



Austin Energy Cost of Service and Rate Review

January 25, 2016





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 14, 2016—Pre-hearing conference
- January 25, 2016—Utility Oversight Committee briefing on rate design recommendations
- January 25, 2016—Release of AE's Rates Report to Council
- January 25, 2016—EUC briefing on rate design recommendations
- End January, 2016—Begin proceedings before Impartial Hearings Examiner
- May 6, 2016—Impartial Hearings Examiner recommendations report released
- May & June 2016—**Recommendation:** hold three Council Work Sessions
- June 2016—**Recommendation:** hold two Council public hearings
- June 23, 2016—final Council decision meeting



How Customers May Participate

- **Informal:**

- **Web Page:** from austinenergy.com select “rates”
- **Sign up for e-mail alerts**
- **Review documents, posted on the web page of the Office of the City Clerk**
- **View hearings to be archived on the City’s website**

- **Formal:**

- **Participate fully**
- **Accessibility**
- **Forms available for download**
- **Directions available on the web**





Steps in Cost of Service and Rate Setting

- Revenue Requirement
- Cost Allocation
- Rate Design



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 Objectives

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



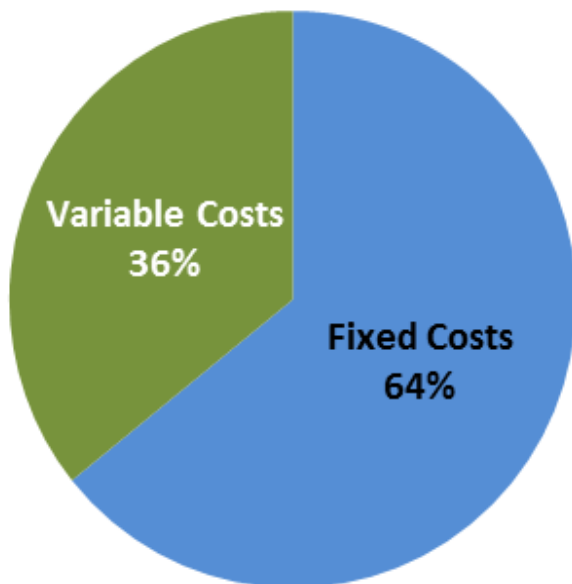
Conclusions from Cost of Service Analysis: Financial Health

- **Reduce base rates by \$17.4 million.**
 - Additional reductions expected in the Regulatory Charge and Power Supply Adjustment.
 - Regulatory Charge and Power Supply Adjustment to be set in FY 2017 budget process.
- Significant progress since 2012 in restoring the financial health of Austin Energy.
- Continue to face long-run revenue stability challenges.

