

## A G E N D A



## Recommendation for Council Action

|                     |         |       |               |      |
|---------------------|---------|-------|---------------|------|
| Austin City Council | Item ID | 11785 | Agenda Number | 107. |
|---------------------|---------|-------|---------------|------|

|               |           |             |               |
|---------------|-----------|-------------|---------------|
| Meeting Date: | 1/12/2012 | Department: | Austin Energy |
|---------------|-----------|-------------|---------------|

## Subject

Conduct a public hearing to receive public comments on Austin Energy's proposed electric rates.

## Amount and Source of Funding

## Fiscal Note

|                               |                                                                                                       |
|-------------------------------|-------------------------------------------------------------------------------------------------------|
| Purchasing Language:          |                                                                                                       |
| Prior Council Action:         | May 26, 2010 - Approved Resolution 20100526-002 setting the process for the review of electric rates. |
| For More Information:         | Larry Weis, General Manager, 322-6002.                                                                |
| Boards and Commission Action: |                                                                                                       |
| MBE / WBE:                    |                                                                                                       |
| Related Items:                |                                                                                                       |

## Additional Backup Information

Austin Energy last reset base electric rates (non-fuel) in 1994. While those rates have served the public interest for longer than expected, Austin Energy's revenues are no longer sufficient to fund its requirements, and its rate structures are not adequately aligned with strategic objectives. A comprehensive review and redesign of AE's rates is necessary to restore adequate revenues and align rates with strategic objectives. Austin Energy has successfully met the challenges of the last two decades with revenue from customer growth as well as cost-cutting adjustments, deferrals, and new initiatives. The cumulative effects of nearly two decades of changes in the utility industry, the state of the economy, the shape of local business and industry, and the way customers use electricity must be addressed for Austin Energy to continue to provide clean, affordable, reliable energy and excellent customer service.

Austin Energy's review of its rates has been guided by policy objectives derived from Austin Energy's Council approved strategic plan:

- Ensure long-term financial strength by setting rates that meet Austin Energy's revenue requirement and achieve sustained revenue stability;
- Improve fixed cost recovery to maintain sufficient revenues into the future;
- Align rates with Austin Energy's Strategic Plan by designing rates that encourage efficient energy use and meet changing customer needs by supporting technologies like solar electricity generation and electric vehicles; and
- Update rates and rate structures to distribute costs fairly among customer classes and encourage efficient energy use.

Austin Energy began its rates process by determining how much revenue is required from customers in a single year in order to continue providing electric service. Then, Austin Energy and its consultants conducted a Cost of Service Study, which calculates the fair share of total revenue requirement that each customer class (e.g., residential, commercial, industrial) should pay. Austin Energy also retained an Independent Residential Rate Advisor to provide input and feedback specifically from the perspective of residential customers.

Austin Energy launched the rate review process in January 2011. In addition to input sought and received at numerous Austin City Council and Electric Utility Commission (EUC) meetings, the utility convened a Public Involvement Committee (PIC) to act as a sounding board for the many issues involved in developing rate recommendations and options. The PIC met monthly from January through June of 2011, and was composed of 14 members of the community representing all Austin Energy customer classes and major stakeholder groups.

Throughout the year, Austin Energy delivered public, televised briefings about the rate review process to the EUC and Austin City Council. In addition, Austin Energy created a dedicated rate review Website, [www.rates.austinenenergy.com](http://www.rates.austinenenergy.com), where it has posted related materials, including those developed for the PIC and EUC processes, as well as responses to hundreds of inquiries received from customers, commissioners and the public.

On May 26, 2011 the Austin City Council passed Resolution 20110526-002 governing the process for the EUC review of proposed revisions to Austin Energy's electric rates. The EUC held meetings on the following dates with topics identified:

| Meeting # | Meeting Date       | Meeting Topic                                    |
|-----------|--------------------|--------------------------------------------------|
| 1         | September 1, 2011  | Present Rate Analysis and Recommendations Report |
| 2         | September 19, 2011 | Residential Rates                                |
| 3         | October 3, 2011    | Commercial and Industrial Rates                  |
| 4         | October 17, 2011   | Rates Recommendations Discussion                 |
| 5         | October 20, 2011   | Rates Recommendations Discussion                 |

Austin Energy made briefings on each topic, including a presentation of its preliminary rate proposals at the September 1 meeting. Austin Energy staff and experts in ratemaking who assisted Austin Energy in developing its rate proposal were available for questions and discussion at each meeting. About 60 members of the public attended each meeting with 10 to 20 speakers in citizen communications at each meeting. The EUC established a process in which citizens were placed on panels and allocated time to present on topics related to electric rates. Citizen panel participants were then provided the opportunity to make recommendations on various rate issues. Many members of the public including advocates for residential customers, low-income customers, schools, worship facilities, and commercial and industrial customers participated in these citizen panels. In total, 33 citizens participated in the panels.

During the EUC review process, 27 issues were identified as items for discussion in the form of a Decision Point List (DPL) that included Austin Energy's staff recommendations. The EUC discussed and made recommendations on each of these issues. The Independent Residential Rate Advisors and members of the public who participated in citizen panels during the EUC meetings were also invited to comment on the DPL as mentioned above. The EUC indicated their general agreement with key Austin Energy rate design concepts, primarily that more of fixed costs should be collected through fixed charges. On October 31, the EUC submitted its final recommendations to the

Austin City Council.

Austin Energy has designed and is proposing new rates for each customer class using the revenue requirement and cost of service study analysis, plus input from the public, Residential Rate Advisor, EUC and City Council. Austin Energy presented its rate recommendations to City Council at a special-called Work Session on December 14, 2011.