



YOUR ELECTRIC RATES

Austin has changed in the 18 years
since our last rate review.

Our commitment to our customers remains unchanged.

Mission: *Deliver clean, affordable, reliable energy and excellent customer service.*

Rate Design
City Council Work Session # 7
April 23, 2012



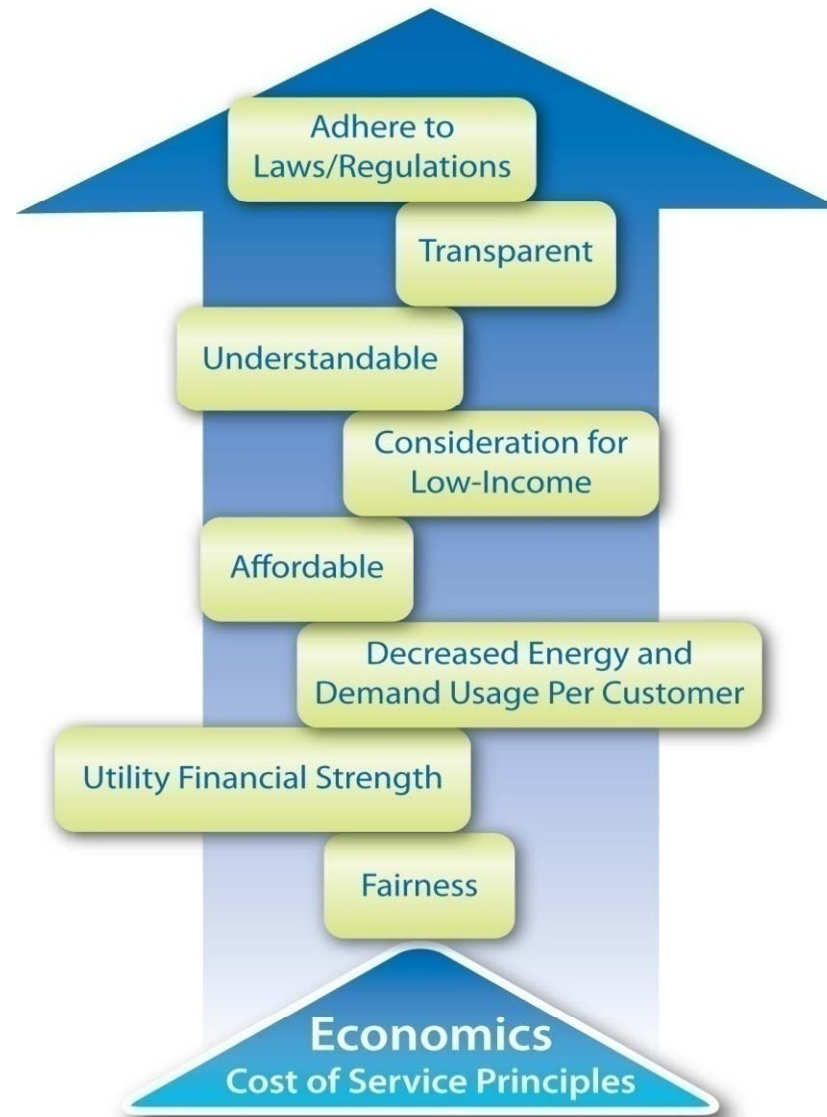
Overview

- Rate Design Principles
- Proposed Rate Design
- Cost Structure and Revenue Stability
- Fixed Charges and Alternatives
- Inverted Block Structure
- Bundled Plan for Low-Use Customers
- Fuel Charge (Components and Calculations)



AE's Rate Design Principles

Austin Energy's Strategic Direction





What is Unique About AE's Rate Design Philosophy?

