



Austin Energy Cost of Service and Rate Review

December 14, 2015





Current Schedule Highlights

- December 14, 2015—Electric Utility Commission briefing on Revenue Requirement and Cost of Service
- December 15, 2015—City Council Work Session briefing
- January 11, 2016—Special called EUC meeting (tentative)
- January 25, 2016—EUC briefing on rate design recommendations
- January 28, 2016—Utility Oversight Committee briefing on rate design recommendations
- End January, 2016—Begin proceedings before Impartial Hearings Examiner
- April 22, 2016—Impartial Hearings Examiner recommendations report released
- April & May 2016—hold three Council Work Sessions
- June 2016—hold two Council public hearings
- June 23, 2016—final Council decision meeting



Steps in Cost of Service and Rate Setting

- Revenue Requirement
- Cost Allocation
- Rate Design



Austin Energy's Objectives

- Transparent process
- Fairness for all customers
- Focus on affordability
- Adhere to applicable State and local laws and policies
- Sustain long-term financial health of the utility



Guiding Policies and Principles

- Affordability Goals:
 - 2 percent per year
 - Competitiveness
- Austin Energy Strategic Plan
- City of Austin Climate Protection Plan (2007) and Austin Energy Resource Generation Plan to 2025
- Financial Policies of the City of Austin and 2012 Rate Ordinance



Austin Energy's Evolving Financial Challenge: Restoring Financial Health

- 2012 Rate Review: first Cost of Service study in 17 years
 - Declining reserves
 - Imbalances among customer classes
 - Rate structure not aligned with strategic posture of Austin Energy
- Settlement of appeal to Public Utility Commission:
 - \$66 million annual rate increase
 - Sustained realignment of rates and programs
- Significant progress in restoring financial health of Austin Energy



Austin Energy's Evolving Financial Challenge: “the Business Model”

- Changes in our community:
 - Urbanization
 - Share of multi-family properties
- Changes in the electric industry:
 - Distributed generation/solar expansion
 - Energy efficiency
 - Building codes
 - Load management
 - Emergence of electric vehicles
- Community goals:
 - 30 years of energy efficiency leadership
 - Austin Climate Protection Plan
 - Austin Energy Resource Generation Plan to 2025



Austin Energy's Evolving Financial Challenge: Long-run Revenue Stability

“Our public is on a path to use less energy, but demand for public infrastructure to deliver reliable service and support modernized systems is unabated.”

- Average residential customer usage is declining over time
- Customer growth continues
- Need for infrastructure remains strong

How do we fund the infrastructure?



Austin Energy's Evolving Financial Challenge: Long-run Revenue Stability

- Residential infrastructure cost recovery is on an unsustainable path
 - Infrastructure costs are “fixed costs”
 - Residential rate design (tiered structure with low fixed charges) depends on hot weather and high residential energy users to recover infrastructure costs
 - Inconsistent with community goals and the business model evolution
 - Insufficient recovery of fixed costs is unsustainable
- Commercial infrastructure cost recovery at risk in future:
 - Demand charges more successful at recovering fixed costs
 - Electric industry transformation may create greater future risks (e.g., building codes, energy efficiency and distributed generation)



Key Rate Transformation Steps to Date

- Consolidated rate classes
- Unbundled charges from base rates
- Reformed the Power Supply Adjustment
- Embedded incentives for energy efficiency in base rates
- Tiered the residential rate structure
- Adopted the Value of Solar
- Created discounts for key commercial accounts
- Introduced a low-income (CAP) funding mechanism



