2011 Rate Review Decision Point List – Electric Utility Commission (EUC) Review

Issue	Austin Energy Staff Recommendation[1]	Residential Rate Advisor	EUC Majority Position	EUC Minority Position(s)[2]
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.	Concur as Austin Energy (AE) must collect its revenue requirement. Agree that cash flow methodology is reasonable to use to calculate revenue requirement. Concur with use of 2.0X debt service coverage (DSC). Concur with the use of 50% debt funding assumption. Concur with the level of Capital Improvement Plan (CIP) funding, although not with the method by which that level was derived. 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. RRA concurs that the level of Administrative and General (A&G) expense is reasonable. Concur with known and measurable adjustments, except to	Concur with AE, subject to removing the following from the revenue requirement: 1. Economic Growth and Redevelopment Services Organization (EGRSO) and Austin Climate Protection Plan (i.e., departments where employee salaries are paid by AE but the employees do not report to AE (See annual EUC resolutions since 2007); 2. Any portion of the general fund transfer based on fuel revenues (See annual EUC resolutions since 2007); and 3. An additional reduction of the revenue requirement of $13.6 million [based on analysis under "Scenario 3" presented by the RRA at the October 17, 2011 EUC meeting]. 10/17/2011: Motion by Schmandt, second by Smaha, passed on 6-1 vote with Day voting no.	Disagree. AE's request for a rate increase of $111 million should be rejected. City Council should cut that request by 50-75%. The stated deficiency is made up of discretionary reserves that are mostly funded in other ways; removal of test year revenues resulting in over-statement of the need for an increase; and overstated expenses. Following is a summary of proposed reductions to AE's requested increase. The adjustments total $100 million [out of $111 million requested], and are intended to assist Council in evaluating AE's request. Recognize the test year level of off-system sales revenues. That amount is $35 million. AE has adjusted these revenues out of the test year for rate-making purposes on the basis that it does not know what the actual level of revenues will be in the future, and because participation in the nodal market will change how revenues will be accounted for. AE admits it will continue to receive off-system sales revenues. The test

[1] 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.
[2] The EUC Commissioners supporting the minority positions are noted following the text regarding each issue or sub-issue identified.

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		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. RRA believes that AE has followed City financial policy guidelines for most funding calculations. However, 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. 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.		year amount must be recognized in the rate case to match the test year level of expenses and capital costs associated with off-system sales. Commissioner Day Commissioner Fath joins Commissioner Day because AE's rationale here is exactly opposite its rationale for the $9.7 million weather normalization addressed in the next paragraph. Recognize the test year level of revenues from <u>system</u> sales. AE has adjusted out $9.7 million for purported weather normalization. As with the off-system sales revenues, this AE adjustment artificially over-states the need for a rate increase. AE's rationale is that the 2009 test year was an unusually hot year so the revenues to be expected going forward will not be as high since it won't be as hot. The summer of 2011 has demonstrated the fallacy of AE's rationale. The $9.7 revenue adjusted out [omitted] for "weather normalization" should be put back in the test year. AE's rationale for omitting this $9.7 million [using a 10-year period for *temperatures]* is exactly opposite AE's rationale for omitting $35 million off-system sales revenues by disregarding usual practices. Commissioners Fath and Day Reserve fund contributions should

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				not be a separate expense because they are already funded through other expenses. This expense should be adjusted by $22.7 million. AE claims that in order to meet Council's financial policies, several reserve funds need to be separately funded. One is a repair and replacement reserve. AE already receives an expense for construction [CIP] that is generously funded. If AE wants to set part of those monies aside in a reserve it may do so. Further, depreciation is recognized in the rate setting. Another of the reserve funds requested is for working capital. At the PUCT and across the country before public utility or public service commissions, working capital reserve funds have been rejected [and even recognized as negative] because the utility receives its payments from customers *before* it has to pay its bills so it actually makes money from the time lead. AE has also included separate funding for a strategic reserve fund. This is theoretically for emergencies and for "rate stabilization". Rate stabilization is another way of building up a discretionary fund to avoid truly living within the 2% affordability cap in future years. AE includes a non-nuclear decommissioning reserve. AE presented no study to substantiate this request for $6.7 million. AE