- AE is driven by strategic objectives that have evolved since 1994
- Energy efficiency and conservation
- Affordable and competitive
- Providing community value/benefits
- Balancing multiple objectives



AE's Current Rate Structure

Components of an Austin Energy Electric Bill

- Customer Charge
 - Residential and small commercial
- Energy Charge
 - Residential two-tier block
 - 6 Month seasonality
- Demand Charge
 - Commercial customers > 20 kW monthly
 - 6 Month seasonality
- Fuel Charge or GreenChoice[®] Option
- Transmission Service Adjustment Fee (TSAR)



Proposed Changes to Rate Design

- Customer Charge:
 - Extend to all customer classes
 - Raise fixed charges to improve fixed cost recovery
- Electric Delivery Charge:
 - Collect a portion of electric delivery (distribution) costs as a fixed charge for Residential and as a demand charge for Commercial above 10kW
- Energy Charge:
 - Expand Residential to 5 tiers from 2 tiers
 - Adjust seasonality to 4 peak months from 6
- Demand Charge:
 - Expand to all customers above 10 kW per month from 20 kW
 - Adjust seasonality to 4 peak months from 6
- Unbundled Charges:
 - Provide greater transparency
 - Dedicated funding



Residential Rate Recommendations - Preliminary

Residential Bill Components	Existing Rate	Cost of Service	Proposed 12-19-2011	Proposed Phase 1
Customer Charge (\$/month)	\$6.00	\$19.70	\$12.00	\$12.00
Electric Delivery (\$/month)	Inc. Below	\$14.42	\$10.00	\$10.00
Energy Charge (¢/kWh) – Summer Period (June-Sept)				
< 200 kWh (6% of bills)	3.55 ¢	4.172 ¢	2.8 ¢	0 ¢
201 - 500 kWh (14% of bills)	3.55 ¢		2.8 ¢	2.0 ¢
501 – 1000 kWh (30% of bills)	7.82 ¢		6.0 ¢	5.2 ¢
1001 - 1500 kWh (23% of bills)	7.82 ¢		8.3 ¢	7.6 ¢
1501 – 2500 kWh (20% of bills)	7.82 ¢		9.4 ¢	8.3 ¢
> 2500 kWh (7% of bills)	7.82 ¢		10.6 ¢	9.2 ¢
Energy Charge (¢/kWh) – Non-Summer Period (Oct-May)				
< 200 kWh (11% of bills)	3.55 ¢	3.618 ¢	1.7 ¢	0 ¢
201 - 500 kWh (32% of bills)	3.55 ¢		1.7 ¢	1.7 ¢
501 – 1000 kWh (36% of bills)	6.02 ¢		4.4 ¢	3.7 ¢
1001 - 1500 kWh (12% of bills)	6.02 ¢		6.1 ¢	5.4 ¢
1501 – 2500 kWh (6% of bills)	6.02 ¢		7.1 ¢	6.1 ¢
> 2500 kWh (2% of bills)	6.02 ¢		8.2 ¢	7.1 ¢
Fuel Adjustment (¢/kWh)	TBD	TBD	TBD	TBD
Community Benefit Charges (¢/kWh)				
Customer Assistance Program (\$/mo)	Inc. Above	\$1.00	\$1.00	\$1.00
Service Area Street Lighting (¢/kWh)	Inc. Above	0.113 ¢	0.113 ¢	0.107 ¢
Energy Efficiency Programs (¢/kWh)	Inc. Above	0.294 ¢	0.294 ¢	0.293 ¢
Regulatory Charge (¢/kWh)	TSAR 0.144 ¢	0.732 ¢	0.732 ¢	0.728 ¢
Percent Class Base Rate Change		21.4%	20.1%	13.3%

* Estimated Class Percent Increase

Total Minimum bill = \$22.00

- First 200 kWh included in \$12.00 Customer Charge.

