

## AGENDA



Thursday, February 17, 2011

**Austin Energy  
RECOMMENDATION FOR COUNCIL ACTION****Item No. 2**

---

**Subject:** Approve implementation of the Austin Energy Resource, Generation, and Climate Protection Plan to 2020, including an affordability goal.

**Amount and Source of Funding:** There is no unanticipated fiscal impact.

**Fiscal Note:** A fiscal note is not required.

**For More Information:** Larry Weis, General Manager, 322-6002.

**Boards and Commission Action:** Recommended by the Electric Utility Commission.

**Prior Council Action:** April 22, 2010 - Approved the Austin Energy Resource, Generation, and Climate Protection Plan to 2020, to become effective with approval of an affordability goal.

---

On April 22, 2010 City Council approved the Austin Energy Resource, Generation, and Climate Protection Plan (aka Resource Plan) with resource and timeline goals of achieving 35 percent of annual energy supply from qualifying renewable sources, and 800 MW of energy efficiency measures, by 2020. Council delayed implementation of the flexible, dynamic Resource Plan until an affordability "matrix" - a method to measure the plan's affordability, was identified.

This RCA authorizes staff to move forward with implementing the Resource Plan, including an affordability goal which staff presented to Council at their January 27, 2011 meeting. The affordability goal, intended to make the Resource Plan as predictable as possible, is to operate Austin Energy within a range defined by an amount equivalent to a two percent annual system average rate increase or below. In addition, the goal is to maintain AE's current position and competitive rates relative to other utilities in the state, by having a goal of being in the lower 50 percent of Texas rates overall. The affordability goal will apply following implementation of Austin Energy's revised rates, based on the review currently underway which will reset AE's revenue requirements in 2012.

In addition to the acquisition of generation resources and meeting energy efficiency targets, the Resource Plan implementation centers around four related activities:

1. **Financial Measurements and Benchmarking:** AE has completed a benchmarking study of its rates, both for residential and for commercial and industrial customers, against rates in other areas of the State. Staff recommends that this benchmarking be updated annually to compare AE customer costs to other Texas utilities and retail electric providers using internal staff resources and available public data. AE plans to update the benchmarking reports annually and report to City Council during the Five-Year Financial Forecast each Spring. This will allow the City Council to gauge whether progress towards achieving the Resource Plan's goals is keeping the utility in its current favorable position relative to the State average.

2. **Affordability Tracking:** Staff will track adherence to the affordability goal, by forecasting and tracking AE's revenue requirements based on the Plan's components and other utility operating expenditures and planned capital investments. Monitoring performance towards the affordability goal will allow the City Council to determine whether Resource Plan investments or the timeline goal should be adjusted.
3. **Cost of Service and Rate Design:** A rate review includes determining revenue requirements, a Cost of Service study, and rate design. To remain financially sustainable, AE must produce sufficient revenue from its retail rates to cover its revenue requirements and allow for ongoing operating expenses and capital improvement. A Cost of Service study will provide an analytic basis for identifying the true costs incurred by Austin Energy to provide service to different types of customers. The Cost of Service study will be followed by a reassessment of the electric rate structure. The rate structure will determine the financial incentives for customers' electricity use, particularly for investments in energy efficiency and solar on homes. The rate review will be carried out in a structured public process that will consider input from all customer classes.
4. **Pricing Electric Service based on Rates Design:** The final step in AE's rate review will be the pricing of electric service. This step will take place before the Electric Utility Commission and the City Council in a formal rate setting process.

The first three activities are underway. Preliminary work on the Cost of Service study began in October 2010. Results of that study and options for rate design will be presented to the public in early 2011. The proceedings to set prices will take place in late 2011, with new rates expected to be implemented in 2012.

AE will update the benchmarking and affordability forecast each Spring. These tools will give the City Council and the Austin community the information needed to assess progress toward the objectives of achieving the goals of the Resource Plan and keeping the costs of electric service affordable for Austin residents. The first update and report to City Council is planned during the Five-Year Financial Forecast in the Spring of 2011.

