



RAP

Energy solutions
for a changing world

Review of Austin Energy Rate Study 2016

Before the Austin Electric Utility Commission

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About RAP

The Regulatory Assistance Project (RAP) is a global, non-profit team of experts that focuses on the long-term economic and environmental sustainability of the power and natural gas sectors. RAP has deep expertise in regulatory and market policies that:

- Promote economic efficiency
- Protect the environment
- Ensure system reliability
- Allocate system benefits fairly among all consumers

Learn more about RAP at www.raponline.org

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About Jim Lazar

Jim Lazar is a RAP Senior Advisor, based in Olympia, WA

- Economist with 34 years experience in utility resource planning, rate development, and financial analysis
- Expert witness in more than 100 rate proceedings on revenue requirement, cost allocation, rate design, and energy efficiency.
- Co-author of RAP publications on Smart Rate Design and other topics.

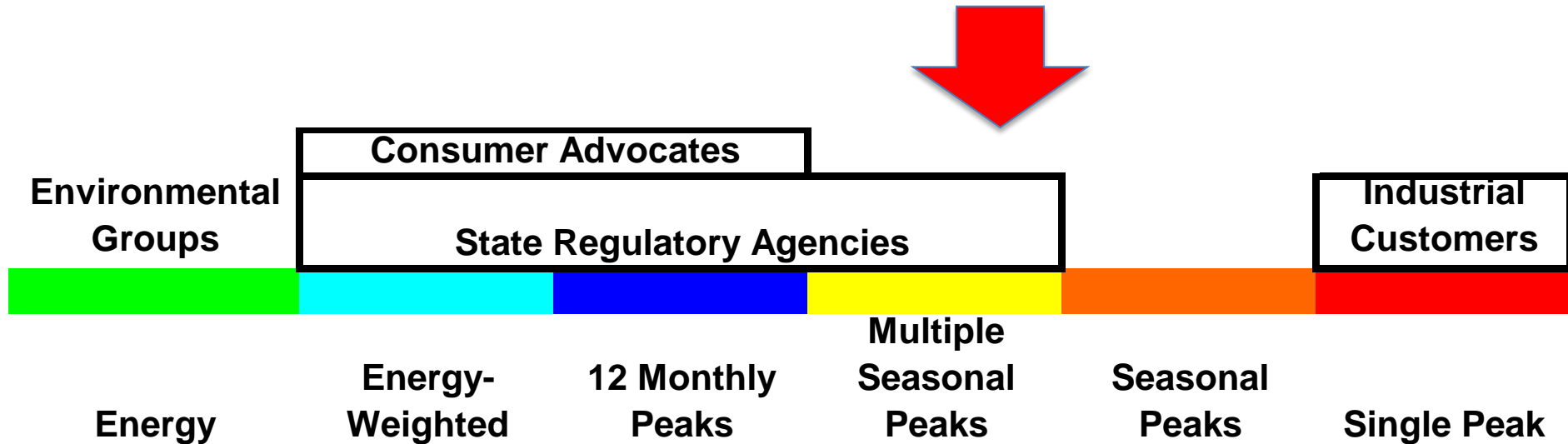
Topics For Discussion

- Why does the COS method matter?
- Spectrum of methods for measuring cost of service:
 - Production and Transmission
 - Distribution
 - Administrative and General Costs
- Solar, Wind, and Demand Response
- Recommendations to the Commission

Why Does the Methodology Matter?

	Total	Residential	Res %
Production Demand	\$ 341.6	\$ 143.6	42%
Transmission Demand	\$ 116.9	\$ 50.8	43%
Energy	\$ 442.5	\$ 146.5	33%
Distribution Demand	\$ 177.3	\$ 81.4	46%
Distribution Customer	\$ 23.2	\$ 18.0	78%
Customer service	\$ 104.4	\$ 82.3	79%

Spectrum of Methods Production / Transmission Costs



Issue: How should the costs of baseload power plants be divided among customer classes?

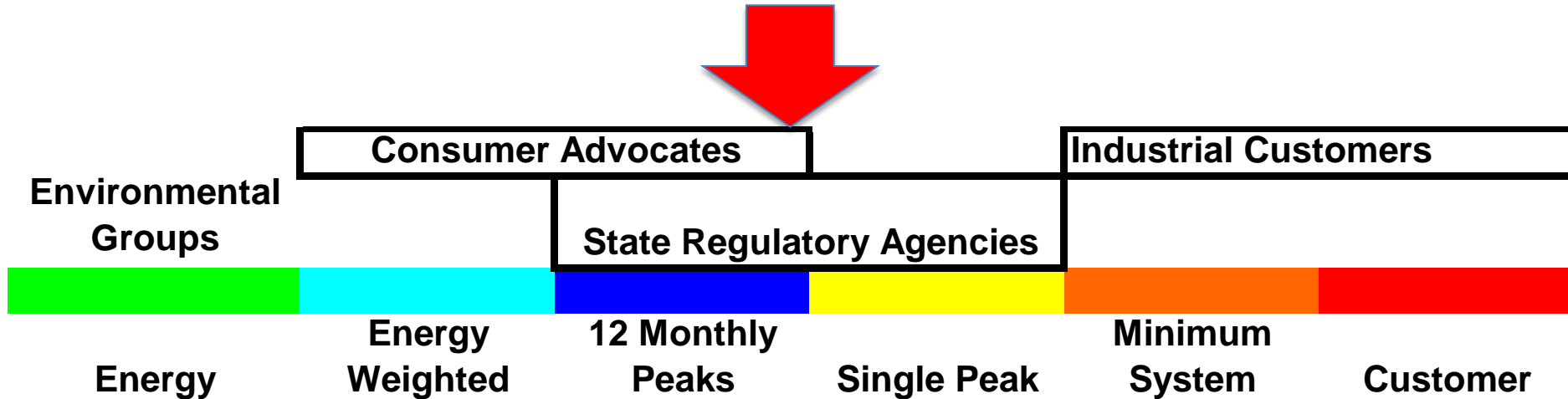
Solar, Wind and Demand-Response

- Solar and wind have high fixed costs, but less certain value in meeting peak loads.
- Demand response has low fixed costs, avoids transmission completely, and very excellent value in meeting peak loads.
- **Classifying production and transmission fixed costs as demand-related is an obsolete approach.**

Effect on Residential Revenue Responsibility of Re-classifying Half of Production/Transmission to Energy

As Allocated:	\$ 194.4
Reclassified:	\$ 173.1
Difference:	\$ (21.3)

Spectrum of Methods Distribution Costs



Issue: How should the distribution infrastructure (poles, wires, transformers) be divided among customer classes?

Smart Grid Costs

- AE has classified Smart Grid investment as customer-related.
- These are used for multiple purposes:
 - Peak load management
 - Energy conservation
 - Customer billing

Administrative Costs

- Based on subtotal of other costs
- BUT:
 - Other methods may be appropriate for the underlying costs
- 3-1-1 costs: how are these apportioned between electric and other functions?

Other Policy Issues

- **Type of study:** Embedded, marginal, or both.
- **Customer sub-classes:** Differentiate apartment from single-family etc.
- **Single methodology or multiple methodologies.**
 - Most regulators consider a study from the utility, and one from the consumer advocate.

Recommendations

- **Multiple studies:**
 - **Energy-weighted** embedded cost
 - **Hourly allocation** based on ERCOT prices
 - A **marginal cost** study is appropriate
 - Suggest California PUC Method
- **Customer Classes:** Multi-family
- **Smart Grid:** All functions
- **3-1-1:** Use Judgment

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