- Electric Delivery Charge - \$10.00



Commercial Customer Classes - Rate Mitigation

Small Worship & Small Commercial (Non-Demand Rate):

- Secondary Voltage < 10 KW Class
 - Remove Demand Charge
 - Remove Electric Delivery Charge
 - Benefits:
 - Small Worship
 - School Portables
 - Small Retail Businesses
- Rate structure similar to current
- Does not shift cost to other classes

10% Discounts to Schools

Other Commercial (Demand Rates)

- 3 Year Transition Rates for current non-demand customers



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Cost Structure and Revenue Stability





Austin Energy's Cost Structure

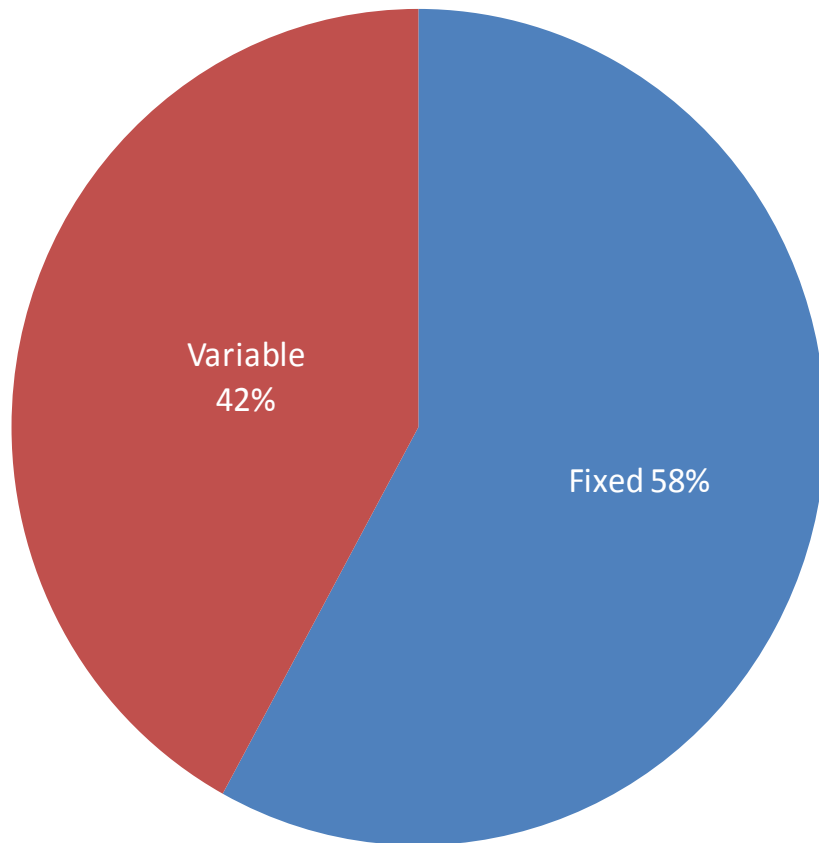
Fixed versus Variable Costs

- Fixed Costs: costs incurred regardless of sales volume
 - Non-fuel Operations and Maintenance Costs
 - Debt
 - Capital Expenditures
 - General Fund Transfer
- Variable Costs: costs that vary directly with sales
 - Primarily Fuel