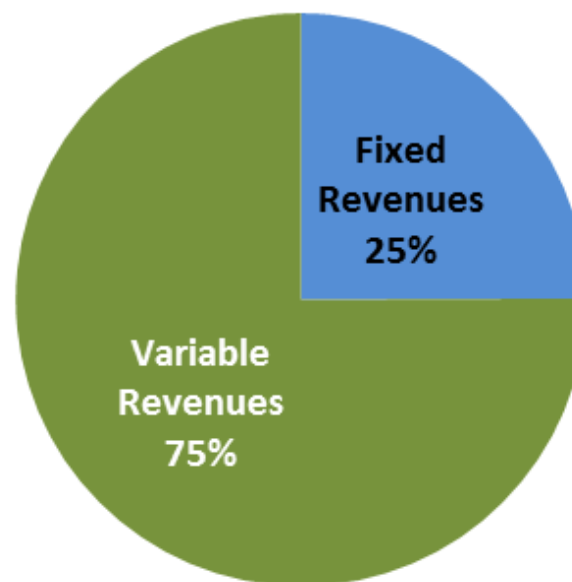


Conclusions from Cost of Service Analysis: Financial Health

TY2014 Expenses



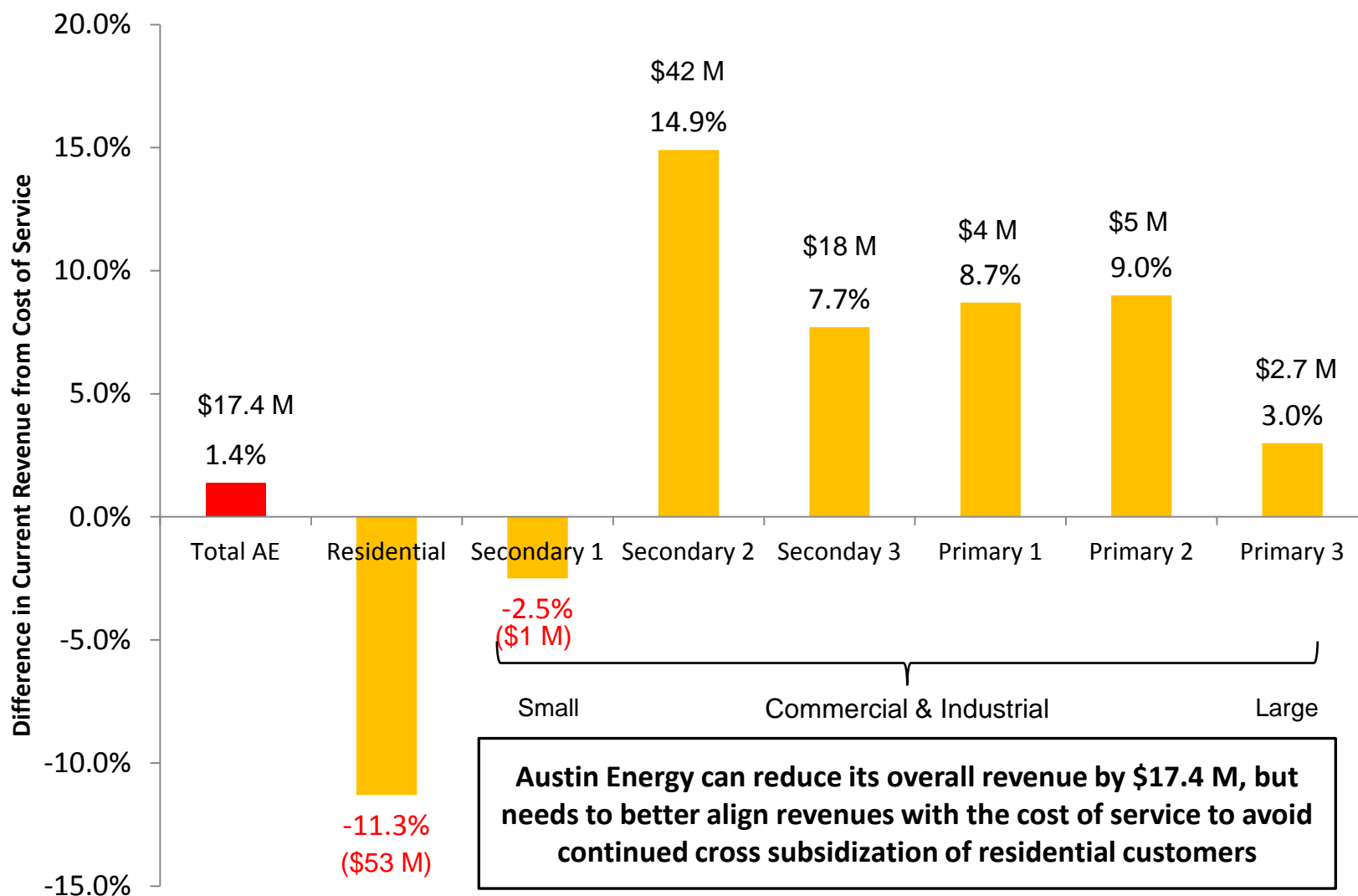
FY2014 Customer Revenues



Low fixed cost recovery contributes to revenue instability.
Declining consumption aggravates long-term stability.



Conclusions from Cost of Service Analysis: Revenue Alignment





Rate Design: Policy Recommendations



Rate Structure Analysis Conclusions

- Rate structure adopted in 2012 remains sound.
- Some needed adjustments identified from:
 - Experience since 2012
 - Community feedback
 - Interim studies
 - Improved Cost of Service data



Key Rate Transformation Steps in 2012

- Consolidated rate classes
- Unbundled charges from base rates
 - Community Benefits Charge
 - Regulatory Charge
- Reformed the Power Supply Adjustment
- Raised the Customer Charge
- 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



Community Benefit Charges

- **Maintain:** current Customer Assistance Program (CAP), energy efficiency services and service area street lighting rate policies.
 - Adopt greater uniformity in calculation of Community Benefit Charge.



