



Austin Energy Cost of Service and Rate Review

August 8, 2016



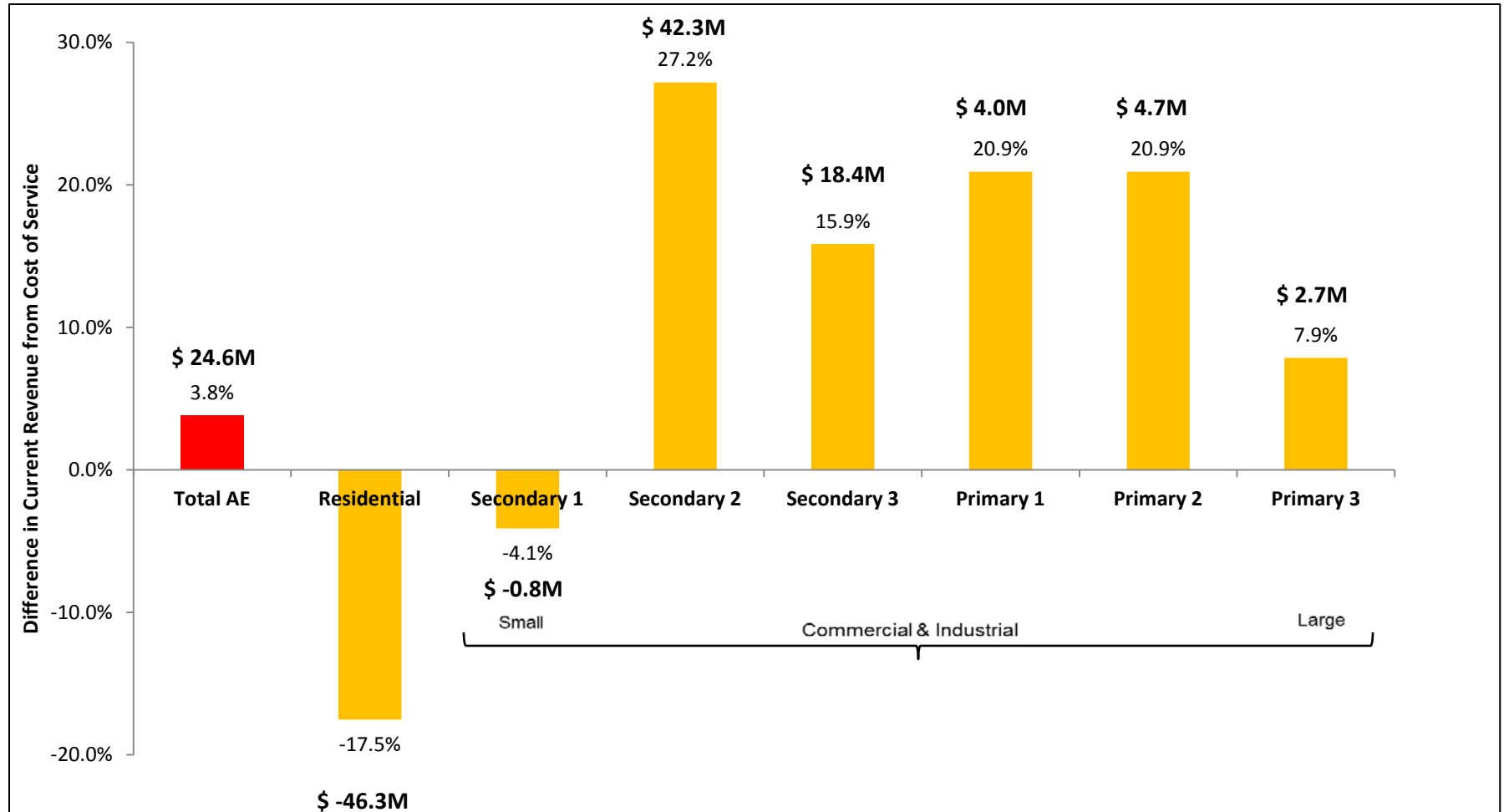


Cost of Service Summary

- Proposed Base Revenue reduction: \$24.6 million
- Commercial and Industrial rates are above the goal for competitiveness
- Customer class allocation imbalances have improved, but continue:
 - Progress since 2009 in aligning revenues with Cost of Service
 - Commercial and Industrial customers continue to subsidize the Residential class



Difference from Cost of Service by Customer Class





Rate Recommendations: Seasonality (summer/winter differential)