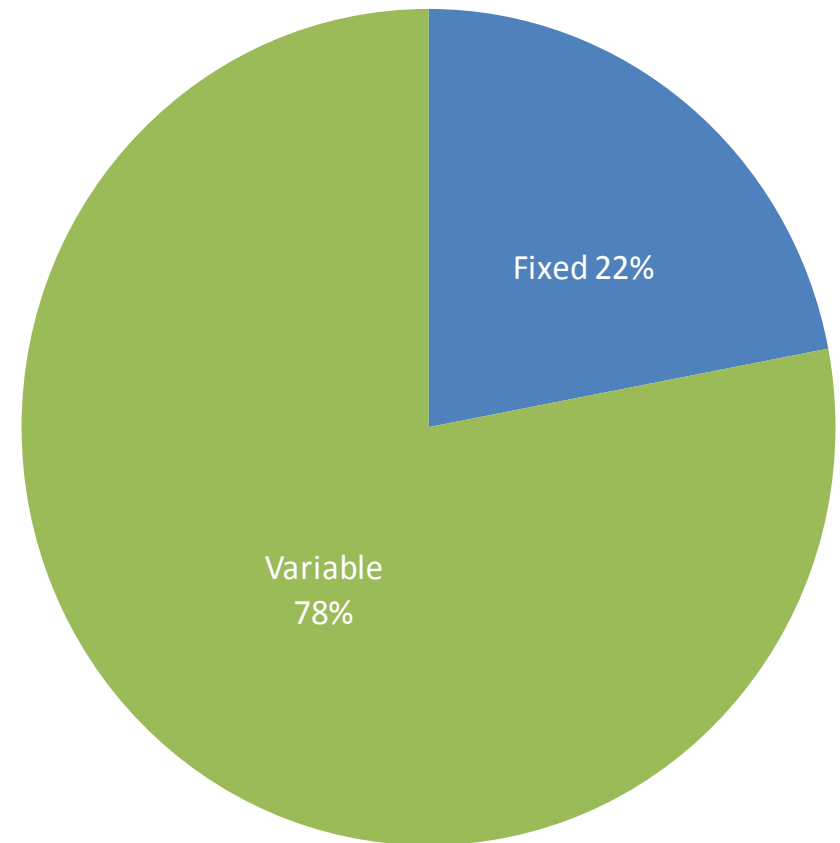


Austin Energy's Cost Structure

Austin Energy TY 2009 Costs



Austin Energy TY 2009 Revenues





Fixed Cost Recovery Issue – Current Residential Design

- Currently recover only \$6 (customer charge) in fixed costs through fixed charge on bill
- Electric Delivery (Distribution) & Customer Service Functions
 - Preliminary cost of service results show \$34/month in fixed costs for average residential customer
 - Customer Related (Partially Recovered Through Customer Charge): \$20
 - Distribution Related (Recovered Through Energy Charge): \$14
- Production and Transmission Functions
 - Preliminary cost of service results show \$24/month in fixed costs for average residential customer
- Total cost of service results show \$58/month in fixed costs for average residential customer



Challenges to Long-run Revenue Stability (from Nov. 4, 2009)

- Energy Efficiency Objectives:
 - Encourage customers not to buy electricity
 - Building Code: promote zero energy capable homes
 - Recommendations of Resource Generation and Climate Protection Plan to 2020
- Distributed Generation:
 - 200 MW solar capacity by 2020
 - Success at promoting DG
 - Pecan Street Project
- Smart Grid: promote greater control over own energy use



Recommendations for Long-run Revenue Stability (from Nov. 4, 2009)

- Change in rate structures:
 - Unbundled rates
 - New rate design options
 - Mix of volumetric & fixed or service based rates to ensure cost recovery
 - Menu of rates



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Fixed Charges and Alternatives