Rate Recommendations: Seasonality (summer/winter differential)

- **Recommendation:** eliminate seasonality factor in base rates
 - Seasonal fluctuation potentially burdensome
 - Limited cost justification supporting seasonal factors
 - Adopt seasonality in Power Supply Adjustment

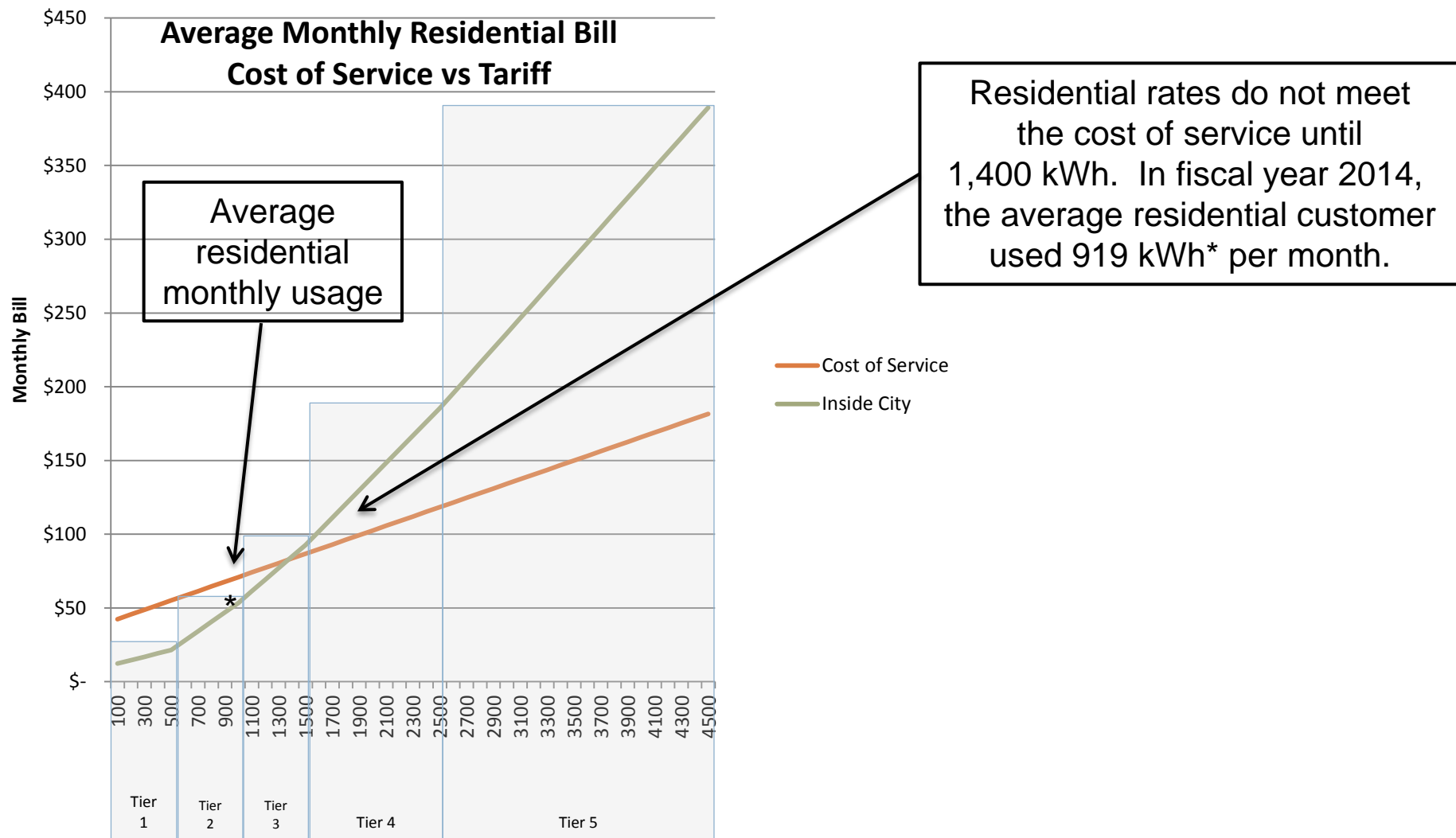


Residential Rate Tier Adjustments

- Current 5-tier rate design recovers insufficient revenues for most customers.
 - Declining residential usage suggests continued instability in residential cost recovery.
- **Recommendation:** Flatten 5 residential tiers:
 - Better alignment with Cost of Service
 - Improve stability of cost recovery
- Rates will retain a tiered structure providing price signals to encourage conservation and energy efficiency investments.



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



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.