Cost of Service: Preliminary Conclusions

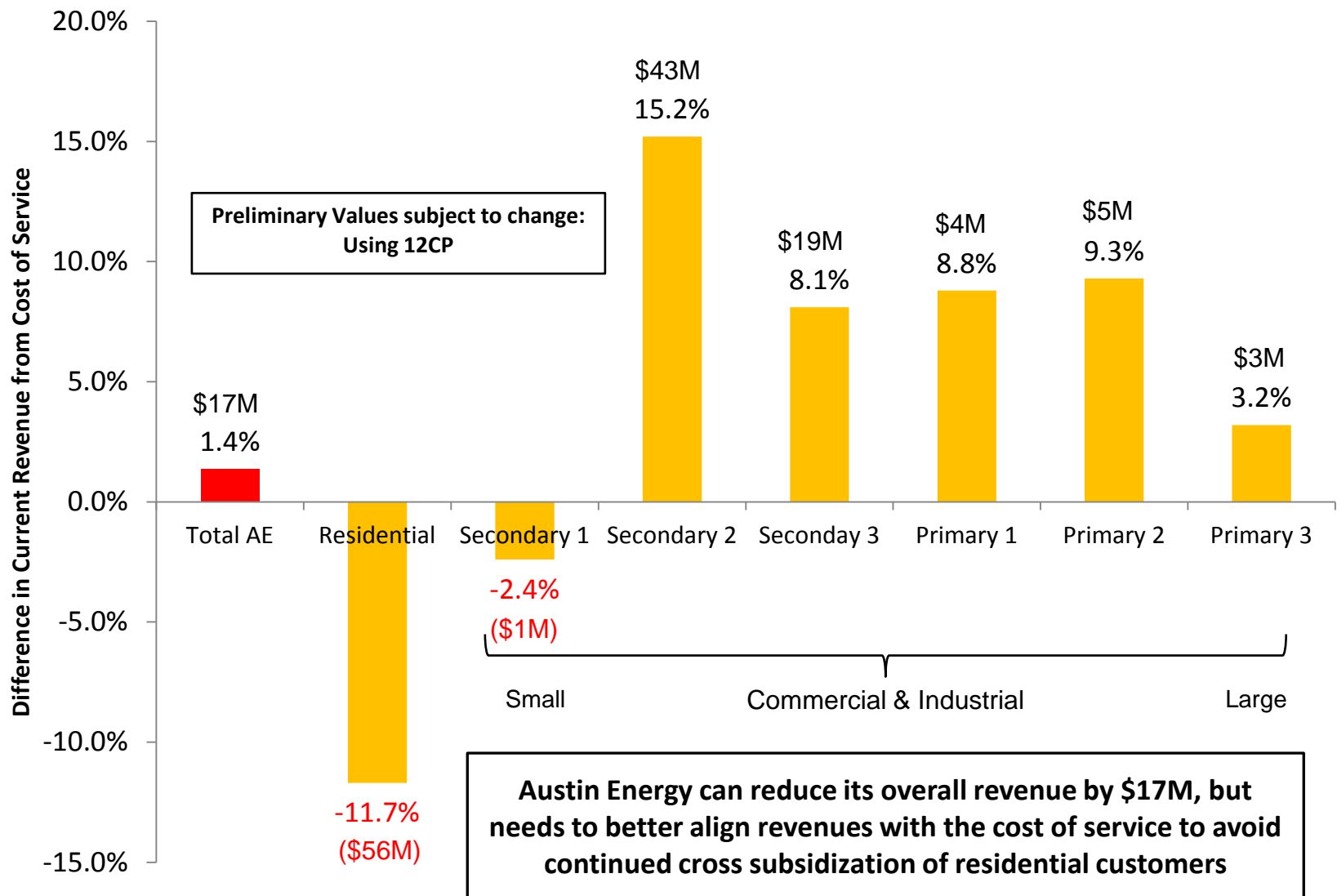


Cost of Service Summary

- Base Revenue Requirements reduction of approximately \$17 million (2.7 percent of base revenue)
 - Equal to approximately 1.4 percent of total revenue
 - Additional reductions in Regulatory Charge and Power Supply Adjustment anticipated
- Commercial and industrial rates above competitiveness goal
 - Reductions for second year in a row will help restore competitiveness
- Customer class allocation imbalances improved, but continue:
 - Progress since 2009 in aligning revenues with Cost of Service
 - Commercial and industrial customers continue to subsidize the residential class



Revenues are Not Aligned with Cost of Service





Current and Proposed Customer Classes

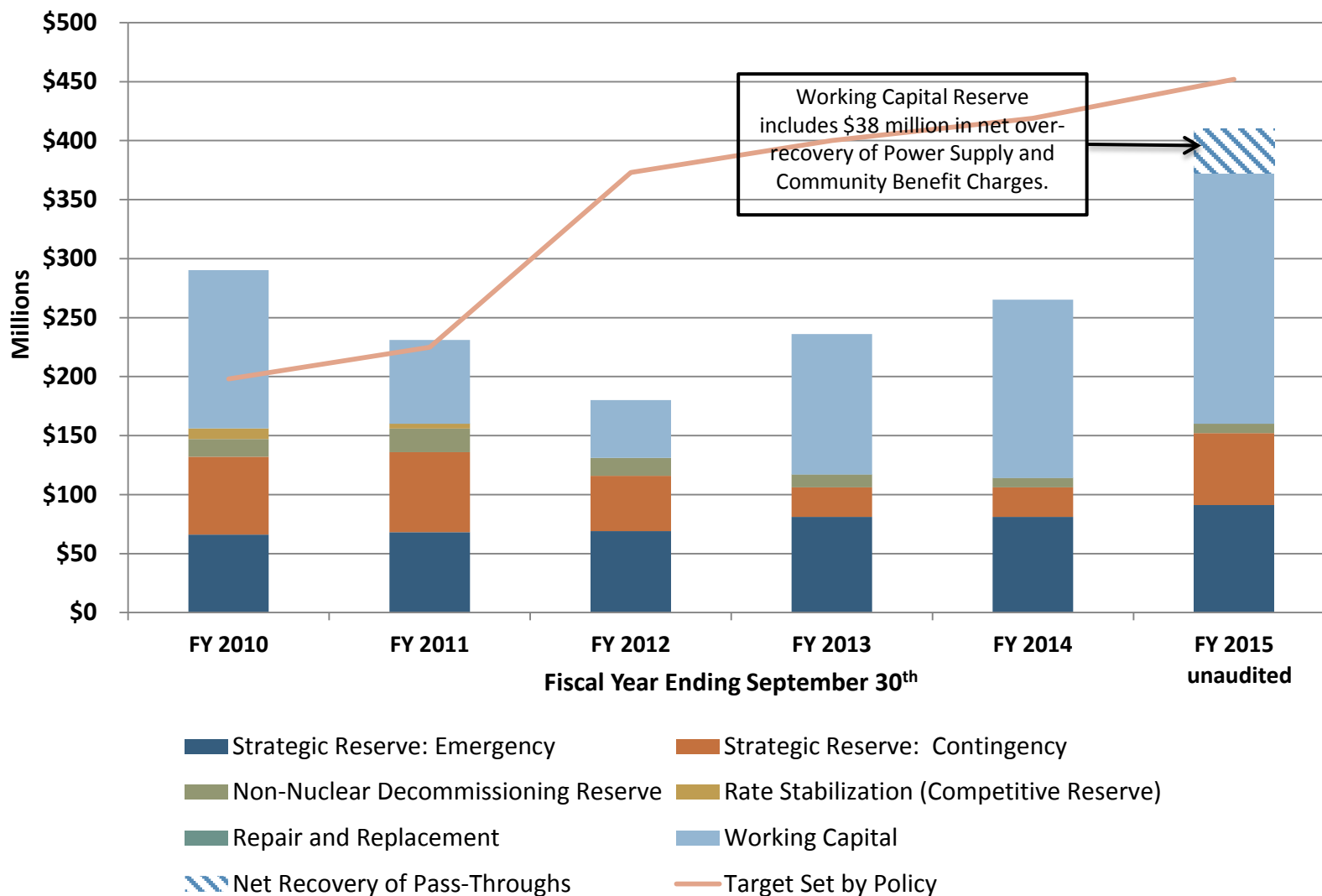
Current Customer Classes	Proposed Customer Classes
Residential - Inside/Outside	Residential - Inside/Outside
Secondary 1 (< 10 KW) - Inside/Outside	Secondary 1 (< 10 KW) - Inside/Outside
Secondary 2 (10 to < 50 KW) - Inside/Outside	Secondary 2 (10 to < 300 KW) - Inside/Outside
Secondary 3 (50+ KW) - Inside/Outside	Secondary 3 (300+ KW) - Inside/Outside
Primary 1 (< 3MW) - Inside/Outside	Primary 1 (< 3MW) - Inside/Outside
Primary 2 (3 MW to < 20 MW) - Inside/Outside	Primary 2 (3 MW to < 20 MW) - Inside/Outside
Primary 3 (20+ MW) - Inside/Outside	Primary 3 (20+ MW) - Inside/Outside
Primary 4 (Contract / 20+ MW)	Primary 4 (Contract / 20+ MW)
Transmission Voltage - Inside/Outside	Transmission Voltage - Inside/Outside
Transmission Voltage (Contract / 20+ MW)	Transmission Voltage (Contract / 20+ MW)
Lighting - Inside/Outside	Lighting - Inside/Outside



