,004,133,897	\$ (390,897,576)	\$ 613,236,321
Revenue Requirement Increase	\$ 131,886,906	\$ (45,775,519)	\$ 86,111,387	\$ 45,775,519	\$ 86,111,387
Less Contract Customers	\$ 20,751,131	\$ -	\$ 20,751,131	\$ -	\$ 20,751,131
Amount to Recover from Base Rates	\$ 111,135,775	\$ (45,775,519)	\$ 65,360,256	\$ 45,775,519	\$ 65,360,256
Percent Increase	11.07%		6.51%		6.51%
				Increase w/o Fuel	10.66%
<u>Debt Service Coverage</u>					
Total Revenues	\$ 1,136,020,803	\$ (45,775,519)	\$ 1,090,245,284	\$ (436,673,095)	\$ 699,347,708
Plus Other Revenue	\$ 84,808,878		\$ 84,808,878		\$ 84,808,878
Plus Interest and Dividend Revenue		\$ 7,596,609	\$ 7,596,609	\$ 7,596,609	\$ 7,596,609
Gross Revenue	\$ 1,220,829,681	\$ (38,178,910)	\$ 1,182,650,771	\$ (429,076,486)	\$ 791,753,195
Less O&M	\$ 820,034,711		\$ 820,034,711		\$ 429,137,135
Less other Expenses	\$ 3,552,750		\$ 3,552,750		\$ 3,552,750
Less Non Revenue Bond DS	\$ 356,833		\$ 356,833		\$ 356,833
Subtotal	\$ 823,944,294		\$ 823,944,294		\$ 433,046,718
Less Contract Customers	\$ 20,751,131		\$ 20,751,131		\$ 20,751,131
Balance Available for Debt Service	\$ 376,134,256	\$ (38,178,910)	\$ 337,955,346	\$ (38,178,910)	\$ 337,955,346
Revenue Bond Debt Service	\$ 167,713,457		\$ 167,713,457		\$ 167,713,457
Debt Service Coverage	2.24	(0.23)	2.02	(0.23)	2.02
Balance After Debt Service	\$ 208,420,799	\$ 38,178,910	\$ 170,241,889	\$ (38,178,910)	\$ 170,241,889
Use of Funds					
City Payment	\$ 103,000,000		\$ 103,000,000		
Capital from Revenue	\$ 111,091,011	\$ 32,674,311	\$ 78,416,700		
Non Nuclear Decommissioning Fund	\$ 6,716,995	\$ 6,716,995	\$ -		
Contributions to Reserves	\$ 15,960,533	\$ 6,384,213	\$ 9,576,320		
Total	\$ 236,768,539	\$ 45,775,519	\$ 190,993,020		



October 10, 2011

Members of the City of Austin Electric Utility Commission,

My name is Trevor Lovell and I have spoken at each of the last three rate review sessions on behalf of Solar Austin, a non-profit organization whose purpose is to promote solar and other clean renewable energy technologies in the Austin area.

Today I am submitting comments for Solar Austin to ask that you continue your deliberations before approving any recommendation to the Austin City Council. In addition I have specific concerns which should be addressed in any recommendation that emerges from the EUC.

While the EUC has attempted to provide open and transparent debate about issues related to Austin Energy's rate increase proposal and has dedicated an additional meeting to this purpose, there are numerous unanswered questions. **I am sincerely concerned that by failing to provide adequate oversight of this process, the EUC makes greater the possibility that members of the Texas Legislature inclined to deregulate our municipal utility will succeed in 2013.**

An area of interest to Solar Austin which has been inadequately reviewed by the EUC to date is the solar rate proposed during the meeting on residential rates in September. The entire review of this proposal consisted of a brief description of the solar rate by Austin Energy VP Karl Rabago with virtually no questions or ensuing discussion. I have spoken to Karl on numerous occasions, he was an invited guest and presenter at one of Solar Austin's monthly happy hour events, and I believe him to be a forthright public servant motivated by a desire to move the utility towards clean energy in accordance with City Council directives and to the benefit of the Austin community. All this is to say that I can put a great deal of trust in Mr. Rabago and his proposal. Nevertheless, I am troubled that it has received very little attention and no discussion whatsoever. I have not had an opportunity to fully evaluate the implications of this proposal myself, I was called by the Residential Rate Adviser Bob Whitmeyer several days after the September meeting as he was attempting to quickly analyze the proposal to better serve the EUC, and I have spoken with more than one member of the EUC who has expressed that the limited discussion of the proposal has resulted in a commensurately limited understanding of how it would work and how it would affect Austin Energy customers.

This failure to fully vet the proposal is exactly the kind of problem that legislators unhappy with Austin Energy and the municipal utility model will point to in order to convince colleagues that a city government cannot be trusted to provide adequate oversight to a municipally owned monopoly. It may also create the unintended perception that the politics of the city predispose decision-makers to approving “green” programs without review, putting those programs at further risk in the future. Solar Austin is in favor of creating programs that incentivize solar adoption, and we agree with the principal of paying solar panel owners a rate based on the value of the energy they produce. As such we would not likely oppose this proposal, but that does not mean that it should not be thoroughly reviewed to ensure that it is an efficient means of increasing solar adoption given the utility’s limited resources, that it is in fact fair to both solar panel owners and other ratepayers, and that sufficient flexibility is built into the program for it to adapt based on what the utility encounters as it rolls the program out.

