

**2015-2016 PROPOSED BUDGET
RESPONSE TO REQUEST FOR INFORMATION**

DEPARTMENT: Austin Energy

REQUESTED BY: Electric Utility Commission

DATE REQUESTED: 07/20/15 and 08/03/2015

REQUEST 1, Commissioner Biedrzycki: Please provide a recent history of Austin Energy Revenue

RESPONSE: Below is Austin Energy's revenue by source for FY 2011-12 through the Proposed FY 2015-16 Budget. Before Austin Energy's rate review in FY 2012, revenue categories for the Community Benefit Charge, and the Regulatory charge were not in place.

Austin Energy Historical Revenue

	FY 2010 Actual	FY 2011 Actual	FY 2012 Actual	FY 2013 Actual	FY 2014 Actual	FY 2015 Estimated	FY 2016 Proposed
REVENUE							
Base Revenue	610,722,591	657,074,967	629,950,863	636,221,871	634,464,672	653,140,477	658,773,854
Power Supply Revenue	438,286,452	471,788,848	422,809,654	455,275,095	501,593,156	508,373,008	442,553,468
Transmission Revenue	60,745,716	59,066,489	63,433,659	36,320,391	45,599,475	55,972,099	57,721,995
Regulatory Revenue	0	0	0	75,274,157	98,453,903	79,619,723	132,627,587
Community Benefit Revenue	0	0	0	63,333,472	68,974,261	74,193,664	73,751,931
Transmission Rider	0	7,957,873	18,426,975	283,305	575,375	150,000	0
Other Revenue	42,087,563	56,754,599	49,013,595	39,098,148	39,402,908	48,875,735	54,350,276
Interest Income	7,596,609	6,645,811	3,150,956	2,366,678	2,176,913	3,167,356	3,167,356
TOTAL REVENUE	1,159,438,931	1,259,288,587	1,186,785,702	1,308,173,117	1,391,240,663	1,423,492,062	1,422,946,467

REQUEST 2 Commissioner Biedrzycki: How did the change in Long-term contracts affect revenue?

RESPONSE: Austin Energy conducted its last Cost of Service (COS) study which adjusted tariff rates effective October 2013. The COS assumed that all Long-Term Contract (LTC) customers would move to full tariff rates by the end of May 2015, which is when the last of the contracts expired. The difference between the tariff rate and the contract rate for all LTC customers during the period from October 2013 until May 2015 was approximately \$25 million. That \$25 million was not allocated or passed on to any other customer class and no other tariff rates were increased as a result of the LTC.

Since the end of the last COS, the State of Texas LTC was extended until May of 2017 and 4 industrial customers' LTC were extended to November 2015. All other former customers on LTC moved to full tariff rates as anticipated. The LTC extensions resulted in reduced revenues of approximately \$7 million for Austin Energy through November 2015. That \$7 million was not allocated or passed on to any other customer class and no other tariff rates were increased as a result of the extensions of the LTC.

While the LTC's and subsequent extensions did not impact the tariff rates of other customers, they did impact the operating income and margins of the utility. Austin Energy uses positive

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operating income to contribute towards cash and reserves. Conversely, if there is negative operating income then Austin Energy must draw down on cash and reserves.

The LTC lowered the operating income of the utility but did not increase the tariff rates of other customer classes.