Current Financial Picture



Cash and Reserves Improving





Cash and Reserves Improving: Detail

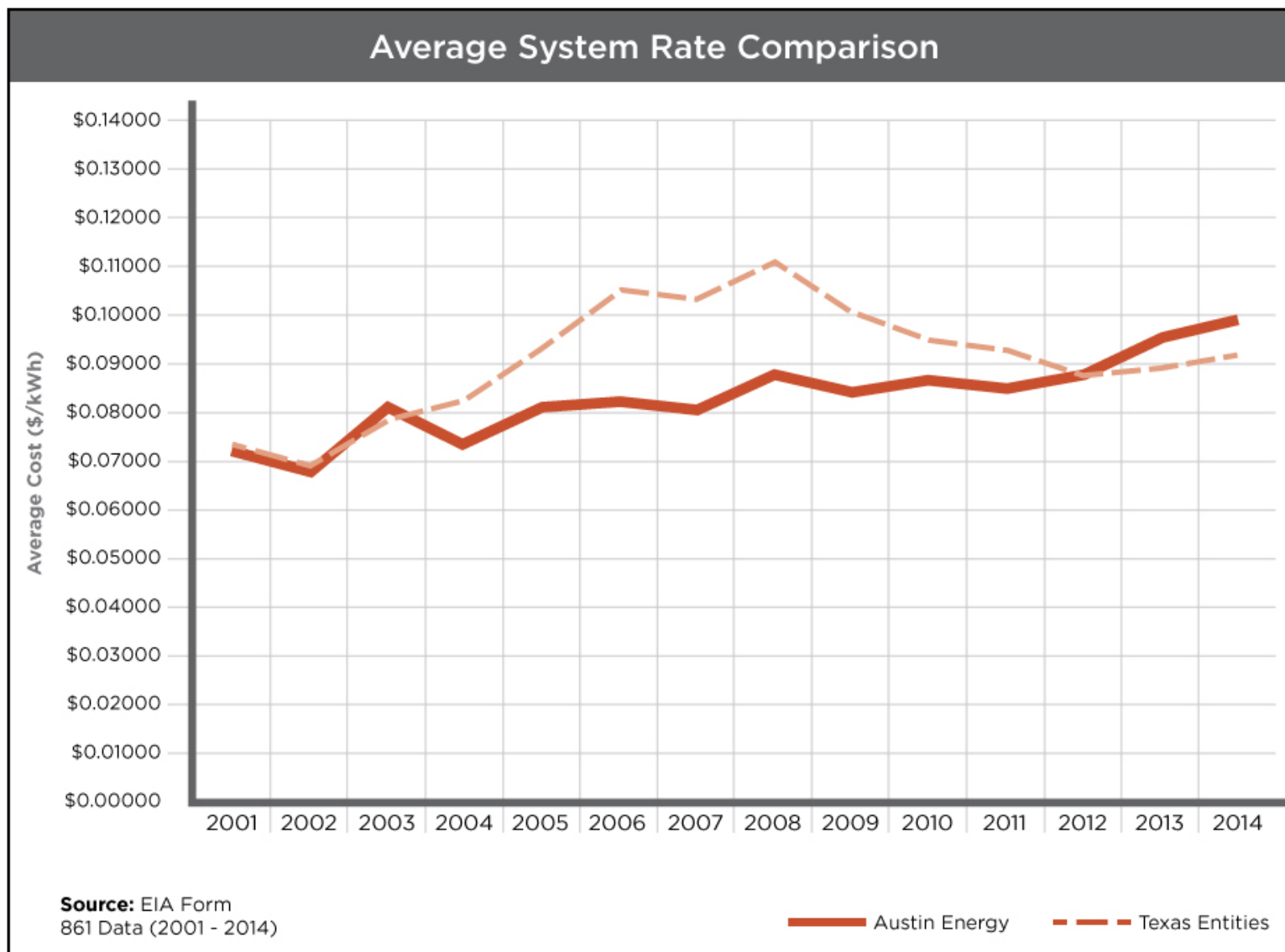
Reserve	Basis for Level of Funding	September 2010	September 2011	September 2012	September 2013	September 2014	September 2015 unaudited
Working Capital (Operating Cash)	Minimum requirement – 45 days of O&M less fuel & purchased power	\$134	\$71	\$49	\$119	\$151	\$250
Strategic Reserve:							
Emergency	Minimum requirement – 45 days of O&M less fuel & purchased power	\$66	\$68	\$69	\$81	\$81	\$91
Contingency	Up to a maximum – 60 days of O&M less fuel and purchased power	\$66	\$68	\$47	\$25	\$26	\$61
Rate Stabilization	Maximum balance – 90 days of power supply costs			\$0	\$0	\$0	\$0
Competitive Reserve	No minimum/maximum policy	\$9	\$4				
Total Strategic Reserve:		\$141	\$140	\$116	\$106	\$107	\$152
Repair and Replacement	Maximum balance – ½ of annual depreciation expense	\$0.1	\$0.1	\$0.1	\$0.1	\$0.1	\$0.1
Non-Nuclear Decommissioning Reserve	Based on engineering study and funding begins minimum of 4 years prior to date of plant closure.	\$15	\$20	\$15	\$11	\$8	\$8
Total		\$290	\$231	\$180	\$236	\$266	\$410
Target for all Cash and Reserves		\$198	\$225	\$373	\$400	\$419	\$452