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				did not discuss what it needs to decommission, the projected cost, offset of salvage value, etc. Most importantly, AE has built into this rate request 2.24 times debt service coverage [principal and interest on debt]. The bond covenants require only 1.25 times coverage to assure the financial community of sufficient resources and reserves. Council has chosen 2 times coverage as a cushion against extraordinary events and for reserves. AE has increased that to 2.24 times in this case. In fact, according to AE's statements in its 2010 bond prospectus it states that it achieved 2.78 times coverage in 2009 [the test year in this case]. So clearly reserves are already accounted for and inclusion of another $22.7 million for another reserve expense is double counting. Commissioner Day; Comm'r Fath joins Comm'r Day in opposing whatever dollar amount reduces debt service coverage from 2.24 times to 2 times. Capital Expenditures should be reduced by $32.7 million consistent with the adjustment proposed by customer, Data Foundry. This adjustment is made by Ms. Fox and consists of adjusting the level of the expense consistent with what AE has spent over a multi-year period, and changing AE's assumption of

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				funding capital projects by 50% debt and 50% equity to the more normal assumption of 60/40. Indeed, Austin's water and wastewater department uses an 80% debt, 20% equity funding. San Antonio's CPS electric utility uses 60/40 debt to equity. This assumption is fairer to today's ratepayers vis-à-vis future customers than the 50/50 assumed by AE. Adjusting the funding assumption is fiscally sound in today's debt market, and moderates [reduces] the rate request. Commissioner Day AE's request to increase interest and dividend income by $9.7 million should be rejected. AE requests that ratepayers fund $9.7 million for hypothetical interest because AE projects it will not make as much interest in the future as in the test year. This adjustment should be rejected. Commissioner Day Council should tell AE the level of increase, if any, that can be tolerated in today's difficult economic environment, and direct AE to come back with a request consistent with that specified amount. Such an approach allows AE to make the judgments about where best to cut its request consistent with the total number set by Council. Further,

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				Council should require that no individual customer receive an increase on his/her bill that is higher than the "average increase". Under AE's current proposal some customers receive a decrease while others receive an increase of 30-50%. Commissioner Day
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 equates to 100% BIP, from the perspective of residential customers.	Concur with AE, but as 95% and 105% are arbitrary, consider adjusting and expanding, to perhaps 92.5% and 107.5% as means to alleviate impact on lowest income customers and alleviate impact of selecting AED cost allocation method over BIP. Also, to remain consistent with AE's rate-making principle of "no interclass subsidies," remove (a) economic development, if any, (b) bad debt and (c) implicit subsidy to special contract customers ($20.75 million in 2009), from residential fixed costs and allocate them to (a) Commercial and Industrial only, (b) all customer classes, and (c) commercial and industrial customers only. 10/17/ 2011: Motion by Webber, second by Smaha, passed on 4-0-3 vote with Day, Fath, and Shaw abstaining. [at the 10/20/11 EUC meeting Day requested her vote be reflected as no]	Disagree. By selection of a production cost allocator [AED] that over-allocates to the residential class, AE is in the position of advocating adjustments to the end result. This would be unnecessary if a correct production cost allocator was used. *See*, #5. Commissioner Day
3. Set Policy Bounds on Customer Class Alignment with	Set the Residential, Secondary Voltage <10 kW, and Lighting customer class target revenues at	Concur with this metric. See Issue #2, regarding cost allocation differences between the BIP	Concur with AE.	Disagree. This adjustment is unnecessary if BIP cost allocation method is used. Selection of AED