The benefits of implementing the generation plan for consumers and the utility include lower CO<sub>2</sub> emissions, increases in renewable energy and energy efficiency, and a rate design that will incentivize energy efficiency. Consumers will benefit from lower usage through energy efficiency improvements and an overall cleaner environment. Benefits to the utility include lower long-term CO<sub>2</sub> emissions costs, reduced utility load and revenue through increased energy efficiency and delay of costly additions for power supply. The utility will also maintain affordable and competitive rates with careful timing of renewable additions which will better position the utility for the long term.

At minimum, Council will receive an update on the Generation Plan every two years.

# Late Backup

On April 22, 2010, City Council approved the Austin Energy Resource, Generation, and Climate Protection Plan (aka Resource Plan) with resource and timeline goals of achieving 35 percent of annual energy supply from qualifying renewable sources, and 800 MW of energy efficiency measures, by 2020. Council delayed implementation of the flexible, dynamic Resource Plan until an affordability "matrix" - a method to measure the plan's affordability, was identified.

This RCA authorizes staff to move forward with implementing the Resource Plan, including an affordability goal which staff presented to Council at their January 27, 2011 meeting. The affordability goal, intended to make the Resource Plan as predictable as possible, calls for Austin Energy to operate so as to control all-in (base, fuel, riders, etc.) rate increases to residential, commercial, and industrial customers to 2% or less per year. In addition, the goal is to maintain AE's current all-in competitive rates in the lower 50 percent of Texas rates overall. The affordability goal will apply immediately upon implementation of Austin Energy's revised rates, based on the review currently underway which will reset AE's revenue requirements in 2012.

In addition to the acquisition of generation resources and meeting energy efficiency targets, the Resource Plan implementation centers around four related activities:

1. Financial Measurements and Benchmarking: AE has completed a benchmarking study of its rates, both for residential and for commercial and industrial customers, against rates in other areas of the State. Staff recommends that this benchmarking be updated annually to compare AE customer costs to other Texas utilities and retail electric providers using internal staff resources and available public data. AE plans to update the benchmarking reports annually and report to City Council during the Five-Year Financial Forecast each Spring. This will allow the City Council to gauge whether progress towards achieving the Resource Plan's goals is keeping the utility in its current favorable position relative to the State average.
2. Affordability Tracking: Staff will track adherence to the affordability goal, by forecasting and tracking AE's revenue requirements based on the Plan's components and other utility operating expenditures and planned capital investments. Monitoring performance towards the affordability goal will allow the City Council to determine whether Resource Plan investments or the timeline goal should be adjusted.
3. Cost of Service and Rate Design: A rate review includes determining revenue requirements, a Cost of Service study, and rate design. To remain financially sustainable, AE must produce sufficient revenue from its retail rates to cover its revenue requirements and allow for ongoing operating expenses and capital improvement. A Cost of Service study will provide an analytic basis for identifying the true costs incurred by Austin Energy to provide service to different types of customers. The Cost of Service study will be followed by a reassessment of the electric rate structure. The rate structure will determine the financial incentives for customers' electricity use, particularly for investments in energy efficiency and solar on homes. The rate review will be carried out in a structured public process that will consider input from all customer classes.
4. Pricing Electric Service based on Rates Design: The final step in AE's rate review will be the pricing of electric service. This step will take place before the Electric Utility Commission and the City Council in a formal rate setting process.

The first three activities are underway. Preliminary work on the Cost of Service study began in October 2010. Results of that study and options for rate design will be presented to the public in early 2011. The proceedings to set prices will take place in late 2011, with new rates expected to be implemented in 2012.

AE will update the benchmarking and affordability forecast each Spring. These tools will give the City Council and the Austin community the information needed to assess progress toward the objectives of achieving the goals of the Resource Plan and keeping the costs of electric service affordable for Austin residents. The first update and report to City Council is planned during the Five-Year Financial Forecast in the Spring of 2011.

931  
The benefits of implementing the generation plan for consumers and the utility include lower CO2 emissions, increases in renewable energy and energy efficiency, and a rate design that will incentivize energy efficiency. Consumers will benefit from lower usage through energy efficiency improvements and an overall cleaner environment. Benefits to the utility include lower long-term CO2 emissions costs, reduced utility load and revenue through increased energy efficiency and delay of costly additions for power supply. The utility will also maintain affordable and competitive rates with careful timing of renewable additions which will better position the utility for the long term.  
At minimum, Council will receive an update on the Generation Plan every two years.