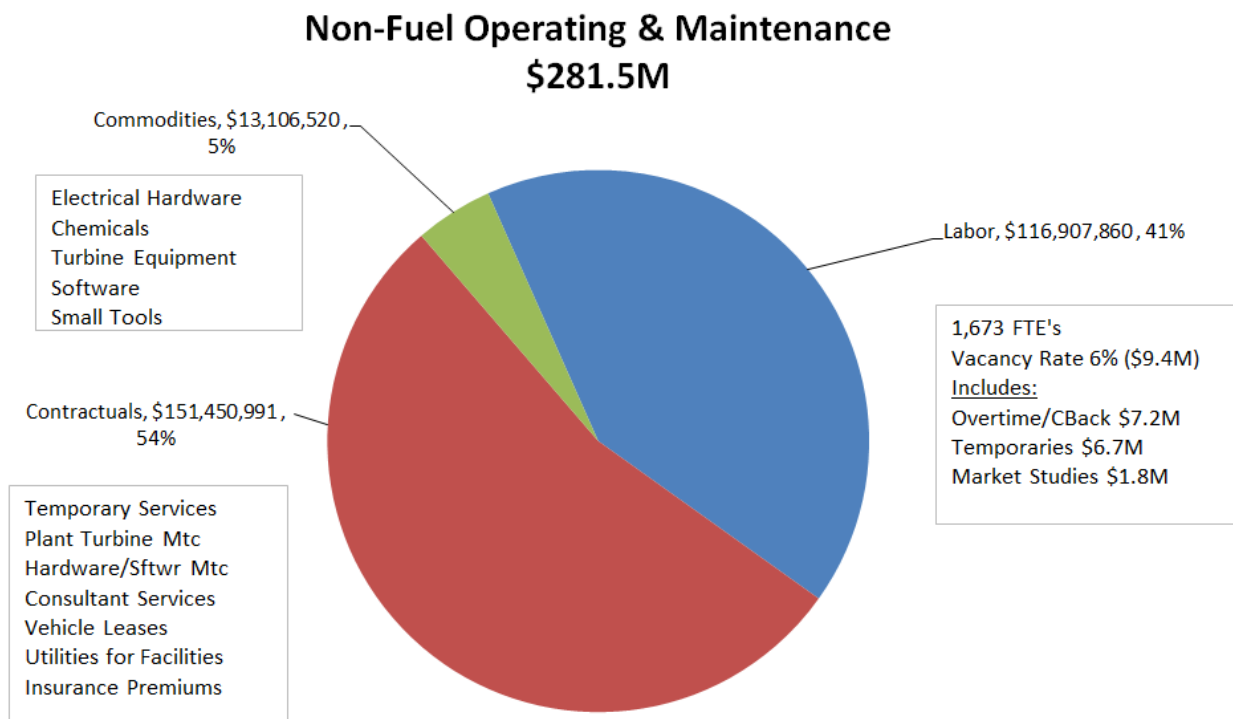
REQUEST 3 Commissioner Fath: What is AE's share of the 311 Call Center and Customer Care Allocation for the city?

RESPONSE: Austin Energy's share of the \$9.8 million Austin 3-1-1 Call Center is 27.6% or \$2.7 million.

Austin Energy's share of the Customer Care and Billing program is 57%, or \$29.9 million of the \$52.4 million Customer Care budget allocated between City of Austin departments.

REQUEST 4, Vice-Chair Hadden: Please provide a breakdown of what is in the non-fuel operations and maintenance line of the Fund Summary.

RESPONSE: The following chart breaks out the \$281.5 million non-fuel O&M expenses into the major categories of personnel labor, contractual services and commodities.



The largest budgeted dollar items for the contractuals and commodities are as follows:

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Significant Items in Contractual Expense Category

Consulting Services - Technical and Non-Technical	14,663,468
Maintenance - Computer Hardware/Software	13,597,634
Meter Reading Services (Manual & Automated)	9,600,610
Line Clearance Services, Distribution & Transmission	9,533,372
Maintenance - Generation Plant Equipment	9,200,416
IT Staffing Services	7,542,989
Temporary Contract Employees in Cust. Care	5,127,000
Real Estate Rental	4,638,823
Security Services	3,201,200
Engineering Services	3,024,333
Rental of Vehicles and Large motorized equipment	2,702,020
Distribution Pole Audit services	2,070,000
Collection Agency Fees	1,799,460
Testing of Equipment	1,291,200
Janitorial Services	924,208
	\$ 88,916,733

Significant Items in Commodities Expense Category

Minor Computer Hardware	1,537,464
Software	1,115,437
Office Supplies/Furnishings	1,097,898
Electrical/Lighting Supplies/Conductors	1,031,813
Chemicals at Decker/SHEC	927,325
Small Tools/Minor Equipment	879,683
Fuses/capacitors/switchgear/relays	810,337
Safety Equipment	687,892
Electric Transformers & Parts (O&M)	406,440
Clothing/Clothing Material	404,515
Educational/Promotional items	284,331
Hardware/Wire/Steel	227,588
Poles, wood/steel/streetlight for replacements	249,480
	\$ 9,660,203

REQUEST 5, Commissioner Biedrzycki: Provide an analysis of energy efficiency budget and how the \$5 million over-collection will be used. Provide a breakout of the O&M in the Conservation budget. Can a program operate under a different fiscal year than the rest of the city.