Proposed Residential Tiers

Residential Base Rates for Inside the City Limits Customers

				Existing Rate	Proposed Rate
<u>Basic Charges (\$/month)</u>					
Customer Charge				10.00	10.00
Delivery Charge				0.00	0.00
<u>Summer Tier Rates (\$/kWh)</u>					
First Tier (0 – 500 kWh)				0.03300	0.03300
Second Tier (501 – 1,000 kWh)				0.08000	0.05600
Third Tier (1,001 – 1,500 kWh)				0.09100	0.07595
Fourth Tier (1,501 – 2,500 kWh)				0.11000	0.09100
Fifth Tier (2,501 kWh and over)				0.11400	0.10595
<u>Non-Summer Tier Rates (\$/kWh)</u>					
First Tier (0 – 500)				0.01800	0.03300
Second Tier (501 – 1,000)				0.05600	0.05600
Third Tier (1,001 – 1,500)				0.07200	0.07595
Fourth Tier (1,501 – 2,500)				0.08400	0.09100
Fifth Tier (2,501 and over)				0.09600	0.10595

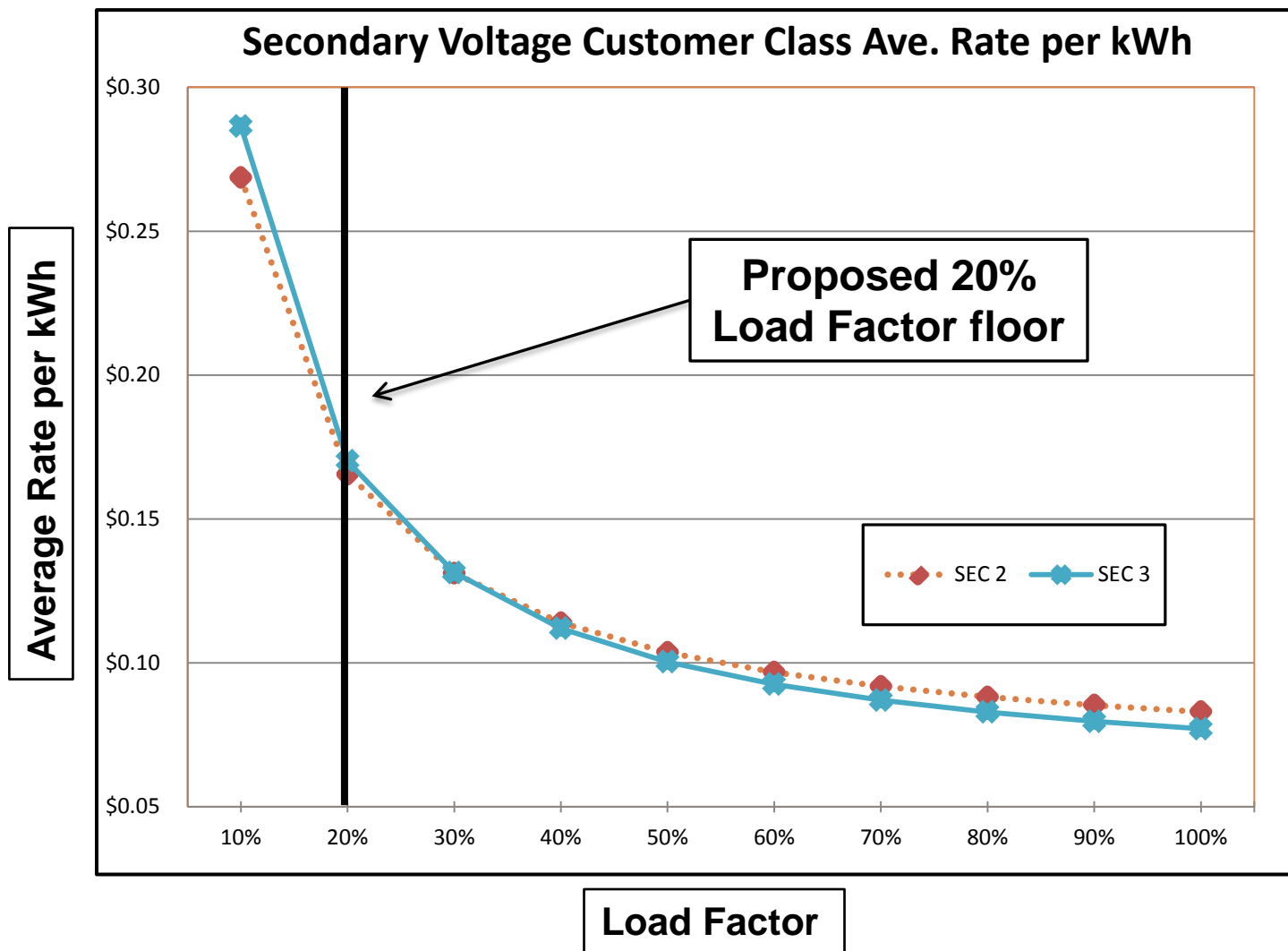


Small Commercial Classes

- **Maintain:** Policy adopted by Council (in FY 2016 budget) assigning customer classes based on 4 month summer peak.
 - Approximately 1,700 customers of 14,000 customers switched from S2 to S1 in January 2016 implementation.
- **Maintain:** 10 kW break point between S1 and S2 classes.
- **Recommendation:** Extend the boundary of S2 and S3 to 300 kW.
- **Recommendation:** Establish a Load Factor floor for secondary customers of 20 percent Load Factor.
 - 3,300 customers in S2
 - 30 customers in S3
 - Shift of \$7 million from low Load Factor secondary customers to higher Load Factor customers.



Secondary Customer Load Factor Floor





Outside City Customers

- **Recommendation:** Maintain \$5.75 million discount for outside city customers adopted in 2013 settlement.



Pass-through Charges Uniformity

- Pass-through charges: Regulatory Charge, Community Benefit Charge, and Power Supply Adjustment Charge.
- Current Power Supply Adjustment policy sets charge as a “uniform rate.”
 - Similar policy/rate calculation for all customer classes.
 - Adjusted by voltage level for line losses.
- Regulatory Charge and some components of the Community Benefit Charge can be volatile from year to year.
- **Recommendation:** recover Regulatory Charge and Community Benefit Charge in a more uniform manner, similar to Power Supply Adjustment.



Commercial Discounts

- **Maintain:** Existing discount for Independent School Districts.
- **Recommendation:** Provide State account discount at conclusion of current contract.
- **Recommendation:** Add discount for military bases.
- **Recommendation:** Conclude transition providing rate discount for house of worship accounts, discontinuing the house of worship rate.
- **Recommendation:** For all commercial customers receiving a discount, set discounts in a uniform manner, at 20 percent off of base rates.



Rate Design: Recommendations for Allocating \$17.4 Million Reduction



Allocation of \$17.4 M Reduction: Residential Customers