The aspect of this review process which is most distressing to Solar Austin as an organization made up not only of solar industry companies but also of Austin residents who buy their electrical service from Austin Energy is the casual manner in which the utility’s stated revenue requirement is being accepted. The bill impact of Austin Energy’s proposals (all of them) will be very substantial, particularly for low volume residential customers, many of whom are ideal residents from our perspective – efficient users of energy with solar panels on their roofs. The first rate increase in nearly two decades of utility operations should not be substantially decided on the basis of a few meetings over a period of six weeks with almost no investigation of the utility’s base assumptions. **Again, this is exactly the kind of lax oversight which legislators can point to as a reason to deregulate the utility.**

As an example, it has been determined that Austin Energy put an economic development fund into its revenue requirement amounting to \$10 million annually and failed to bring attention to it in public meetings. When it was called out by members of the public, it was found that most of that money would be captured in the base service charge to residential customers. After weeks of clamoring that residential customers should bear a greater burden than other customer classes in the name of “fairness” it turned out that Austin Energy was inflating the residential cost of service by adding a \$10 million per year fund to benefit businesses who would presumably be in the commercial or industrial classes!

This particular item has been identified as a problem and a motion at the commercial and industrial rate review meeting on October 3rd would have removed it from the revenue requirement. While this is a laudable move on the part of the EUC, it is hardly proper to assume that this was the only major discrepancy in Austin Energy’s proposal. To do so would be similar to punishing a tax evader by asking only for back taxes interest-free – it incentivizes bad-faith dealings because the cost of getting caught can never exceed the cost of being transparent, while evasion can and almost certainly will result in some benefit to the evader.

In fact, additional presentations from the public appear to demonstrate that half of the utility’s stated revenue requirement could easily be done away with while leaving the utility fully capitalized and

capable of meeting its responsibilities and goals. The EUC has heard discussion that the debt-to-equity requirement assumed by Austin Energy disproportionately burdens current customers while giving future customers free benefits from today's investments. This would be more understandable for a household or even a business since reducing debt almost always saves money over the long term and the household or business serves only itself. However, it is irresponsible for a municipal utility to act in this manner since it should seek to serve all of its customers equally over the lifetime of its individual investments and because its cost of debt is exceptionally low.

Another component of the revenue requirement that has been overlooked by the EUC is the value of off-system sales. It is my understanding that Austin Energy has chosen not to include ongoing off-system sales as part of its forward-looking revenue, despite test-year off-system sales valued at \$35 million. If true, this constitutes a major breach of Generally Accepted Accounting Principles (GAAP) which guide all major financial projections in the United States. I will admit that I am not a certified accountant, nor have I had adequate time to fully investigate this omission. However, I did study business at the University of Texas at Austin, a top 10 business school, and am versed in the basics of accounting, finance, and related aspects of business. It is reasonable for Austin Energy to acknowledge that the nodal market will change the value of its off-system sales, but it is unreasonable to assume that the best figure to project is zero. It is important to understand that by zeroing out off-system sales in its revenue projections the utility is effectively estimating that the value of off-system sales will be zero. In other words, leaving off-system sales out does not avoid the uncertainty of future off-system sales, it projects that those sales will be without value, an assumption that is invalid on its face. What is more, based on the inadequacy of our electric resources statewide to meet summer 2011 demand while maintaining any reserve generating capacity has triggered action at the Public Utility Commission to raise the value of energy in the market, meaning that Austin Energy is likely to see an increase in the value of its off-system sales.

The failure to address a revenue requirement item valued at \$35 million per year (more than 30% of the utility's initial projected requirement) could itself be adequate ammunition for key legislators to deregulate Austin Energy. Defenders of the municipal utility model would have an extremely difficult time explaining how that does not constitute a too-friendly relationship between the utility and its governors to the detriment of ratepayers.

I want to close on a more positive note, and fortunately there is one. There are two distinct futures ahead of us. In one the EUC and subsequently the Austin City Council would approve Austin Energy's basic recommendation with minor changes. Electric bills would go up substantially, there would be widespread discontent, and legislators who have put Austin Energy in the cross-hairs would be able to point out that Austin Energy rates are increasing while rates in deregulated markets are decreasing, that government is incapable of competing with the market, and that a government which overlooks major deficiencies in a utility's proposal should not be trusted with a service the free market can provide.

In another possible future, the EUC would decide to extend its review process in order to deal with the issues describe above, as well as other deficiencies pointed out by many people over the last several

weeks. The result would likely be a substantial decrease in the amount bills would climb. While ratepayers would be upset at their rising bills, media coverage would necessarily relate how the city government worked to protect ratepayers and manage the utility as efficiently as possible. At the state capitol lawmakers could point to the rate case as an example of how a transparent and open process can manage a municipal utility and keep the various interests in balance. Austin and San Antonio together will be able to demonstrate that they have kept rates low while leading the state in energy efficiency and renewable energy adoption. Over the coming years the failure of the deregulated market to fund new generating capacity in Texas will result in new regulations, price controls, or market failures which will further stack public will against deregulation and shrink the target on Austin Energy's back which has limited the utility and the city's options for the last several years.

In order for our future to more closely resemble this second possibility, the EUC will have to act with some boldness. In doing so the EUC will be able to change the outcome to substantially protect ratepayers while shifting the narrative from one of collusion between government and utility to one of rigorous debate producing a balanced and efficient outcome.

As a representative of Solar Austin and as an Austin Energy ratepayer I sincerely hope you will show the patience and the courage appropriate to your position.

Sincerely,

A handwritten signature in black ink, appearing to read 'T. Lovell', with a stylized, cursive flourish at the end.

Trevor Lovell
Treasurer, Solar Austin