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Cost of Service	95% of cost of service and set all other customer classes at 104% of cost of service.	method and the AED method.	10/17/ 2011: Motion by Smaha, second by Webber, passed on 7-0 vote. 10/20/2011: During discussion of Issue 11, motion by Webber to set lighting at 100% of cost of service, second by Smaha, passed on vote of 7-0. [at the 10/20/11 EUC meeting Day requested her vote be reflected as no]	over-allocates to the residential class, thus requiring an adjustment. Commissioner Day
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 with AE. 10/17/ 2011: Motion by Webber, second by Smaha, passed on 6-1 vote with Day voting no.	
5. Select a Production Demand Cost Allocation Method	Apply the Average and Excess Demand Method to 1) recognize that customers benefit from both capacity and energy produced from generation assets; 2) to reward high load factor and energy efficient customers; 3) to be consistent with methodologies commonly used in Texas and around the country.	Disagree – Apply the BIP Method. Consistent with the Public Utility Commission of Texas (PUCT)-ordered nodal market. Recognizes 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	Concur with AE, subject to the adjustments made in Issue #2 above. 10/17/ 2011: Motion by Bernfeld, second by Smaha, passed on 5-2 vote with Day and Fath voting no. [In an e-mail dated 10/26/11 Shaw requested her vote be reflected as no]	Disagree. Council should adopt the Baseload, intermediate, peaking [BIP] production cost allocation method which is consistent with the ERCOT nodal market, of which AE is now a part. BIP is closest to the Probability of Dispatch allocation method City Council adopted by unanimous vote in 1997. POD is the fairest to all classes of customers. BIP and POD recognize the value and use of AE's generating plants year round and assign costs based on the reality of how baseload generation is used [STP and Fayette]; how intermediate plants [Decker and Sand Hill – gas] are used; how

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		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]		peaking units [combustion gas turbine units also located at Decker and Sand Hill] are used. Use of BIP as the production cost allocator results in 20% lower allocation of production costs to residential customers than under AED. The AED [average and excess demand] method of allocating production costs allocates cost for the entire year based only on contribution to system peak in the summer. It fails to recognize the higher production costs associated with baseload plants used throughout the year. It is biased in favor of industrial customers by failing to allocate them a significant portion of the high capital costs and operating costs of the baseload generators [STP and Fayette]. These baseload units are not built for or operated as peaking units; they run all the time. But the choice of AED allocates them as if they were peaking units by basing the allocation on summertime system peaks. The method is flawed and biased in favor of industrial customers to the disadvantage of residential and small commercial customers. As AE says in its rate filing, section 4, page 85: "*…the BIP method is most favorable to residential customers and small business, while…AED provides the most favorable results for the larger commercial and industrial*

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				customers." The Residential Rate Advisor also recommends adoption of BIP. Commissioners Fath, Shaw, Day
6. Consolidate Customer Classes	Consolidate current customer classes from 24 to 9 classes and develop classes based on cost of service differentials, including unique service requirements and electricity usage characteristics.	Concur with the reduction in classes and recommend that AE continue to monitor differences in consumption within the secondary and primary customer classes and seek future reductions in the number of customer classes.	Concur with AE, but add new class for public schools who will pay no more than 95% of allocated costs and provide relief to public school locations with multiple meters; and any subsidy for schools should be allocated to all customers on a per kWh basis. 10/20/ 2011: Motion by Schmandt, second by Smaha, passed on a 7-0 vote	I voted for the special class and below-cost rate for public schools only because the State has failed our schools and deprived them of money to pay for essentials. I am always concerned about below-cost rates because it means other customers will pay more to subsidize such rates. I think a better solution would be for Council to pay this 5% below cost amount out of the General Fund Transfer. Or, better still would be to reduce the level of the rate increase and keep the rate design as it is currently and there would be no need to treat public schools differently. Commissioner Day The unanimous EUC vote to start demand charges at 20kW (rather than AE's first kW) in the smallest commercial classes may help some schools and worship facilities. For sure the 20 kW threshold will help many small businesses. Ratepayers below 20 kW also will be relieved of Power Factor issues. Perhaps the 20 kW could even be increased higher without affecting system-wide load curve. Commissioner Fath
7. Update Rate	Unbundle rates and apply a	Concur with the direction and	Concur with AE. It is necessary to	Disagree. Council should <u>not</u> adopt