Competitiveness

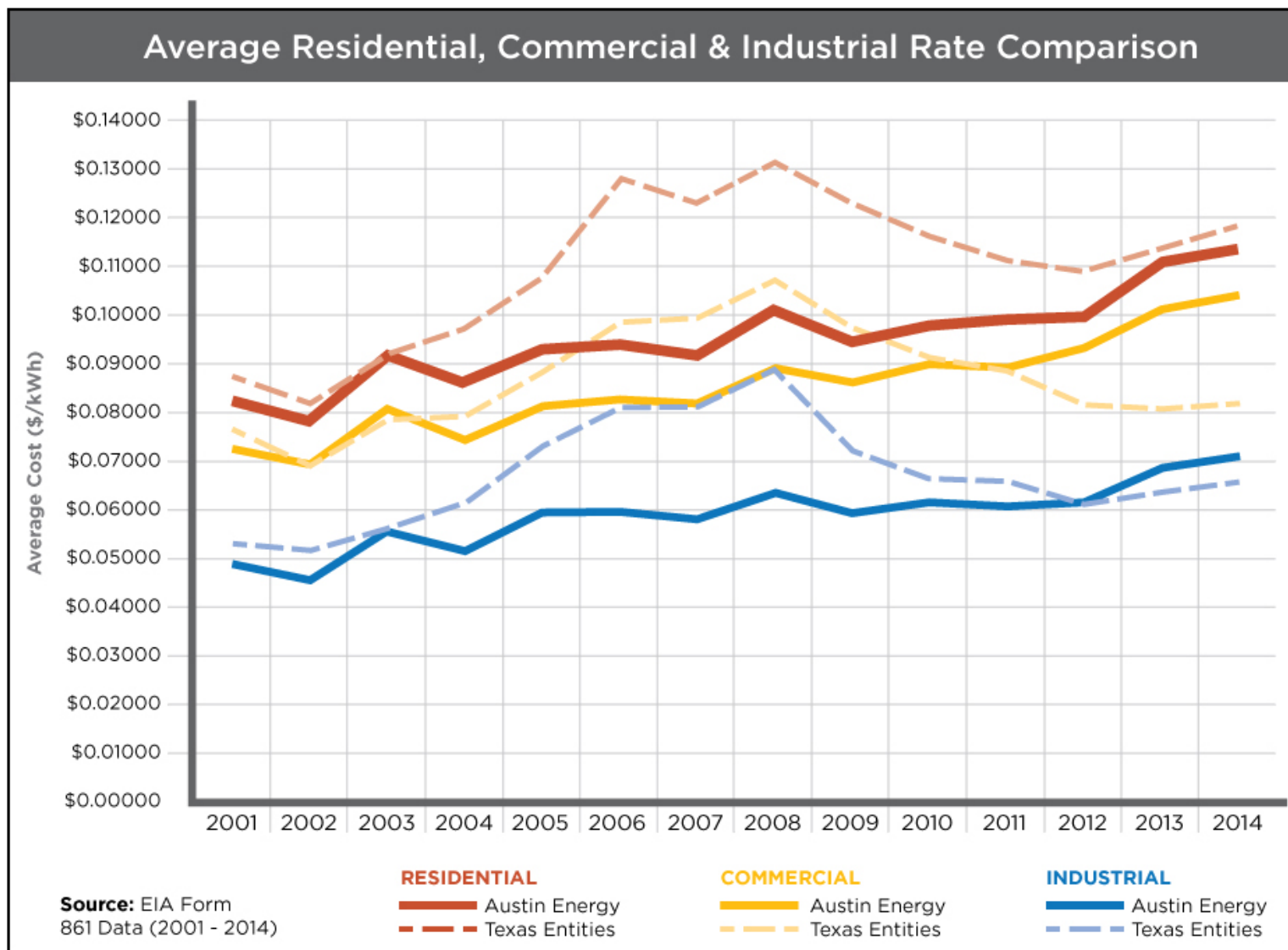


Rates Fail to Meet Competitiveness Goal



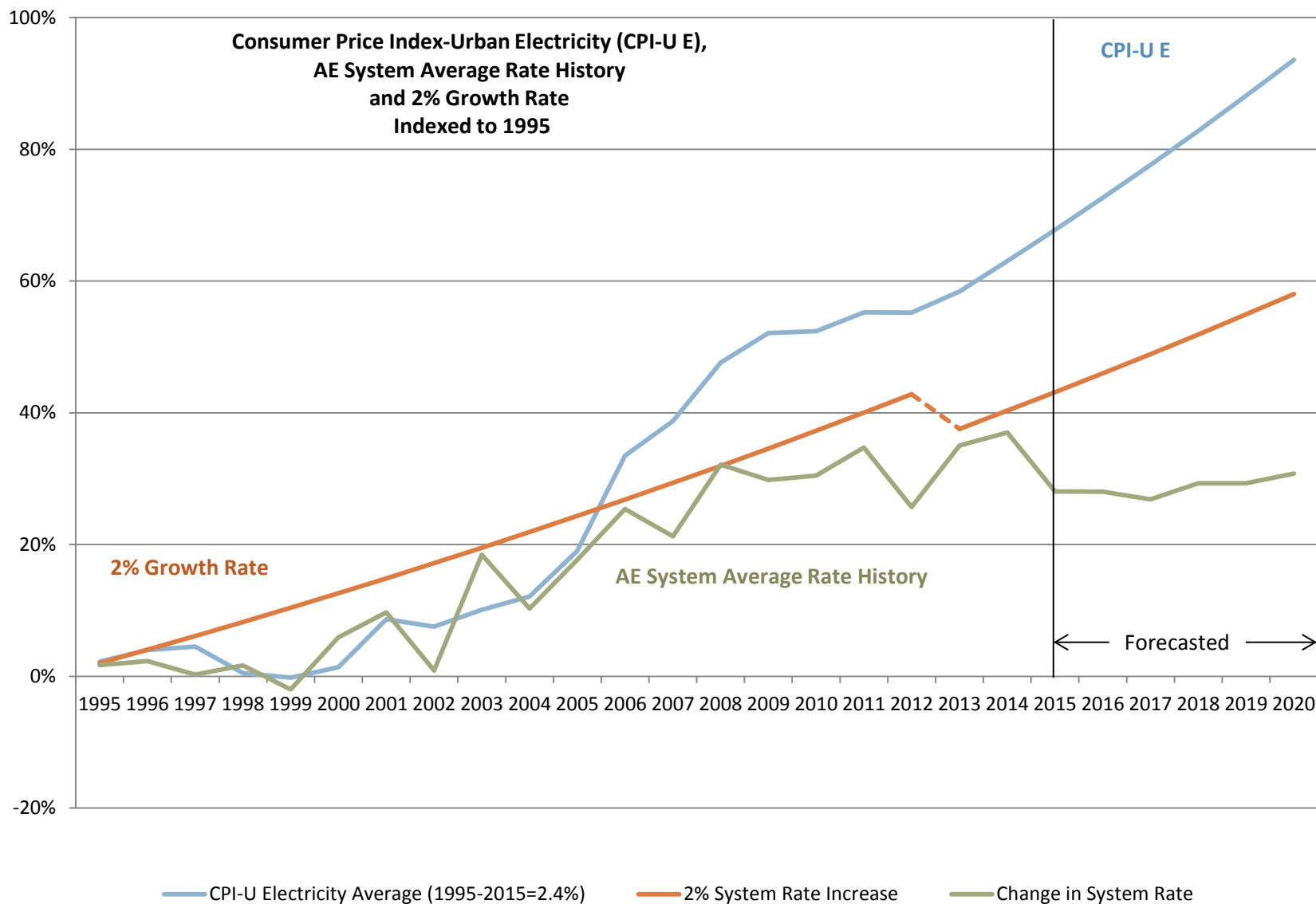


Residential vs. C&I Market Competitiveness





Compliance with Annual Affordability Metric





Cost of Service Results

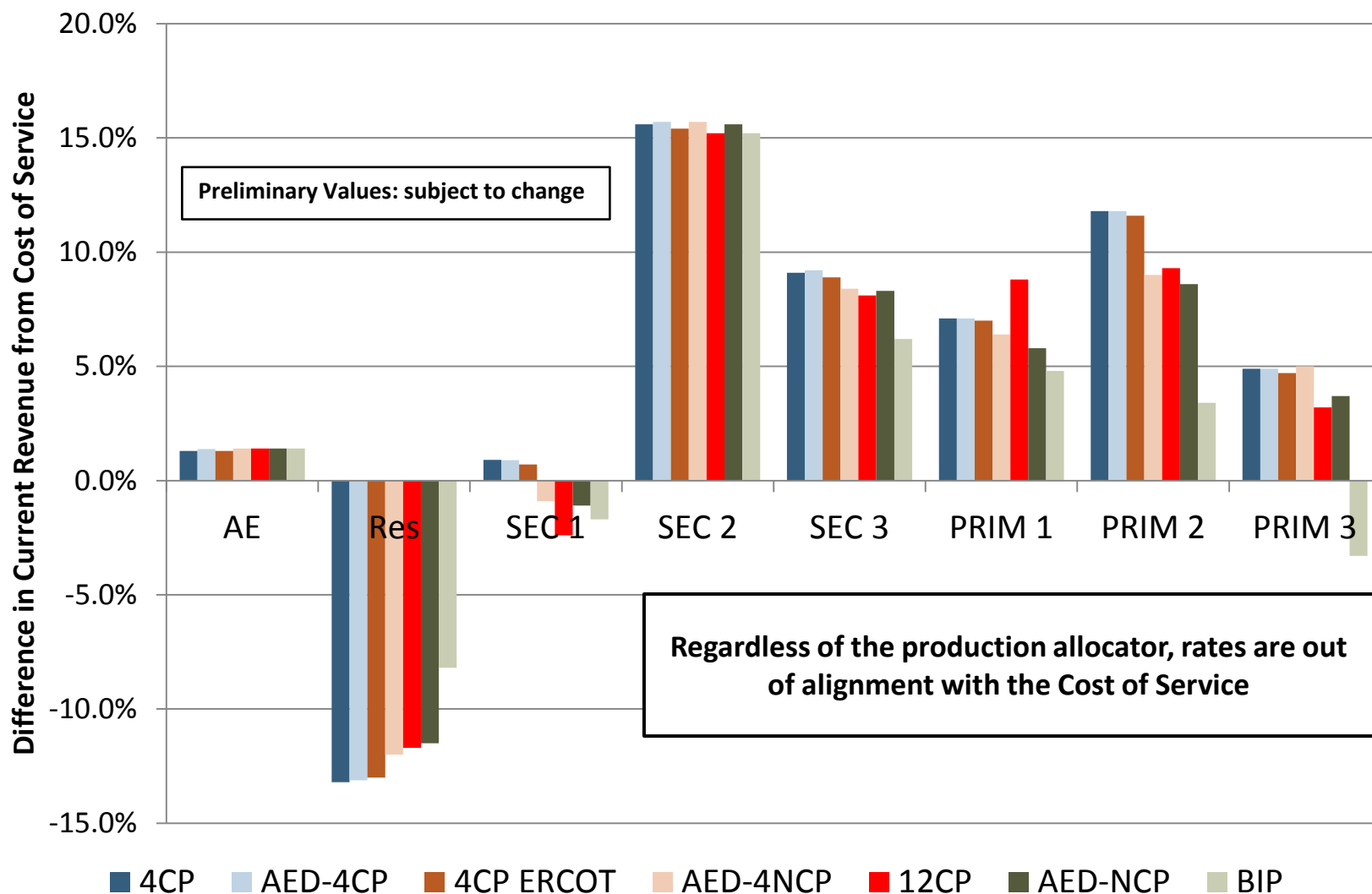


Progress in Aligning with Cost of Service

	Test Year 2009 (As Approved by Council)		Test Year 2014 (Preliminary Values Using 12CP: subject to change)	
	Revenue Excess (Deficiency)	Change needed to meet Cost of Service	Revenue Excess (Deficiency)	Over/ (Under) Cost of Service
Residential	(\$78.0)	-20.6%	(\$55.6)	-11.7%
SEC 1	(\$9.5)	-25.9%	(\$0.8)	-2.4%
SEC 2	(\$8.4)	-1.9%	\$62.0	11.9%
SEC 3				
PRIM 1	\$0.9	2.8%	\$4.1	8.8%
PRIM 2	(\$5.3)	-11.2%	\$4.8	9.3%
PRIM 3 & 4	(\$5.3)	-9.3%	\$2.8	3.2%
All others	\$0.3	1.8%	(\$0.6)	-3.0%
AE System	(\$105.4)	-10.3%	\$16.8	1.4%