- Hold total base revenue collections from Residential constant.
- Implement revenue neutral adjustments within the Residential class to help stabilize revenue collections.
- Forecasted reductions in Power Supply Adjustment and Regulatory Charge anticipated to benefit Residential class.



Allocation of \$17.4 M Reduction: Commercial Customers

- Secondary and Primary Non-residential Classes: No class receive an increase.
 - Account for changes in the Regulatory Charge and PSA anticipated to be adopted in summer budget.
- Small Secondary (S1): Hold constant
 - Currently within 2.5 percent of Cost of Service.
 - Customers shifting from S2 to S1 receiving reductions.
- Medium Secondary (S2 and S3): Direct the majority of reductions to Secondary.
- Primary: Bring as close as feasible to Cost of Service.
- T2: Bring to Cost of Service in accordance with T2 tariff.
 - Three year transition prior to pass through of any increases.
- Assure a rational progression of rates across customer classes as customer load increases.



Proposed Non-residential Rates

Non-Residential Base Rates for Inside the City Limits Customers							
	S1	S2	S3	P1	P2	P3	T1
Customer Charge (\$/month)	18.00	27.50	71.50	275.00	2,200.00	2,750.00	2,750.00
Delivery Charge (\$/kW)	0.00	4.00	4.50	3.50	4.00	4.50	0.00
Demand Charge (\$/kW)	0.00	5.75	7.25	8.50	9.50	10.25	12.00
Energy Charge (\$/kWh)	0.05190	0.02421	0.01955	0.00500	0.00360	0.00300	0.00500

Proposed base rates only. Additional adjustments to the structure of the Regulatory Charge and the Community Benefit Charge are proposed to eliminate volatility in those charges.



Issues for Study Prior to Next Cost of Service Assessment

Residential Studies

- Tiered structure of residential rates
- Lifeline study of minimum residential energy uses
- Cost of service of multi-family and single-family residences
- Cost of service of three-phase residential customers

Commercial Studies

- Cost of service of downtown network service
- Rate structure for S1 class
- Demand charges for customers peaking outside AE system peak
- Potential for kilovolt ampere reactive (kvar) billing (alternative to the current power factor correction)



Rate Design: Customer Impacts



Residential Customer Impacts

Change in Average Monthly Bill			Average Monthly kWh	Percent of Similar Customers *
Electric Heat	Tier 1 Customer	\$1.43	416	7.43%
	Tier 2 Customer	-\$0.90	751	9.72%
	Tier 3 Customer	-\$0.56	1,175	5.57%
	Tier 4 Customer	-\$3.41	1,877	1.23%
	Tier 5 Customer	-\$11.85	3,732	0.09%
Gas Heat	Tier 2 Customer	\$0.22	562	9.12%
	Tier 3 Customer	-\$5.26	1,087	6.58%
	Tier 5 Customer	-\$13.16	2,184	0.73%

* Percent of all customers with twelve months of billing data within same block (i.e. 400 - 499). Example customers represent 50.3% of all customers with twelve months of billing data.