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Structure for Residential Customers	customer charge, electric delivery charge, energy charge, regulatory charge, community benefit charge, and energy adjustment.	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.	unbundle rates in order to fully achieve the benefits of a utility company that does not depend on the sale of energy to recoup its fixed costs. Once the business model is shifted in this manner, the utility will have less incentive to promote the sale of additional energy and will have more incentive to encourage both energy efficiency and distributed generation. It is this type of change that will allow AE to preserve its role as a leading innovator in the electric utility industry. There will never be a "good" or "easy" time to make such a change, so we may as well do it now – those who follow us will thank us for having the courage to make this change so they may reap the benefits later. We cannot today fully anticipate what benefits may be unleashed from such a fundamental change in the utility's business model, but we can expect them to be profound, especially if they trigger growth in distributed generation. 10/20/ 2011: Motion by Schmandt, second by Webber, passed on 4-3 vote with Day, Fath, and Shaw voting no.	a fixed Electric Delivery charge. No regulated utility in Texas has been allowed to charge a fixed Electric Delivery charge. There is good reason for this: it would break the link between usage and price. Stated simply: the more you use, the more you should pay. In the past AE has followed the goal of sending correct pricing signals to customers to <u>encourage</u> conservation. A fixed Electric Delivery charge will be punitive to small users, cause rate shock, and remove the economic incentive to conserve. For low-use customers the rate increase could be over 50% simply due to loading costs into a fixed charge unrelated to usage. This violates all rate-making principles. Customers who conserve would be penalized by this front-loading of charges which cannot be altered by usage. Adoption of a fixed Electric Delivery charge would contradict the City's commitment to energy conservation. It should be rejected by Council and these distribution costs should be rolled into the Energy Charge as currently done. The profit-making wires charge dollars should be rolled into the profit-making Energy Charge. As AE says in the response to CmDay 1.14 regarding the Electric Delivery Charge: "*It is appropriate to recover these costs on either a fixed dollar per month basis or a per kW*

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				basis from customers since these costs do not vary significantly with energy [kWh] usage." And it makes one less billing component. AE should move quickly to institute hookup fees for all extensions of new service (new meters). Fixed charges in general should be avoided because they prevent customers from affecting the size of their bill by their usage choices and behavior. Commissioners Fath, Shaw, Day
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 with AE. See EUC response to Issue #7. 10/20/ 2011: Motion by Bernfeld, second by Schmandt, passed on 6-1 vote with Day voting no.	
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."	Disagree with AE and agree with RRA for the reasons stated by the RRA, with the caveat to remove the energy adjustment from Issues 7, 8, and 9. 10/20/ 2011: Motion by Fath, second by Day, passed on 7-0 vote.	
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 with AE. Also, by ordinance, funds received for this program must be spent on this program with annual reconciliation. 10/20/ 2011: Motion by Bernfeld, second by Webber, passed on 6-1 vote with Day voting no.	Disagree. There should not be separate surcharges on customers' bills. If this is a legitimate expense and if the level is correct, the expense should be treated like all other expenses and be included in the Energy Charge. Commissioner Day

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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.	Concur with AE, but designate energy efficiency as "Energy Savings Fund." Also, by ordinance, funds received for this program must be spent on this program with annual reconciliation and a designated percentage must be allocated to low-income weatherization/energy efficiency. 10/20/ 2011: Motion by Webber, second by Smaha, passed on 6-1 vote with Day voting no. (see vote on Issue #3 regarding lighting at 100%)	Disagree. This should not be surcharged on bills. This is a legitimate expense and should be rolled into the Energy Charge like every other expense. To the extent there is a concern that the money will be used for other purposes, it can be collected in the Energy Charge but set aside in a dedicated account as is done for nuclear decommissioning expense. Singling this expense out by surcharging it is a poor idea and targets this expense. I doubt Council would like to see the $103 million transfer to the general fund appear as a surcharge on customers' bills. The same is true for the Community Benefit fund. It should not be singled out in this manner. Commissioner Day
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 with AE. 10/20/ 2011: Motion by Bernfeld, second by Fath, passed on 7-0 vote.	
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 with RRA on $12 customer charge with additional fixed charges recovered via line extension and hook-up fees and the remainder on a volumetric basis. 10/20/ 2011: Motion by Schmandt, second by Smaha, passed on 6-1 vote with Day voting no.	Disagree. The Customer Charge should be retained at the current $6 per month. Doubling it as recommended by the majority of the EUC over-collects actual customer costs and includes expenses that should be recovered based on usage. The proposed change to a high Customer Charge discourages