Cost Allocation Conclusions not Driven by Production Cost Allocation Method Used



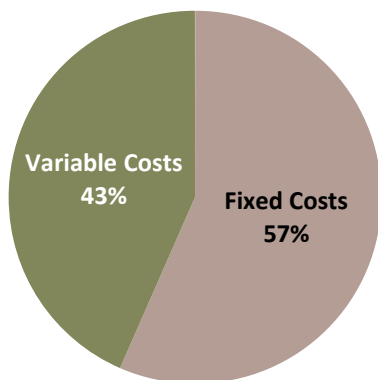


Revenue Sustainability Challenge

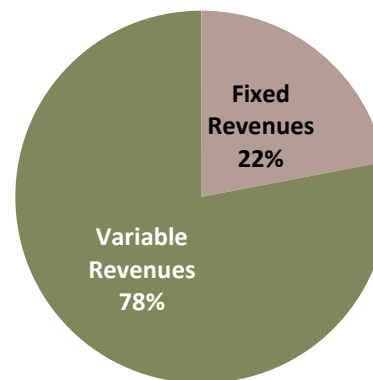


Fixed Cost Expenses vs. Recovery Contributes to Revenue Instability

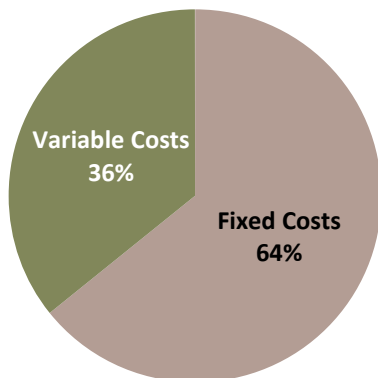
TY2009 Expenses



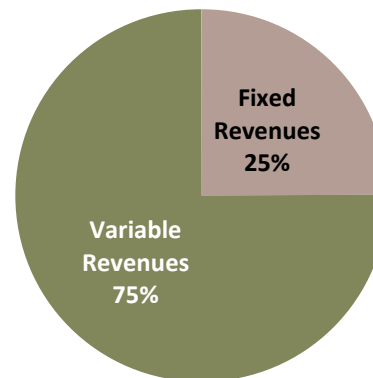
FY2009 Customer Revenues



TY2014 Expenses



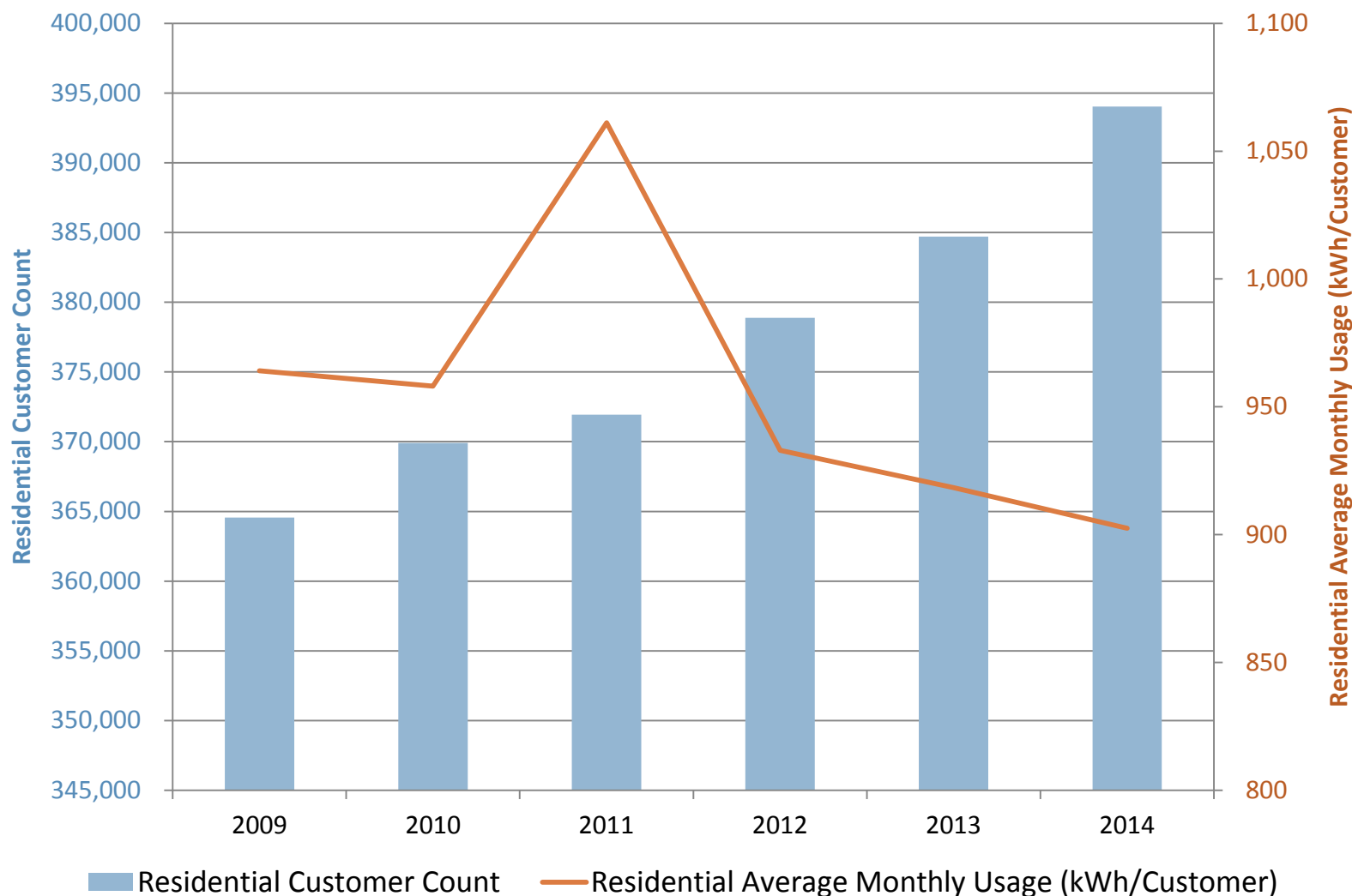
FY2014 Customer Revenues



Note: General Fund Transfer was reclassified from a variable cost in TY 2009 to a fixed cost in TY 2014 in recognition of the \$105M minimum transfer.