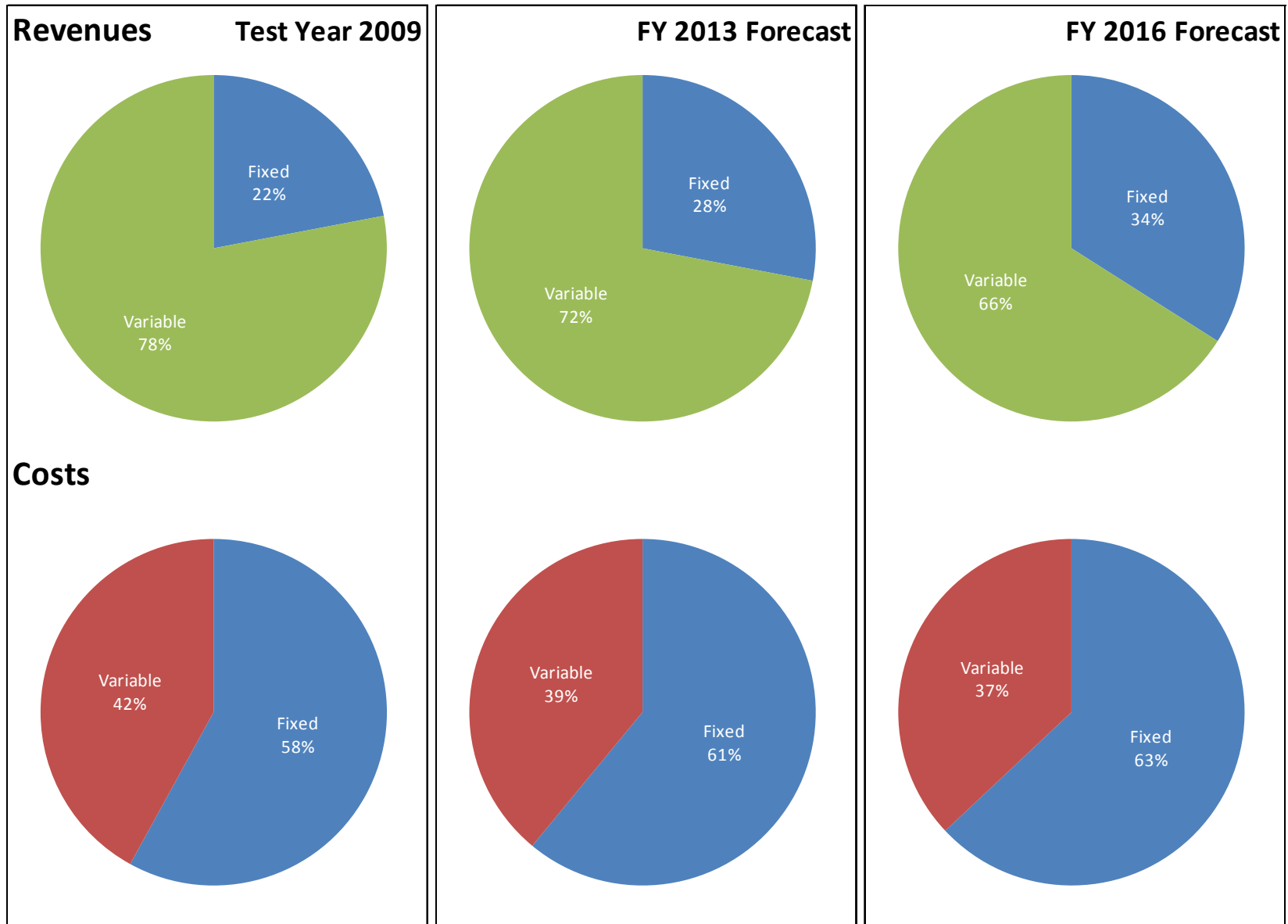


Alternatives to Enhance Revenue Stability

- Establish and raise fixed charges:
 - Customer Charge
 - Electric Delivery Charge
- Cost Separation (Unbundling)
 - Separate costs into underlying components
 - Create dedicated funding for specific programs
 - Establish adjustment mechanisms where appropriate (e.g., regulatory charge)
- Decoupling
- More frequent rate review



Gradual Improvements to Fixed Cost Recovery





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Rate Components Promoting Energy Efficiency