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			[In documentation received on 10/27/11 Fath requested her vote be reflected as no]	efficient consumption and prevents customers from affecting their bill based on their commitment to conserve and use electricity sparingly. In other words, it is backwards and sends incorrect pricing signals. AE has also padded the Customer Charge with items like uncollectibles which always have been and should continue to be collected from all customers based on usage. Worse, economic development costs have been hidden in the Customer Charge which is collected based on customer count so comes 90% from residential customers. Residential customers should not subsidize economic development expenses which benefit industrial and commercial classes. For years the PUCT has limited the Customer Charge to three items: meter reading, billing, and customer service. Commissioner Day joined by Commissioner Fath
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	Concur with AE. 10/20/ 2011: Motion by Schmandt, second by Webber, passed on 4-3 vote with Day, Fath, and Shaw voting no.	Disagree. Council should reject a fixed Electric Delivery charge. Fixed charges should be avoided because they remove the usage pricing signals to conserve. Moreover, adoption of the fixed Delivery Charge will shift costs to small users and away from large users. The impact is to remove the incentive to conserve, and it will both punish and cause rate shock to those small users who do conserve.

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		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.		Front-loading costs associated with the delivery of electricity instead of collecting it based on usage does not send correct pricing signals. It shifts costs to low energy consumers to the advantage of the large and/or inefficient consumers. Under the current rate structure wires charges are collected in the Energy Charge and are based on usage, consistent with sending pricing signals that encourage conserving. Commissioners Fath, Shaw, Day
15. Implement Residential Inclining Block Tiered Rate Structure for Energy Charge	Expand existing residential inclining block rate structure from two tiers to five tiers to provide stronger conservation and energy efficiency pricing signals to the highest users in the residential customer class.	Concur – This will be one of the most complex rate designs in the country and, therefore, does not follow the AE design principle of "simple and understandable" rates. But it does follow 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.	Concur with AE. 10/20/ 2011: Motion by Fath, second by Bernfeld, passed on 7-0 vote.	
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 residential customers 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	Concur with RRA. In addition, residential users above 2,500 kWh in a month should pay $3.00 that month. 10/20/ 2011: Motion by Schmandt, second by Webber, passed on 5-2 vote with Day and Fath voting no. [In a fax dated 10/26/11 Fath requested her vote be reflected as yes]	Disagree with the funding mechanism. This expense should be rolled into the Energy Charge as is done currently. It should not be surcharged as a discrete amount on bills. Commissioner Day

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		mechanism for non-residential customers. These recommendations are consistent with the joint recommendations by the Residential PIC members.		
17. Apply Commercial and Industrial Customer Charge	Apply customer charge at or near cost of service for commercial and industrial customers.	Concur	Concur with AE. 10/20/ 2011: Motion by Schmandt, second by Smaha, passed on a vote of 7-0.	
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 with AE. 10/20/ 2011: Motion by Webber, second by Smaha, passed on 6-1 vote with Day voting no.	
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 with AE, but demand charges are implemented only at 20 kW or higher. 10/20/ 2011: Motion by Fath, second by Schmandt, passed on 7-0 vote.	
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 with demand less than 10 kW.	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 this change, AE should continue to monitor the cost to correct the distribution power factor and determine if a greater adjustment is warranted.	Concur with AE, but demand charges are implemented only at 20 kW or higher. 10/20/ 2011: Motion by Fath, second by Webber, passed on 7-0 vote.	
21. Implement Time-	Implement a time-of-use	Concur – Austin Energy should	Concur with AE. This is not perfect,	

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of-Use Alternative Rates	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.	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.	but adequate for a pilot. Final decisions should await results from this pilot and Pecan Street Project experiments. 10/20/ 2011: Motion by Bernfeld, second by Fath, passed on 7-0 vote.	
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.	Concur with RRA and disagree with AE. 10/20/ 2011: Motion by Webber, second by Smaha, passed on 7-0 vote.	
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	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	Austin Energy should offer gross metering and net metering plans to be selected by the customer with net metering customers charged the full fixed cost without subsidies and the rates to be developed and proposed by AE.	