Response: The energy efficiency budget contains both the Conservation Rebates programs and the administration of those programs which is the line item titled "Conservation" on the Austin Energy Fund Summary. All of the Conservation Rebate programs are funded by the Community Benefit Charge (CBC) – Energy Efficiency portion with the exception of the Customer Assistance Program (CAP) Free Weatherization which is funded by the CAP portion of the CBC. For the

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Conservation line of the Fund Summary, most but not all of the units that make up the Conservation budget are funded by the CBC Energy Efficiency piece. The units that are not funded by the CBC are funded by the base rates through the operating budget. Below is chart showing the makeup of the Conservation Rebates and Conservation lines (programs) on the Austin Energy Fund Summary:

CBC-Energy Efficiency Recoverable			
	FY 2015	FY 2016	
	Budget	Proposed	Difference
Solar Program	6,100,000	6,100,000	0
Solar PV Performance Based Incentive Program	1,400,000	1,400,000	0
	7,500,000	7,500,000	0
Free Weatherization	1,377,000	1,377,000	0
Multi-Family Rebates	1,944,000	1,800,000	(144,000)
Loan Options	350,000	100,000	(250,000)
Light Emitting Diode (LED) Distribution	500,000	900,000	400,000
Commercial-Exisit Construction	3,500,000	2,700,000	(800,000)
Small Businesses	1,976,053	2,500,000	523,947
Green Building	306,000	306,000	0
Commercial Power Partner	140,000	140,000	0
Refrigerator Recycle Program	250,000	250,000	0
Residential Power Partner-Aggr	700,000	700,000	0
Load Coop	500,000	600,000	100,000
Thermal Energy Storage	21,000	21,000	0
Home Performance w Energy Star	2,300,000	2,300,000	0
Appliance Efficiency Program	264,979	50,000	(214,979)
Air Conditioning Rebates	509,189	650,000	140,811
Electric Vehicles Incentives	315,000	315,000	-
	14,953,221	14,709,000	(244,221)
CBC-CAP Recoverable			
CAP Weatherization Program	1,500,000	1,000,000	(500,000)
Total Conservation Rebates	23,953,221	23,209,000	(744,221)

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Conservation			
Advertising-Conservation	1,500,000	1,000,000	(500,000)
DSM Administration	1,474,577	303,446	(1,171,131)
DSM Program Mgmt	2,206,199	1,487,098	(719,101)
DSM Program Support	2,498,873	2,322,365	(176,508)
DSM Solar Program	1,409,711	1,150,390	(259,321)
EES Technical Support	2,214,126	3,762,442	1,548,316
Municipal Conservation Program	100,000	100,000	0
Green Building Prgm	2,644,471	2,741,877	97,406
	14,047,957	12,867,618	(1,180,339)
CBC-Non Recoverable			
Distributed Enrgy Serv. Adm	894,447	857,619	(36,828)
Des Corporate Corporate	355,690	372,526	16,836
Electric Vehicles	971,683	980,763	9,080
Emerging Technologies	537,777	548,083	10,306
	2,759,597	2,758,991	(606)
Total Conservation	16,807,554	15,626,609	(1,180,945)

Breakout of the O&M in the Conservation Budget:

Personnel: \$9,460,542 Includes 80 Full-Time positions
This includes \$825,379 in temporary employees

Contractuals: \$6,011,670

Major items includes:

1. \$858,000 in contracts for Converge Timers and maintenance
2. 792,790 in advertising expenses
3. \$643,000 for contract employees to work on various programs
4. \$400,000 for Power Saver program contractor services
5. \$350,000 for Electric Vehicle service consulting for fast charging DC and Plug in Everywhere
6. \$325,000 to conduct studies related to the Climate Protection Plan
7. \$250,000 Information Technology contractor staffing
8. \$187,000 services for electric vehicle infrastructure repairs
9. \$184,000 Fees to Planning & Development Review for energy review and inspections
10. \$160,000 Load Profiler Software

Commodities: \$154,397

Major items includes:

1. Software \$44,100
2. Meters \$20,000

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REQUEST 6, Commissioner Biedrzycki: Can a program operate under a different fiscal year than the rest of the City?