Impacts reflect proposed base rate adjustments and forecasted changes to PSA and Regulatory Charge.



S1 Impact—Monthly Bill Comparison

Type of Use	ISD	Restaurant	Utility	Office	Medical	HOW	Service	Retail	HOW
Average Bill									
Existing	\$185	\$156	\$105	\$105	\$103	\$76	\$56	\$51	\$39
Proposed	\$182	\$147	\$102	\$101	\$100	\$77	\$54	\$49	\$47
Variance									
Proposed to Existing	-\$3	-\$9	-\$3	-\$4	-\$3	\$1	-\$1	-\$2	\$9
Percent Change	-2%	-6%	-3%	-4%	-3%	1%	-2%	-4%	23%
Average									
Monthly kWh	1,649	1,297	858	837	820	598	364	309	296
Monthly KW	12.6	6.6	4.8	5.2	5.2	6.3	3.4	4.9	7.7
Peak KW	16.4	7.9	5.5	7.1	6.4	8.9	4.4	6.6	9.7










In/Out COA	Inside	Inside	Outside	Inside	Inside	Inside	Inside	Inside	Inside
Monthly kWh									

Impacts reflect proposed base rate adjustments and forecasted changes to PSA and Regulatory Charge. Calculated from the monthly usage patterns of actual customers.



S2 Impact—Monthly Bill Comparison

Type of Use	Retail	Restaurant	ISD	Utility	Office	Medical	Service	HOW	HOW
Average Bill									
Existing	\$983	\$729	\$838	\$534	\$434	\$405	\$314	\$192	\$136
Proposed	\$932	\$691	\$773	\$498	\$411	\$357	\$296	\$246	\$182
Variance Proposed to Existing	-\$52	-\$38	-\$66	-\$36	-\$23	-\$48	-\$18	\$53	\$47
Percent Change	-5%	-5%	-8%	-7%	-5%	-12%	-6%	28%	34%
Average									
Monthly kWh	7,894	6,503	5,940	4,277	2,971	2,277	2,214	1,475	1,040
Monthly KW	33.1	19.8	28.6	15.0	16.1	17.2	10.8	16.5	17.7
Peak KW	41.4	21.6	40.4	18.9	24.9	28.0	13.8	21.4	24.0
Load Factor	33.5%	44.7%	41.6%	39.1%	26.0%	18.7%	28.8%	12.4%	8.3%










In/Out COA	Inside	Inside	Inside	Outside	Inside	Outside	Inside	Inside	Inside
Monthly kWh									

Impacts reflect proposed base rate adjustments and forecasted changes to PSA and Regulatory Charge.
Calculated from the monthly usage patterns of actual customers.



S3 Impact—Monthly Bill Comparison

Type of Use	Utility	ISD	Retail	Medical	Office	Restaurant	Retail	HOW	HOW
Average Bill									
Existing	\$32,868	\$32,634	\$32,310	\$25,181	\$16,432	\$11,765	\$11,818	\$10,530	\$6,594
Proposed	\$31,835	\$31,920	\$31,520	\$24,895	\$16,174	\$11,577	\$11,577	\$10,451	\$8,072
Variance Proposed to Existing	-\$1,032	-\$713	-\$790	-\$285	-\$258	-\$188	-\$241	-\$79	\$1,478
Percent Change	-3%	-2%	-2%	-1%	-2%	-2%	-2%	-1%	22%
Average									
Monthly kWh	316,200	304,167	289,500	279,850	172,650	127,433	116,425	86,550	50,525
Monthly KW	965.0	1000.0	1027.5	619.5	433.0	276.0	337.0	358.3	641.0
Peak KW	1059.0	1160.0	1130.0	663.0	516.0	316.0	405.0	489.0	840.0
Load Factor	44.6%	41.6%	38.5%	62.0%	56.2%	62.7%	47.2%	33.4%	10.9%