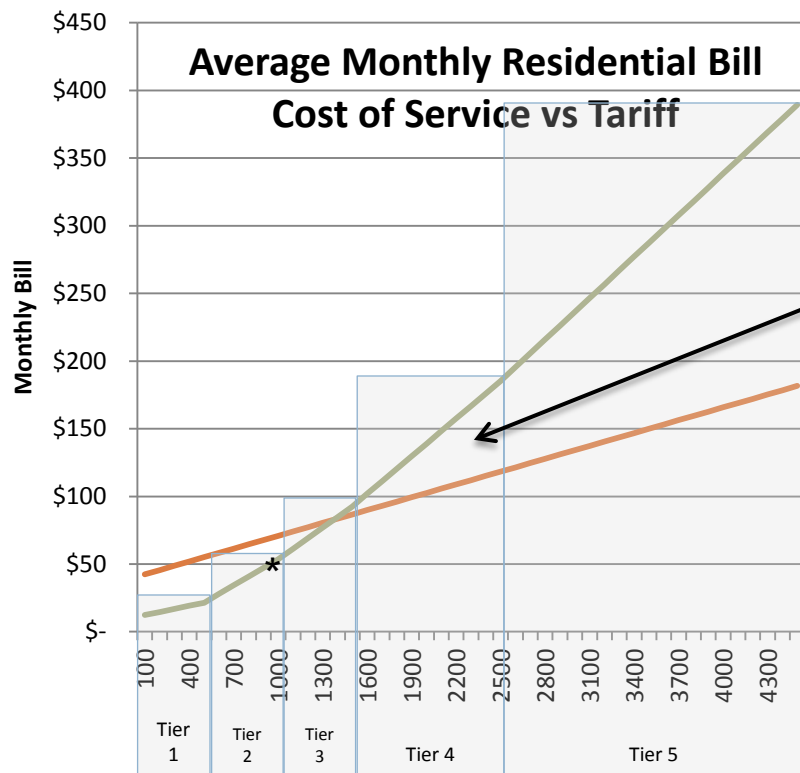
While Residential Customer Count Steadily Increasing, Average Residential Use Declining



Source: EIA 861 data reported on a calendar year basis for 2009 through 2014.

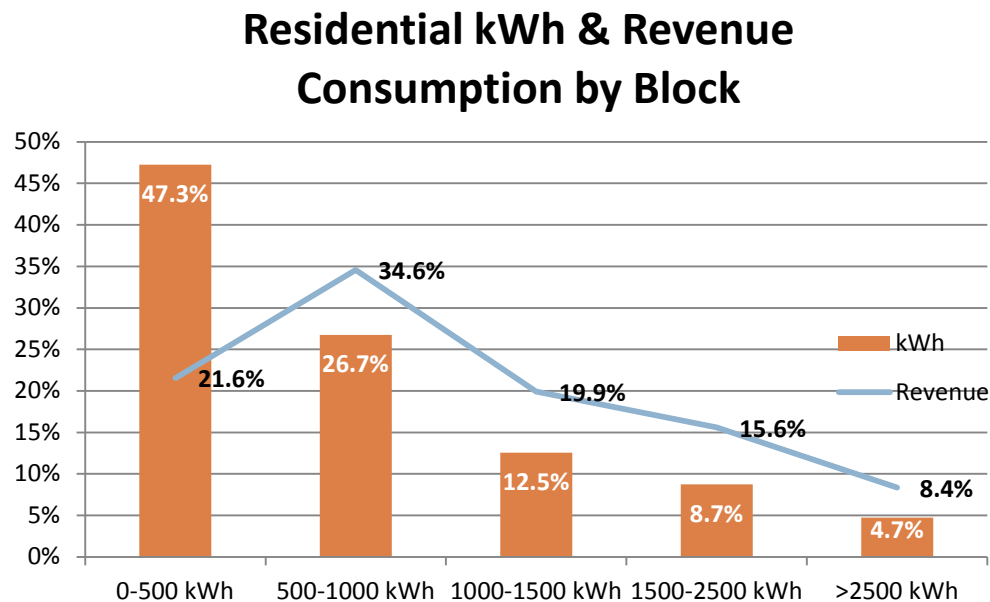


Nearly 80 Percent of Residential Electricity is Sold Below the Cost of Service



Residential rates do not meet the cost of service until 1,400 kWh. In fiscal year 2014, the average residential customer used 919 kWh* per month.

Only 13 percent of residential electricity is delivered in the 4th and 5th tiers but contribute 24 percent of revenue