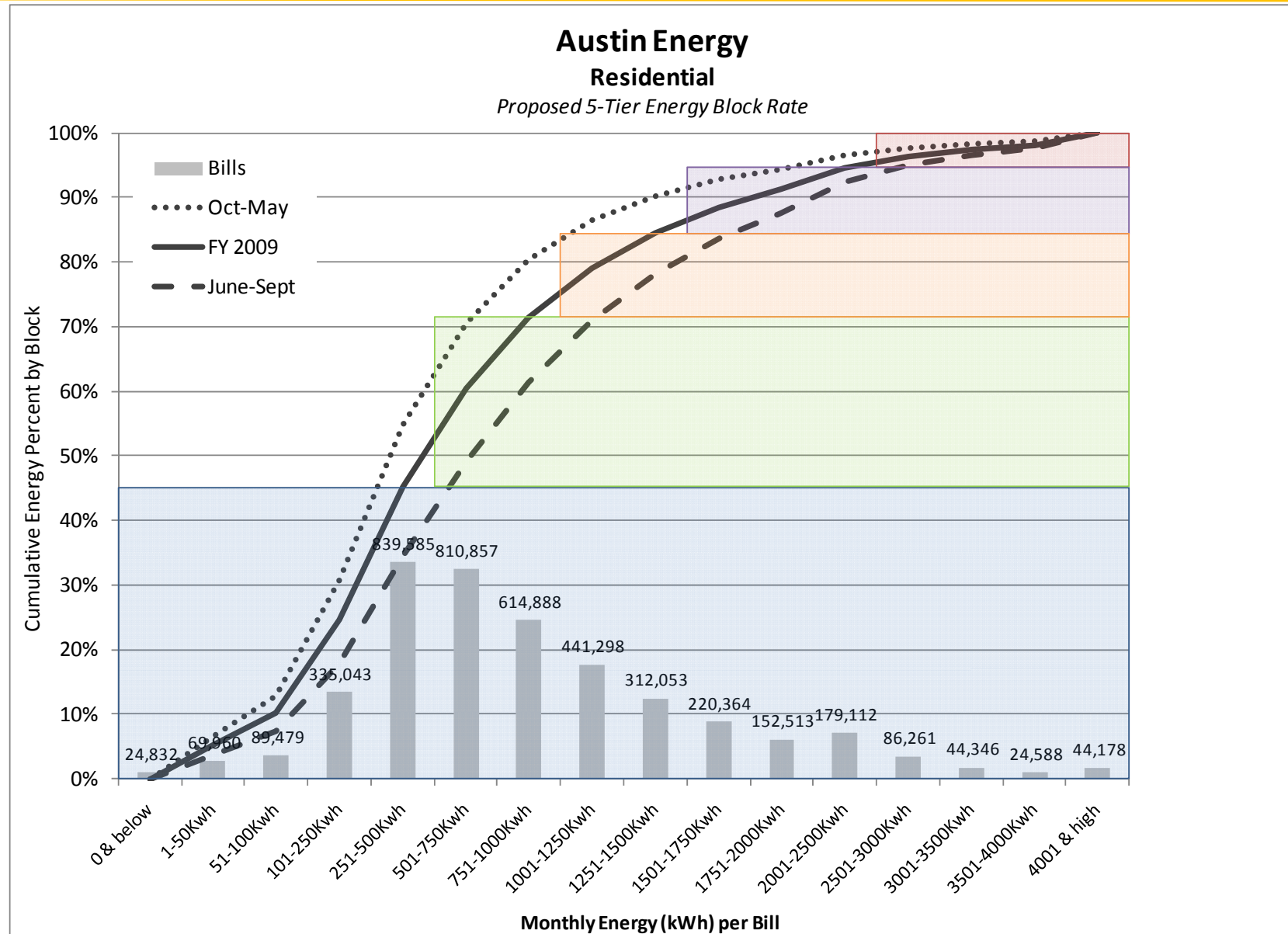


Proposed Change in Seasonal Period

- Current Summer Season: May - October
- New Summer Season: June – September
- Benefits
 - Better reflects observed seasonal system peaks
 - Sends stronger efficiency pricing signal
 - Aligns with other Texas utilities
 - Aligns with cost of service