Response: No. Austin Energy adheres to the City of Austin budget and fiscal year which runs from October 1 through September 30. This was set by the City Charter:

§ 3. - FISCAL YEAR.

The fiscal year of the city which began on January 1, 1953, shall end on December 31, 1953. The next succeeding fiscal year shall begin on January 1, 1954, and end on September 30, 1954, and shall constitute an interim fiscal period. After September 30, 1954, the fiscal year of the city shall begin on the first day of October and end on the last day of September of each calendar year. The fiscal year established by this section shall also constitute the budget and accounting year. As used herein the term "budget year" shall mean the fiscal year for which any budget is adopted and in which it is administered. All funds collected by the city during any fiscal year, including both current and delinquent revenues, shall belong to such fiscal year and, except for funds derived to pay interest and create a sinking fund on the bonded indebtedness of the city, shall be applied to the payment of expenses incurred during such fiscal year. Any revenues uncollected at the end of any fiscal year shall become resources of the next succeeding fiscal year.

The fiscal year defines Austin Energy's legal authority to spend money and collect revenue. Significant actions would need to be taken if Austin Energy wanted to change the fiscal year for a specific program. The City Charter would need to be amended, a separate budget adoption process would need to be conducted and a separate audit would need to be performed. In addition, major changes would need to be made to the City's financial systems to recognize and account for the transactions. As Austin Energy's Energy Efficiency budget is only 0.028 of Austin Energy's \$1.37 billion proposed budget, we do not feel that is prudent to attempt to change the energy efficiency budget to a fiscal year other than that is established by the city charter.

Attached is the most recent ordinance that establishes the Operating Budget for the City of Austin and the timeframe that it is effective:

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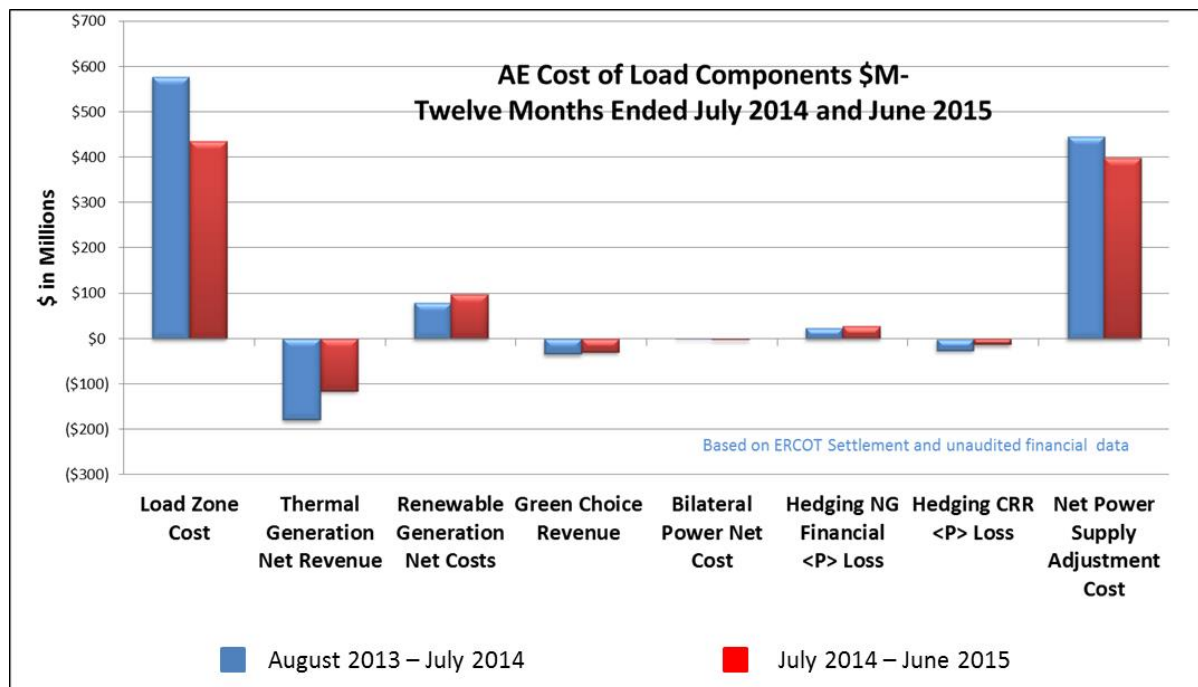
volume-profit complexity of the PSA, attributing percentages of the decrease to sales, price and over-collection could not be determined. However, we are able to provide the following analyses to assist in understanding the changes in the components to the PSA.