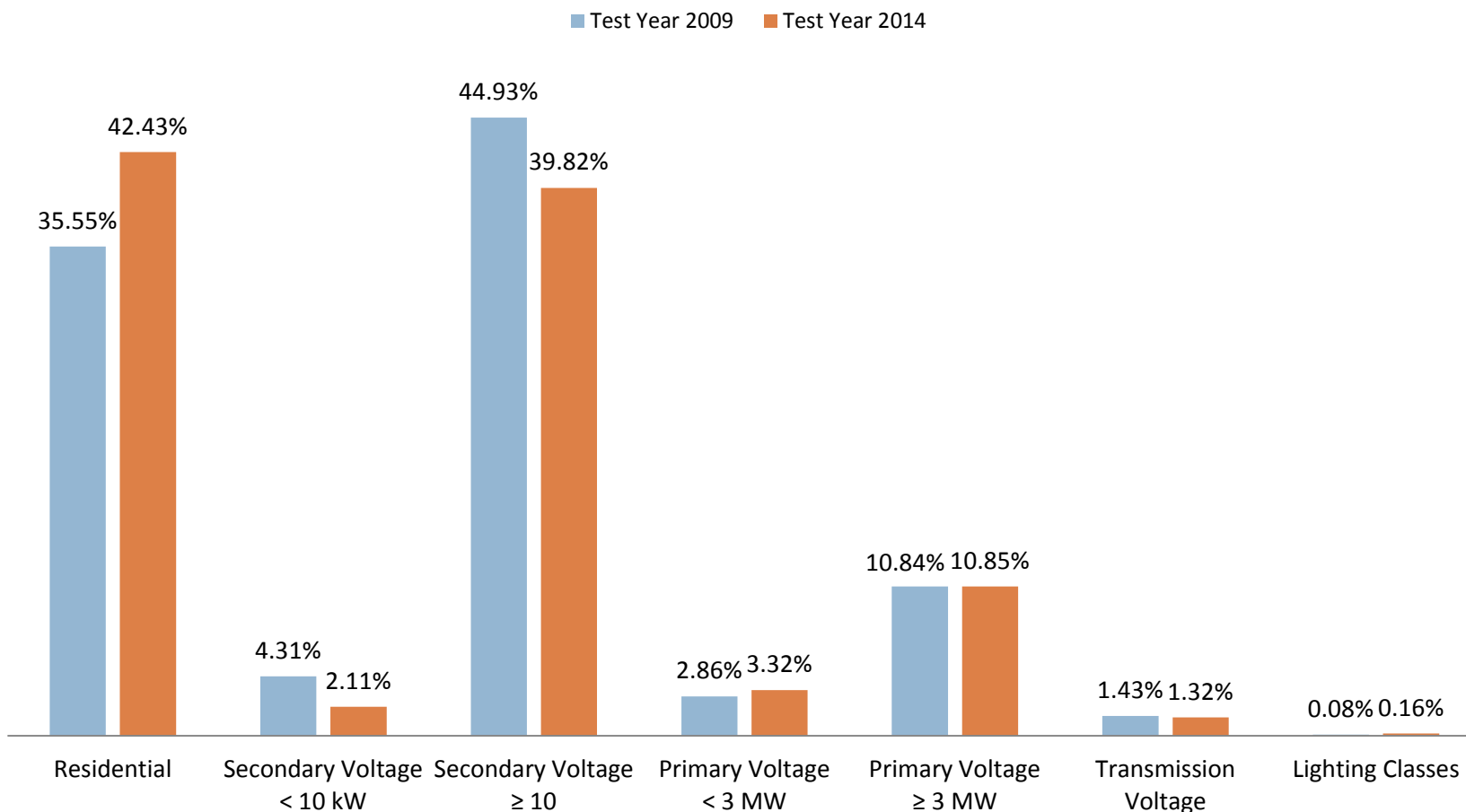


Note: Annual consumption of 903 kWh as reported by EIA is based on 2014 calendar year while the 919 kWh is based on City of Austin's fiscal year 2014.



Shifts in Peak System Demand Shift Greater Cost Share to Residential Customers

Contribution to System Peak (based on 12CP)

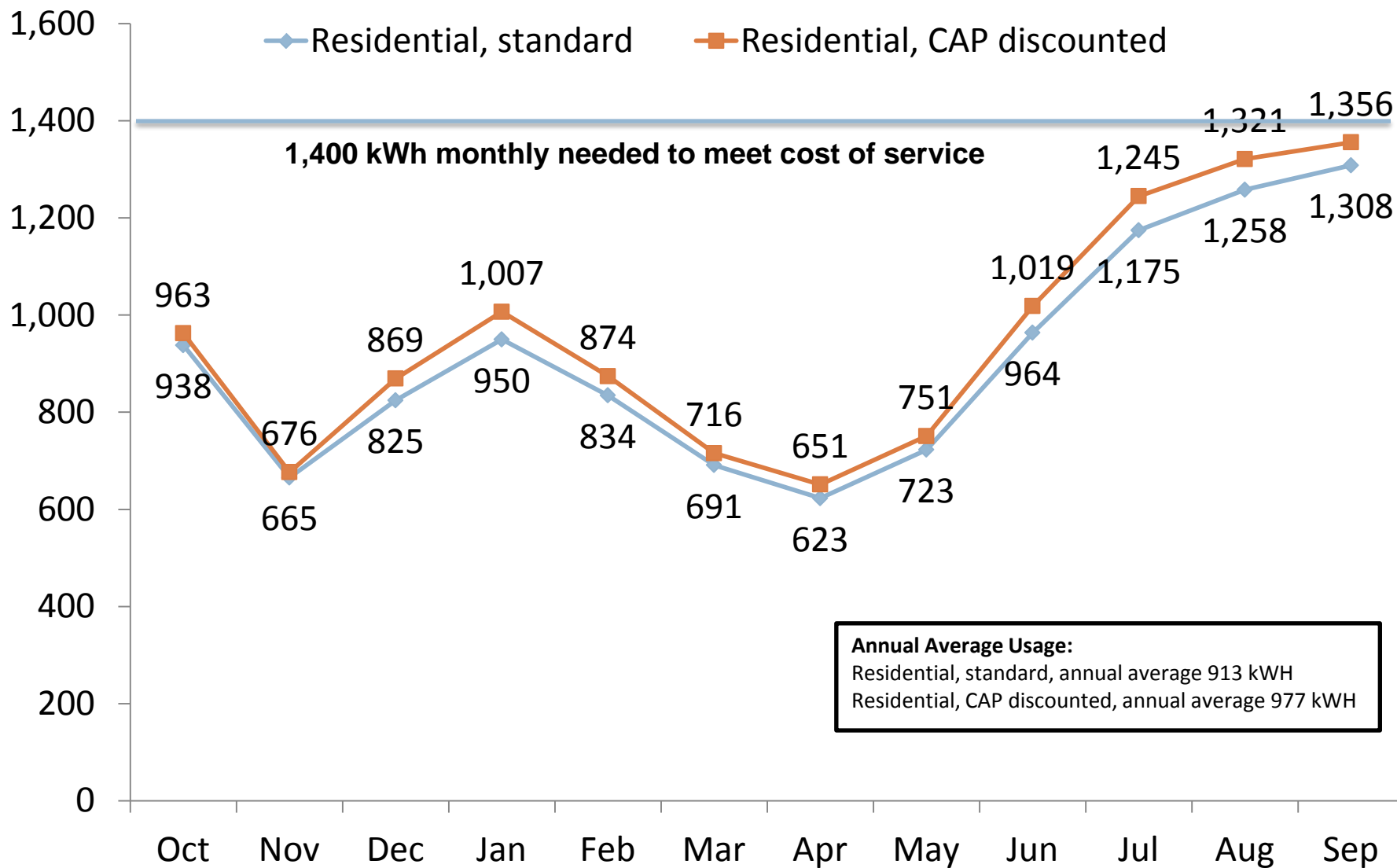


Note: Mid (S2) and Large (S3) Secondary combined due to proposed change in breakpoint for S3. P2 and P3, and Transmission voltage classes are combined for ease of comparison.



Under-recovery Challenge not Defined by Income Strata

Austin Energy Monthly Average Residential Sales, FY2014





Next Steps

- Rate Design Recommendations: brief EUC and Utility Oversight Committee of Council in January
- Cost of Service and Rates Report: released mid-January
- EUC input sessions for public comment (to be scheduled)
- Formal review process begins: end January