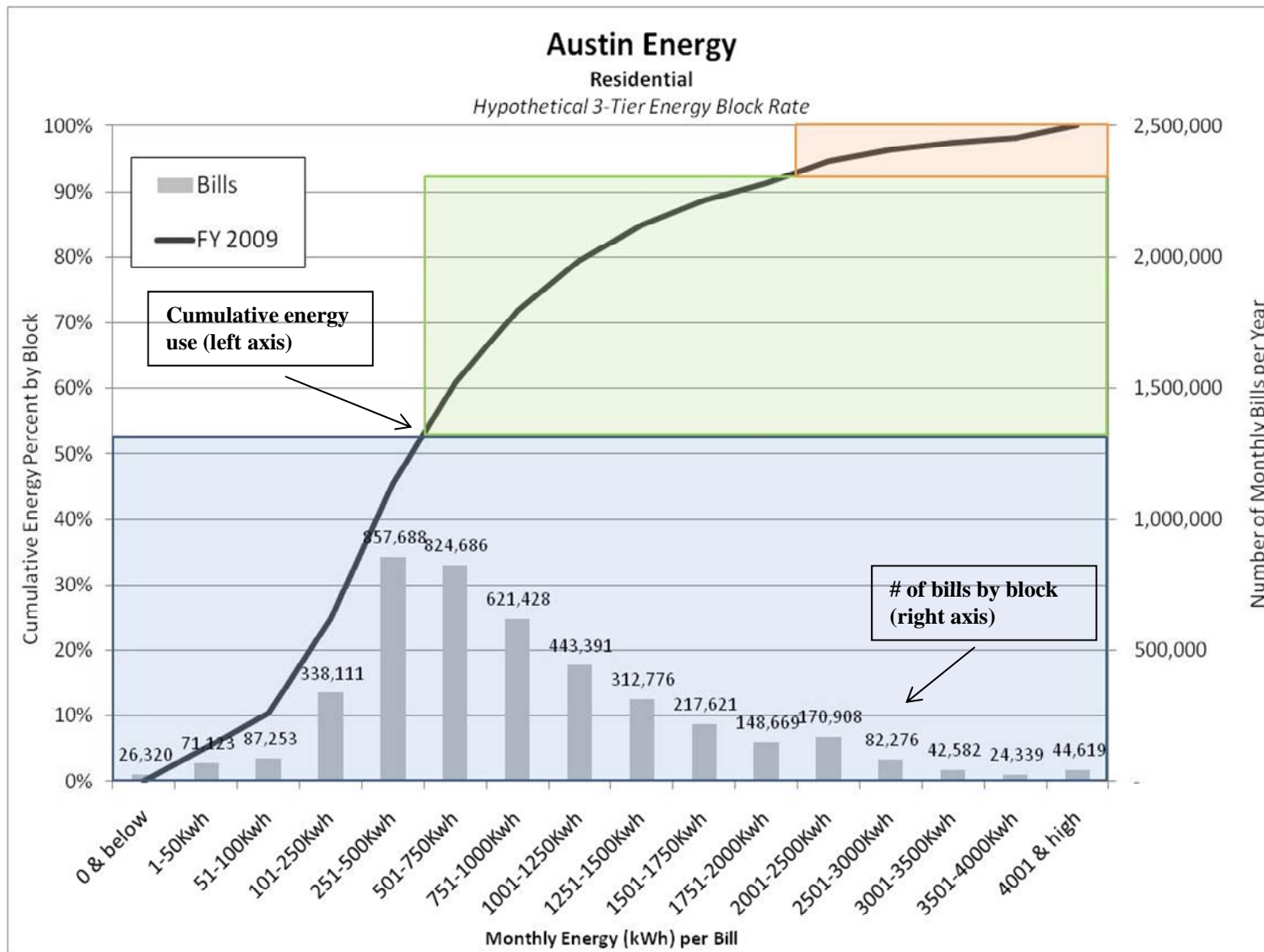
Tiered Residential Rate Structure: 5 Blocks



Note: Average monthly residential (E01) electricity usage was 943 kWh in FY 2009.



Tiered Residential Rate Structure: 3 Blocks



Note: Average monthly residential (E01) electricity usage was 943 kWh in FY 2009.



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Bundled Plan for Low-Use Customers





Bundled Plan for Low-Use Residential Customers

- Total Minimum bill = \$22.00
 - First 200 kWh included in \$12.00 Customer Charge
 - Electric Delivery Charge - \$10.00



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Fuel Adjustment





Current Fuel Adjustment Charge

Background

- Established by Council approved tariff
- Designed to recover actual costs
- Typically effective each January for one year
- Subject to adjustment up or down if 10% over or under collected

Components

- Nuclear
- Coal
- Natural Gas
- Purchased Power
- Renewable Energy not sold through GreenChoice
- ERCOT Fees and charges
- Prior Period Adjustments



Proposed Fuel Adjustment

- Net ERCOT Settlement Costs
 - Revenues:
 - Generation revenues
 - Ancillary services revenues
 - Congestion revenues
 - Costs
 - ERCOT load zone expenses
 - Congestion expenses
- Direct fuel costs
- Ancillary services costs
- Less net revenues from third party sales

ERCOT Administrative Fees recovered through the Regulatory Charge.



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Questions