To respond, it is helpful in understanding what the PSA rate is comprised of, how the PSA rate is calculated, and how it is used in the Austin Energy budget.

The PSA is comprised of the net power supply related costs, including:

- Revenue from ERCOT for power produced;
- Cost of fuel for generation (nuclear material, natural gas, and coal);
- Cost of renewable Power Purchase Agreements;
- Cost of transportation for fuel;
- Cost of hedging activity;
- Net revenue/cost from bilateral purchases/sales;
- Cost of power purchased from ERCOT needed to serve retail customers (Load Zone);
- Revenue from Congestion Revenue Rights;
- Revenue from retail customers that elect to take GreenChoice power;
- Adjustments for “known and measurable” events during the previous; and
- Adjustment for over/under collection of Power Supply Revenue from the previous year.

The following graph displays the net difference (price and volume) of the components for the two PSA periods. (Note: Positive bars represent costs and negative bars represent revenue)



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Austin Energy utilized the 12-month period ending June 30, 2015 to determine the amount of over-collection in the PSA rates.

Actual	July 1, 2014 to June 30, 2015
Under-collection at July 31, 2014	(\$31.9)M
Actual Power Supply Costs	(\$450.5)M
Billed Power Supply Revenue	\$508.6M
Over-collection at June 30, 2015	\$26.2M

The following table summarizes the process the AE takes to determine the PSA.

Step 1:	AE calculates next year's PSA rate based upon the previous 12-month period's (Historical) actual net power supply costs, and includes an adjustment for the previous 12-month period's over/under recovered Power Supply Revenue
Step 2:	AE prepares a normalized forecasted retail load in KWH for next year's budget
Step 3:	AE multiplies next year's PSA rate times the normalized forecasted retail load to determine the total Power Supply Revenue expected for next year's budget
Step 4:	AE enters next year's budgeted Power Supply Expenses to match the total Power Supply Revenue for next year's budget
Step 5:	During the course of the year, AE records the actual Power Supply Expenses incurred and the actual Power Supply Revenue billed for each month
Step 6:	AE tracks the difference between the actual Power Supply Expenses incurred and the Power Supply Revenue billed and determines whether the PSA is over or under collecting
Step 7:	At the end of year, AE totals the actual net power supply costs, determines if the PSA rate over or under-collected and records Power Supply Revenues that match Power Supply Expenses
Step 8:	Go to Step 1

The formula for determining the PSA rate is as follows:

$$\frac{\text{Over/Under Recovery} + \text{Historical Costs/Historical KWh}}{\text{Normalized KWh Forecast}} \times \text{Normalized KWh Forecast}$$

The budgeted Power Supply Revenue (found in the Austin Energy Fund Summary) is decreased by approximately \$70 million for FY 2015-16 budget when compared to FY 2014-15 budget.

Budget Year	Power Supply Revenue
FY 2015-16	\$442.6M

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FY 2014-15	<u>\$512.5M</u>
Budget Difference	(\$70.0)M -13.7%

REQUEST 8, Commissioner Biedrzycki: Austin Energy's, proposed budget would move additional revenues into two of the reserve accounts. Approximately \$9 million would be moved into the Repair and Replacement Account and an additional \$36 million into the Strategic Reserve Fund. Please state exactly how this money would actually be used and why the levels of funding are being requested.