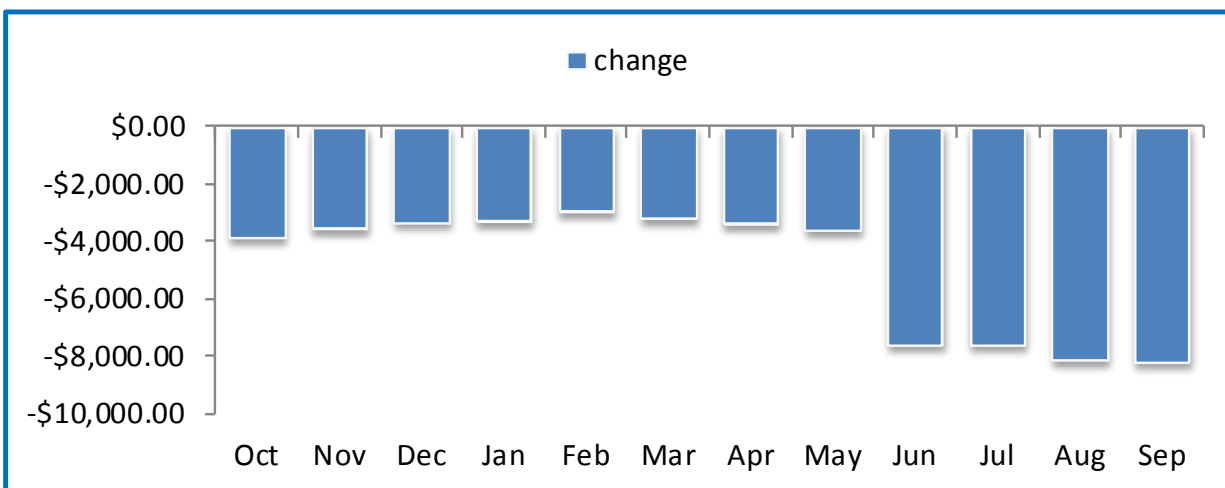
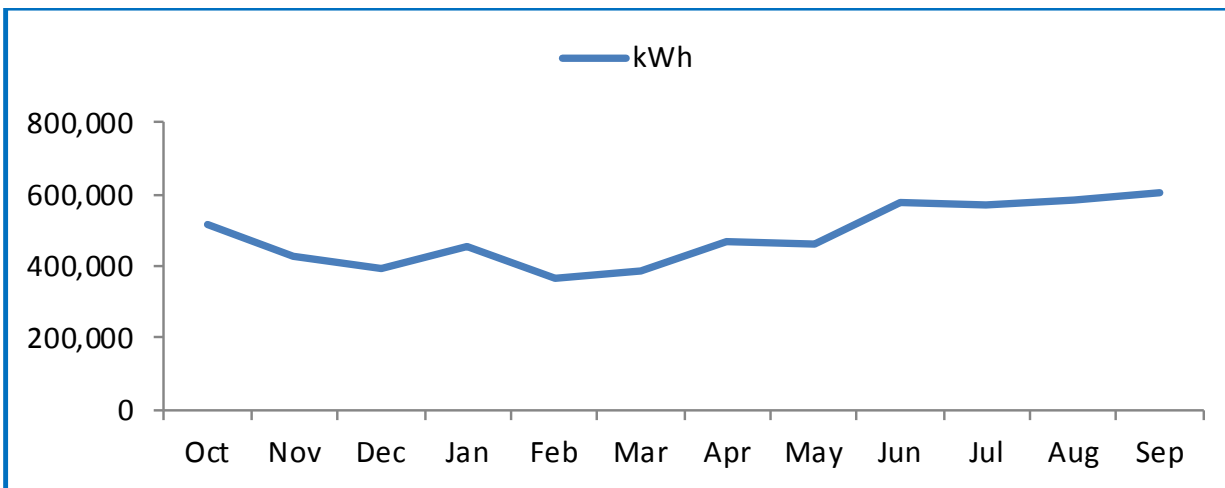
In/Out COA	Inside	Inside	Inside	Outside	Inside	Outside	Inside	Inside	Inside
Monthly kWh									

Impacts reflect proposed base rate adjustments and forecasted changes to PSA and Regulatory Charge. Calculated from the monthly usage patterns of actual customers.



