

# Late Backup

#2

WHEREAS, the City Council is committed to maintaining the long-term financial strength and sustainability of Austin Energy as well as maintaining affordability for residents; and

WHEREAS, Austin Energy's base electric rates were last adjusted in 1994, and since then Austin Energy has experienced significant system growth, program expansion and increases in the costs of materials and labor; and

WHEREAS, Austin Energy has proposed significant changes to its cost of service and to its rate design, resulting in material shifts in proposed rates to customer classes and to individual ratepayers within the customer classes; and

WHEREAS, Austin Energy's proposed rate structure (as revised on February 2, 2012) would represent a dramatic increase for most ratepayers, with particular impact on residents, small businesses, schools and the faith community; and

WHEREAS, key financial policies and assumptions underlie the Austin Energy proposed rate increase, including elements of the revenue requirement, the cost allocation methodology, and the rate design; and

WHEREAS, some members of the Electric Utility Commission and many members of the community have voiced strenuous objection to the assumptions and financial policies embedded in the proposed rate design; and

WHEREAS, it is the responsibility of the City Council to set policy and goals for Austin Energy; and

WHEREAS, additional time will allow the City Council to evaluate the complex assumptions underlying the rate proposal and to make informed policy decisions that will enable the utility to craft rates that are equitable to all customer classes; and

WHEREAS, Austin Energy has proposed to implement a rate increase before the 2012 summer months to ensure that the utility remains financially secure and sound;

NOW THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF AUSTIN:

That the City Manager is directed to implement a temporary effective system-wide increase of 3.5% for all Austin Energy ratepayers, beginning June 1, 2012, for a period not to exceed twelve months, via a 3.5% surcharge on all Austin Energy electric bills.

That the City Council adopts the work plan described in Attachment A

That the City Manager engage an independent consumer advocate to represent residential, low income, and small business consumers (as described in Attachment B) to provide consultation to the Council during the work plan process.

That as soon after the completion of the City Council work plan as feasible, the City Manager develop a rate proposal that reflects the resulting policy direction and goals and is based on a 2011 test year.

That the City Manager shall ensure Austin Energy's billing system is corrected and operating properly prior to implementing any rate changes, including design.

## Proposed City Council Work Plan

The schedule below represents a logical progression through the major decision points underlying the rate proposal. The schedule divides the policy decisions into three broad categories: the revenue requirement, cost of service, and rate design. Each category has been further divided into the key topics that should be evaluated when arriving at policy decisions.

Council would take preliminary action throughout the decision-making process, with final policy direction scheduled for September. As soon after as feasible, staff would return to Council with a rate proposal that reflects those directives and uses 2011 financial data for its test year.

### Revenue Requirement Issues

March 2012

#### **Session 1**

Debt Service Coverage  
CIP Debt-Equity Ratio  
Reserve Funds (number/scope of funds, funding levels, replenishment rates)

#### **Session 2**

General Fund Transfer (amounts, options for calculating)  
Additional Transfers (EGRSO, Corporate Services, other)

April 2012

#### **Session 3**

Distributed Solar Goals  
Energy Efficiency Goals  
Customer Assistance Program Goals (depth and breadth of program)

#### **Session 4**

#### ***Preliminary Council Action on Issues from Sessions 1 - 3***

AE Budget Reduction Recommendations  
Line Extension/New Service Cost Study  
(Dis)connection Fees and Charges

May 2012

#### **Session 5**

Other Related Issues  
Review Austin Energy 2011 Audited Finances  
Off-system Sales in a Nodal Market

### Cost of Service

#### **Session 6**

Cost of Service Methodologies (AED, BIP, 4CP, other alternatives)

## **Rate Design**

**June 2012**

### **Session 7**

#### ***Preliminary Council Action Issues from Sessions 4-6***

Fixed Charges and Alternatives  
Inverted Block Structure  
Bundled Plan for Low-use Customers  
Fuel Charge (components and calculations)

**August 2012**

### **Session 8**

Consideration of Rates for Specific Types of Customers  
(Faith community/nonprofit organizations, school districts, out-of-city ratepayers, industrial users)

### **Session 9**

#### ***Preliminary Council Action from Sessions 7-8***

Review of Rate Case Elements  
Phasing Options for Rate Increases

## **Final Policy Direction**

**September 2012**

### **Session 10**

Potential Rate Impacts from the Generation Plan Update  
Council Action on Policies Related to Revenue Requirement, Cost of Service Methodologies, and Rate Design