Response: The use and funding levels for Austin Energy's Repair and Replacement Fund and Reserves are governed by Financial Policies #15, #16, respectively.

Austin Energy has been out of compliance with the Strategic Reserve financial policies #16 since FY 2013. In order to become in compliance with the Financial policy that states "In the event any portion of the Contingency Reserve is used, the balance will be replenished to the targeted amount within two (2) years." By transferring the \$36 million to the Strategic Reserve in FY 2016, this portion of the reserve will be back in compliance though the Rate Stabilization Reserve piece of the Strategic Reserve fund will remain out of compliance.

Financial Policy #15

A Repair and Replacement Fund shall be created and established. Moneys on deposit in the Repair and Replacement Fund shall be used for providing extensions, additions, replacements and improvements to the Electric System. Net revenues available after meeting the General Fund Transfer, capital investment (equity contributions from current revenues) and 45 days of working capital may be deposited in the Repair and Replacement Fund. The targeted balance shall not exceed 50% of the previous year's electric utility depreciation expense, which is at a level necessary to keep the electric system in good operating condition or to prevent a loss of revenues.

Financial Policy #16

A Strategic Reserve Fund shall be maintained created and established, replacing the Debt Management Fund. It will have three components:

- An Emergency Reserve with a minimum of 60 days of non-power supply operating requirements.
- Up to a maximum of 60 days additional non-power supply operating requirements set aside as a Contingency Reserve.
- Any additional funds over the maximum 120 days of non-power supply operating requirements may be set aside in a Rate Stabilization Reserve.

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The Emergency Reserve shall only be used as a last resort to provide funding in the event of an unanticipated or unforeseen extraordinary need of an emergency nature, such as costs related to a natural disaster, emergency or unexpected costs created by Federal or State legislation. The Emergency Reserve shall be used only after the Contingency Reserve has been exhausted.

The Contingency Reserve shall be used for unanticipated or unforeseen events that reduce revenue or increase obligations such as extended unplanned plant outages, insurance deductibles, unexpected costs created by Federal or State legislation, and liquidity support for unexpected changes in power supply costs fuel costs or purchased power which stabilizes fuel rates for Austin Energy customers.

In the event any portion of the Contingency Reserve is used, the balance will be replenished to the targeted amount within two (2) years.

A Rate Stabilization Reserve shall be maintained created and established, replacing the Competitive Reserve in FY 2011-12, for the purpose of stabilizing electric utility rates in future periods. The Rate Stabilization Reserve may provide funding for: (1) deferring or minimizing future rate increases, (2) new generation capacity construction and acquisition costs and (3) balancing of annual power supply costs (net power supply/energy settlement cost). The balance shall not exceed 90 days of net power supply costs.

Funding may be provided from net revenue available after meeting the General Fund Transfer, capital investment (equity contributions from current revenue), Repair and Replacement Fund, and 45 days of working capital.

REQUEST 9, Commissioner Biedrzycki: As part of the generation plan, Austin Energy committed to eventually pay off the debt owed on the Fayette Coal Plant, allowing Austin Energy to eventually stop using coal in its generation resources sometime in the 2022 or 2023 period. Can the \$9 million in the Repair and Replacement Fund be used for this purpose or would a separate reserve fund specific to paying off the debt be needed? What would the impacts be of reserving some amount of revenue such as \$5 million set-aside for that purpose in the upcoming budget?

Response: A pathway for defeasance of bonds tied to Fayette Power Project debt is complex and dependent upon the disposition of the assets and the timing of the reduction in dispatch from Austin Energy and the date of decommissioning.

The Fayette Power Project (FPP) currently has outstanding, long-term debt of approximately \$300 million in principal and interest. The bonds include both municipal tax exempt bonds as

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well as Build America Bonds (BAB's), which are taxable municipal bonds with special tax credits and federal subsidies. The debt is associated with both non-scrubber assets and scrubber assets. The series associated with the non-scrubber debt is approximately \$6 million in principal and \$4 million in interest and is callable in November of 2017 and scheduled to retire in 2040. The series associated with the scrubber debt, which includes the BAB's, is approximately \$163 million in principal and \$116 million in interest and is callable in November of 2022 and scheduled to retire in 2040.