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

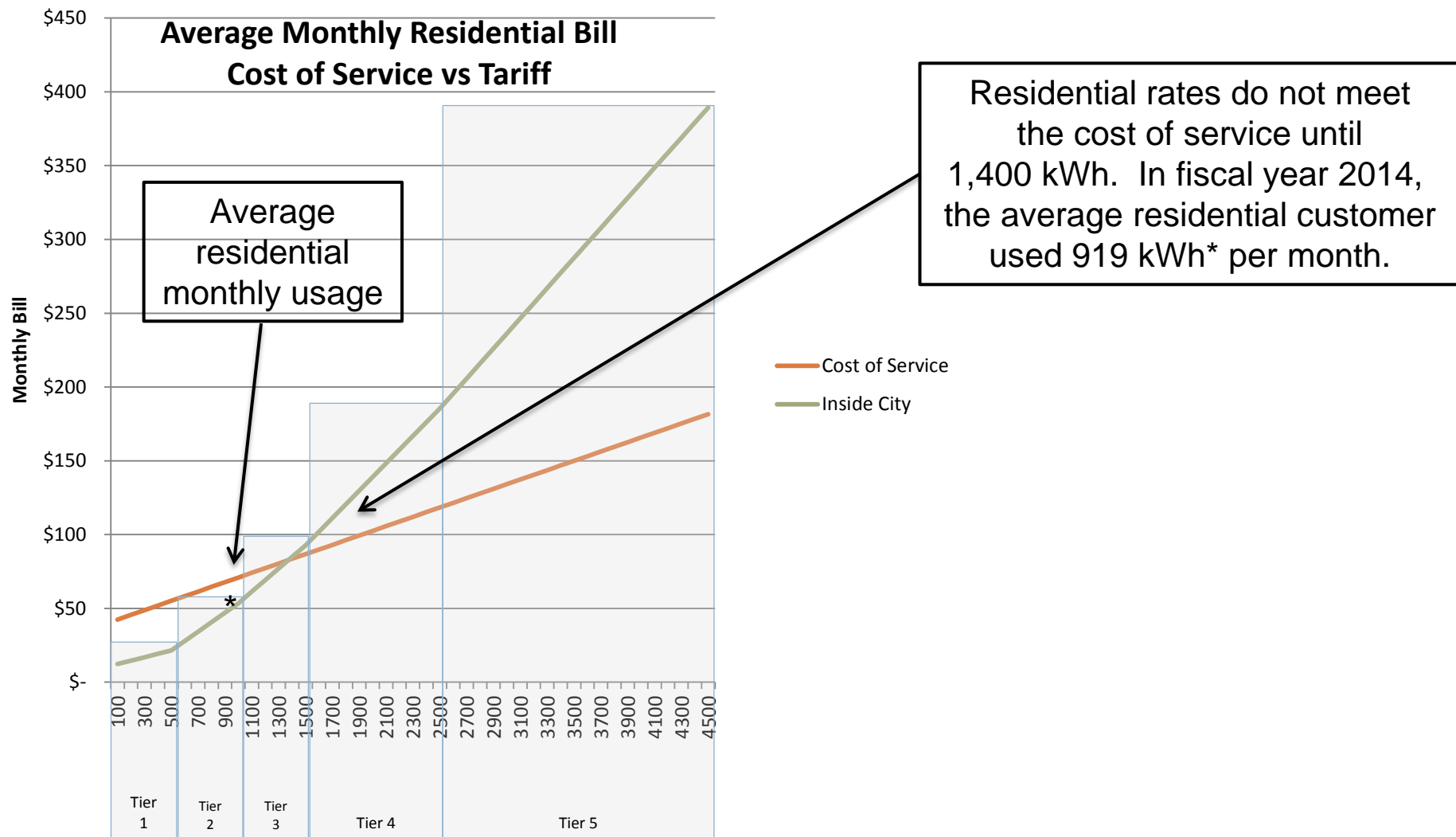


Residential Rate Tier Adjustments

- 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.



Outside City Customers

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



Commercial Rate Structure

- **Maintain:** Substantial modifications to commercial rate structure in 2012
- **Maintain:** 10 kW boundary between S1 and S2 classes
- **Recommendation:** Adjust boundary between S2 and S3 classes to 300 kW
- **Recommendation:** Eliminate seasonality



Commercial Discounts

- **Maintain:** Existing discount for Independent School Districts.
- **Recommendation:** Provide State account discount at conclusion of current contract and add military base discount as required in State law.
- **Recommendation:** For all commercial customers receiving a discount, set discounts in a uniform manner, at 20 percent off of base rates.
- **Recommendation:** Conclude transition providing rate cap for house of worship accounts, discontinuing the house of worship rate.
- **Recommendation:** Add a “load factor floor” for low load factor customers in S2 and S3.



Proposed Allocation of \$24.6 M Reduction: Residential Customers

- Hold total base revenue collections from Residential constant.
- Implement revenue neutral adjustments within the Residential class.
 - Improve revenue stability.
- Additional reduction in Regulatory Charge proposed in budget adoption.



Proposed Allocation of \$24.6 M Reduction: Commercial Customers

- Secondary and Primary Non-residential Classes: No class receive an increase.
- Small Secondary (S1): Hold constant
 - Currently below Cost of Service.
- Mid-size Secondary (S2 and S3): Receive the majority of reductions.
- 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.



Difference from Cost of Service by Customer Class: Current and Proposed