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	consumption.	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. 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.	10/20/ 2011: Motion by Schmandt second by Smaha, passed on 7-0 vote.	
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 with AE. 10/20/ 2011: Motion by Bernfeld, second by Schmandt passed on 7-0 vote.	
25. Plan for Pricing Pilot Projects with Pecan Street	Austin Energy will work with the Pecan Street Project to pilot new rates for customers. Any pilot	Concur – Suggest that the Austin City Council be very liberal on approving pilot projects with a	Concur with AE and RRA.	

Issue	Austin Energy Staff Recommendation[1]	Residential Rate Advisor	EUC Majority Position	EUC Minority Position(s)[2]
Project	project implemented must first be approved by the Austin City Council.	maximum participation rate of the lesser of 2,500 customers or 5 megawatts (MW), and less than two years in duration.	10/20/ 2011: Motion by Bernfeld, second by Smaha passed on 7-0 vote.	
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.	Concur with RRA. 10/20/ 2011: Motion by Bernfeld, second by Webber passed on 7-0 vote.	
27. Adopt Residential Option "A"	No position on this issue at this time.	Concur	Request that AE present to the EUC, in addition to its own recommendations, Options A and B, as modified by the recommendations of the EUC, prior to presenting to the Austin City Council. 10/20/ 2011: Motion by Schmandt, second by Smaha passed on 7-0 vote. Subject to review of the presentation made by AE pursuant to the prior motion, recommend Option A with a stated goal to adopt Option B within five years. 10/20/ 2011: Motion by Schmandt, second by Smaha, passed on 4-3 vote with Day, Fath and Shaw voting no.	Disagree. Option A should be rejected for several reasons. First, it should be rejected because the rates are designed using the AED allocation method which over-allocates to the residential and small commercial classes. Further, it charges an Electric Delivery charge that 3 commissioners oppose charging as a fixed charge. It charges a Customer Charge that is too high. The Energy Charges for the third, fourth, and fifth tiers of the rate are not high enough. This failure to apply high enough inclining block rates to high consumption in the 1001-1500 kWh block, the 1501-2500 kWh block, and the over 2,500 kWh block, large volume users receive incorrect pricing signals which are not consistent with encouraging conservation. Such pricing undermines the goal of promoting conservation and encourage high use such as electric heating. This is opposite of how inclining blocks

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				should work. The rates in Option A's 3 highest tiers are lower than the per kWh charge in those same blocks under proposed Option B. Commissioners Fath, Shaw, Day Two Commissioners voted initially to support adoption of Option B because the energy pricing in tiers 3, 4, 5 is consistent with inclining block structure principles that the higher the usage, the higher the per kWh charge should be to send correct pricing signals and encourage conservation. However, as addressed below in Commissioner Fath's separate statement, she has changed her vote. The rationale in favor of Option B is that the increased Customer Charge and a Delivery Charge is more moderate than other rate options presented. Commissioner Shaw One commissioner opposes all the rate options presented by AE due to opposition to the level of the rate increase; the structural changes to impose a fixed Electric Delivery charge instead of collecting wires charges through the Energy Charge as currently done; opposition to an increase in the Customer Charge; opposition to the production cost allocator selected [AED]. The current rate structure should be

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				retained. Commissioner Day Separate Statement of Commissioner Fath: As detailed in items 1, 13, 17, Commissioner Fath has joined Commissioner Day on several issues. Upon reflection, I now oppose all four of AE's rate options because they are based on AED rather than BIP and do not reflect the minority recommendations. As promised in AE's denial of my one and only Information Request (CMFath 1), I now request AE to prepare an alternative residential rate design and bill impacts based on the following: BIP methodology rather than AED; Add back $35 million of off-system sales revenue; Add $9.7 million revenue previously removed by AE's weather normalization adjustment; Subtract whatever amount reduces debt service coverage from 2.24 times to 2 times; Retain current Customer Charge of $6; No Electric Delivery charge; Retain the 4 small charges at the end of AE's four rate options; Use 5 steep tiers <u>except</u> use a

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				Bundled Charge for the first 150 kWh [will replace my minimum bill and alleviate my concerns over 15,000 or more unoccupied dwellings]. Commissioner Fath