Defeasance of the bonds prior to 2022, the callable date for the majority of the debt, would require a significant legal process since Austin Energy does not have the legal right to redeem or defease the bonds until that date. The likelihood of success in such a legal proceeding is dependent on many operational, financial and legal facts which are unknown at this time.

Once the bonds are callable after 2022, Austin Energy has the legal right to defease the bonds. The debt would be considered defeased in substance for accounting and financial reporting purposes if Austin Energy irrevocably placed cash or other assets, such as risk-free U.S. Government securities, with an escrow agent in a trust to be used solely for satisfying scheduled payments of both interest and principal of the defeased debt.

The establishment of a trust-managed escrow fund is not overly complex and would be similar to the Nuclear Decommissioning Reserve for the South Texas Nuclear Plant. In coordination with Austin Energy's bond counsel and financial advisor, Austin Energy would negotiate and execute an escrow agreement with a bank or trust company that would serve as an escrow agent. The trust would be restricted to owning only monetary assets that are essentially risk-free as to the amount, timing, and collection of interest and principal. The government securities would be irrevocably pledged to the payment of the outstanding bonds. The government securities would be in a principal amount such that the principal and interest earned are sufficient to retire the principal of and interest on the outstanding bonds as they come due.

The amount of cash needed to defease the outstanding bonds in 2022 would likely be more than \$225 million. Whether Austin Energy will be able to recover the estimated \$225 million from ratepayers is uncertain. Once the asset is decommissioned, it would no longer be used and useful in the production of electricity, which suggests that AE may be precluded from including the costs as ratepayer expenses in its rates. Austin Energy may need to post the total quantity of cash for defeasance in advance of initiating decommissioning, either drawn from reserves or from proceeds from a sale of assets.

Austin Energy's financial policy 15 limits the use of cash within the Repair and Replacement Fund to "providing extensions, additions, replacements and improvements to the Electrical System." Use of the fund for other purposes would require a City Council ordinance to modify this policy.

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Setting aside some portion of the planned \$9 million transfer to the Repair and Replacement Fund and reserving that for future defeasement of the bonds would simply reduce the amount available in the Repair and Replacement Fund and would not impact the upcoming budget otherwise.

REQUEST 10, Commissioner Biedrzycki: Please confirm the budget for the all energy efficiency and solar programs for FY 15 and the proposed budget for FY 16. Please explain the rationale for differences in funding proposed for the coming year.

Response: Please see the chart in Request 5 for the energy efficiency and solar program budgets for FY 15 Amended and FY 16 Proposed.

To explain the differences in funding proposed for the coming year, For the CAP Weatherization, the annual budget is \$1 million. In 2015, AE budgeted another \$500k to address the carry-over from previous years. We expect to spend the carryover from the prior years by the end of FY 2015 and therefore are budgeting the \$1 million in FY 2016.

Generally, funding is redistributed each year based on types of markets served:

- Residential
 - The Light Emitting Diode (LED) distribution increase is due to a stronger point of sale presence in the Austin area.
 - There are two different programs associated with residential appliances; Appliance Efficiency Program and Air Conditioner rebates. In Austin, Air Conditioner rebates have had the most participation so funds were shifted to this along with the retail program.
- Commercial
 - Small business has been a hard to reach market. As AE has increased our marketing and resources in this area, participation has increased. AE has shifted funds to continue to support these efforts.
- Load Coop
 - As the goal is meeting 200 MW by 2025, AE is shifting additional resources to this program.
- Loan Buy-down
 - As interest rates are so low, AE has not had to spend as much for buy-down

Staff developed the proposed FY16 budget after extensive review of opportunities within each market sector, with an objective of ensuring Austin Energy reaches our 900 MW target in a manner that is cost effective, while providing benefits to all sectors of the residential and commercial customer classes we serve. With respect to specific variances between FY15 and FY16, the largest variance was an effort to reduce program administration costs – by a total of \$1.2 million. Areas that were reduced included reduced reliance on consulting services and

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implementation of an automated rebate tracking system, which will create workflow efficiencies, enhance controls and improve data analytics.