P1—Sample Monthly Bill Comparison

Type of Use	Retail
Average Bill	
Existing	\$37,750
Proposed	\$32,840
Variance Proposed to Existing	
	-\$4,910
Percent Change	
	-13%
Average	
Monthly kWh	483,300
Monthly KW	870.0
Peak KW	1020.0
Load Factor	75.8%

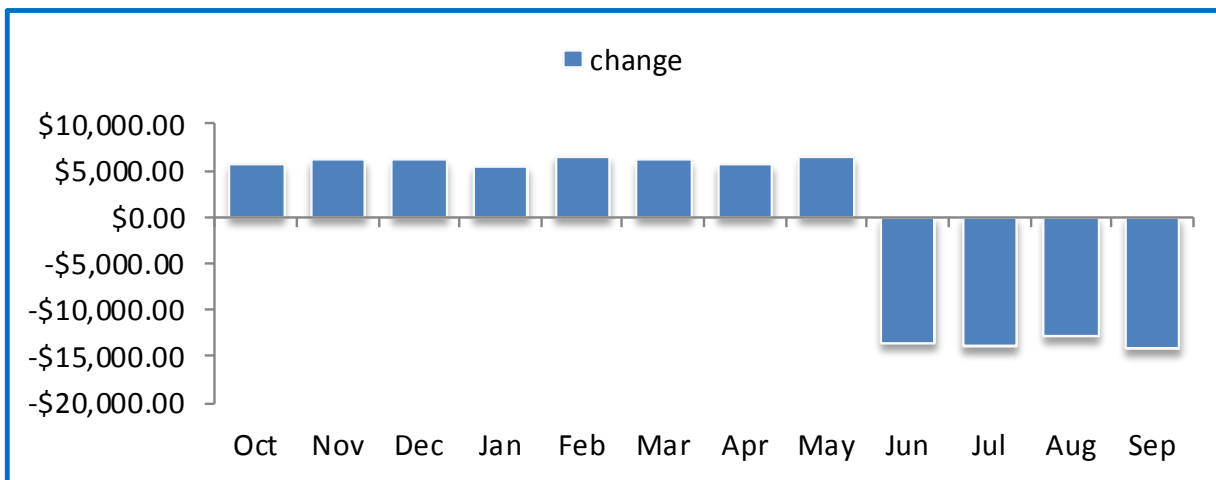
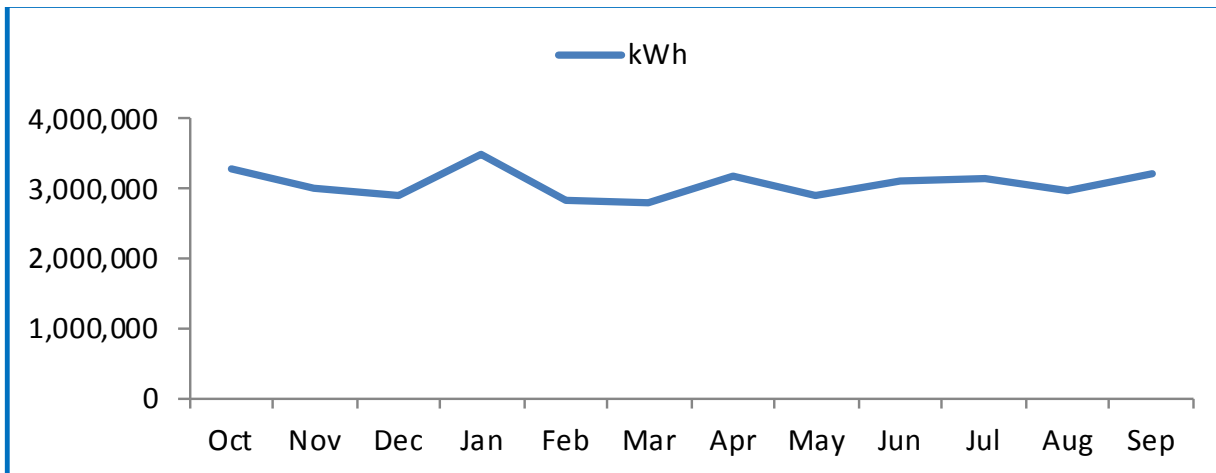


Impacts reflect proposed base rate adjustments and forecasted changes to PSA and Regulatory Charge. Average P1 customer used for illustration.



P2—Sample Monthly Bill Comparison

Type of Use	Industrial
Average Bill	
Existing	\$196,648
Proposed	\$196,152
Variance Proposed to Existing	-\$496
Percent Change	0%
Average	
Monthly kWh	3,065,306
Monthly KW	4525.8
Peak KW	4680.0
Load Factor	92.8%



Impacts reflect proposed base rate adjustments and forecasted changes to PSA and Regulatory Charge. Average P2 customer used for illustration.



Next Steps

- Publish rates report and proposed tariffs
- Publish Cost of Service model
- Finalize procedural rules
- Begin discovery process before Impartial Hearings Examiner
- Outreach to customer groups to encourage participation