

Independent Consumer Advocate (ICA)

Austin Energy 2016 Rate Review

ICA Recommendations to the City Council

August 15, 2016

Independent Consumer Advocate Role

The ICA Team:

- John Coffman: Lead Advocate
- Clarence Johnson: Expert Witness
- Janee Briesemeister: Electric Utility Policy Analyst

ICA Mission: To represent the interests of the majority of electric service customers in the Residential and Small Business customer classes, as well as those customers under the Houses of Worship (HOW) designation.

Initial Findings of the ICA

After three months of investigation the performance of its own cost of service study, and the development of testimony, the ICA found that convincing evidence exists to justify:

1. Significant reduction to Austin Energy's revenue requirement.
2. Residential, small business and low income customers deserve to share in the benefit.
3. Don't increase residential first tier.
4. Maintain the Houses of Worship (HOWs) transition and study weekend demand structure.

Other ICA Policy Recommendations:

- No piecemeal rate changes should be made in between transparent rate reviews.
- Do not increase the \$10 residential customer charge.
- Do not re-allocate the Energy Efficiency Services (“EES”) Charge which would shift costs to the residential class.
- All pilot programs should be reviewed by the EUC and the City Council, with performance criteria and evaluation.
- The Prepayment Pilot Program should be the subject of a collaborative stakeholder group, to ensure consumer protections apply.
- No late fees for CAP customers.
- “Pick Your Own Date” billing option for residential consumers.

Revenue Positions after Evidentiary Hearing:

Following a week of cross examination and two rounds of briefing, the parties further honed their positions.

- The ICA recommends an annual revenue requirement reduction of **\$63 million**.

Compared to these revenue recommendations:

Austin Energy – \$ 24.5 million reduction

NXP/Samsung – \$ 115 million reduction

- The Impartial Hearing Examiner (IHE) issued a report on July 15, and then a supplemental report on August 8. The culmination of his rulings supports a reduction of approximately **\$ 75 million**.

ICA Supports a Consumer Compromise

- Revenue decrease of **\$43.4 million** as a reasonable compromise
- Applies **\$5 million** as partial offset of AE's proposed first tier rate increase; maintains AE's proposed "smoothing" of the tiers"
- The base revenues for the S1 (small business)customer class shall be reduced by **\$1 million** from current rates (AE proposed \$0)
- Eliminate late fees for CAP customers
- Continue HOW transition (rate cap and weekday demand measure)

The Modest \$5 Million Revenue Reduction to the Residential Class is Reasonable

ICA's own cost of service study contained in its testimony supported this revenue reduction distribution (based upon a \$63 million reduction and a modified BIP):

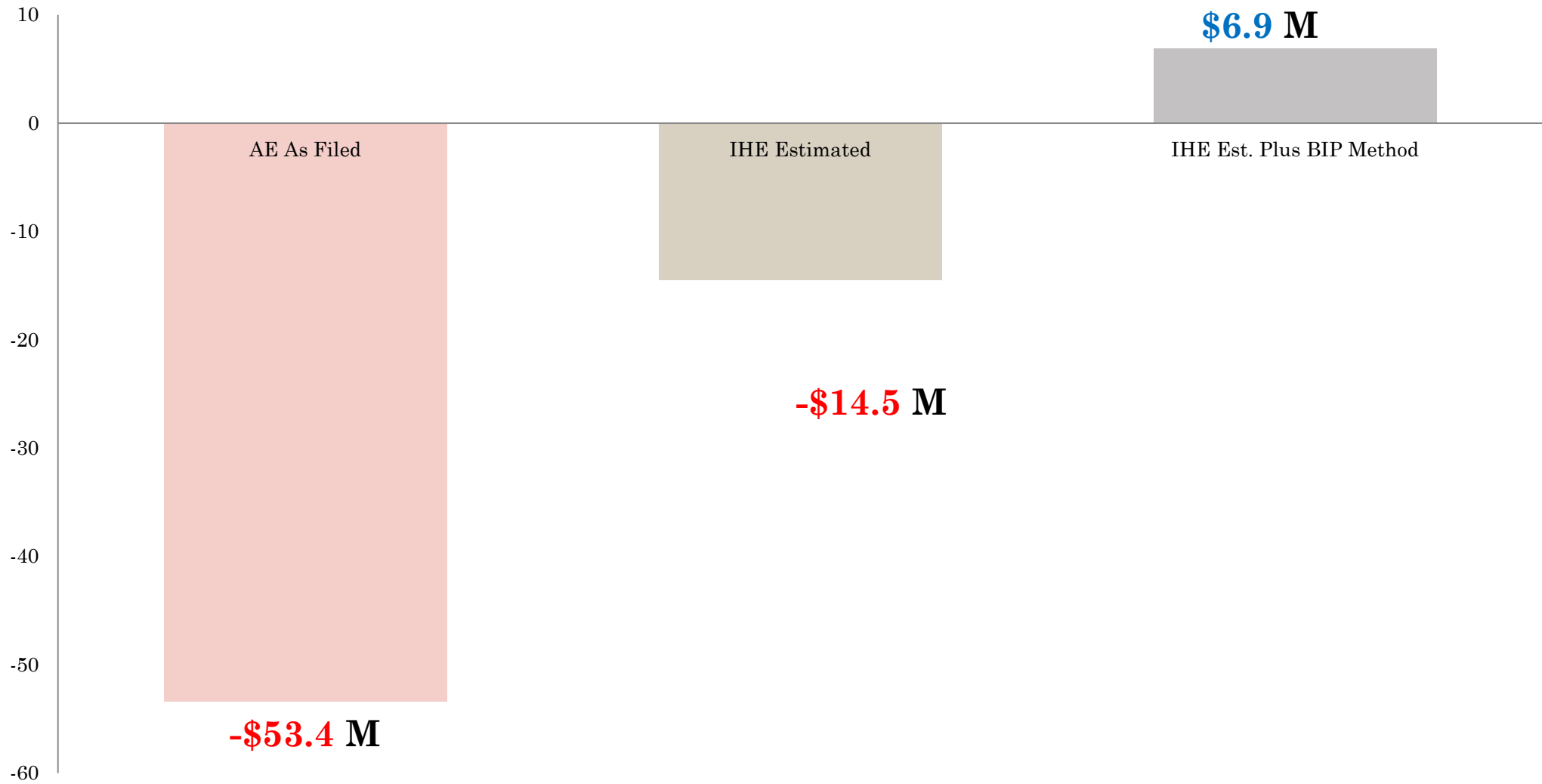
- Residential -8.7%
- Small Secondary -7.1%
- Medium Secondary -9.2%
- Large Secondary -11.9%
- Primary Classes -14.7% to -20.0%

By comparison, the compromise amount of \$5 million for residential customers would amount to an approximate 1% reduction to the class.

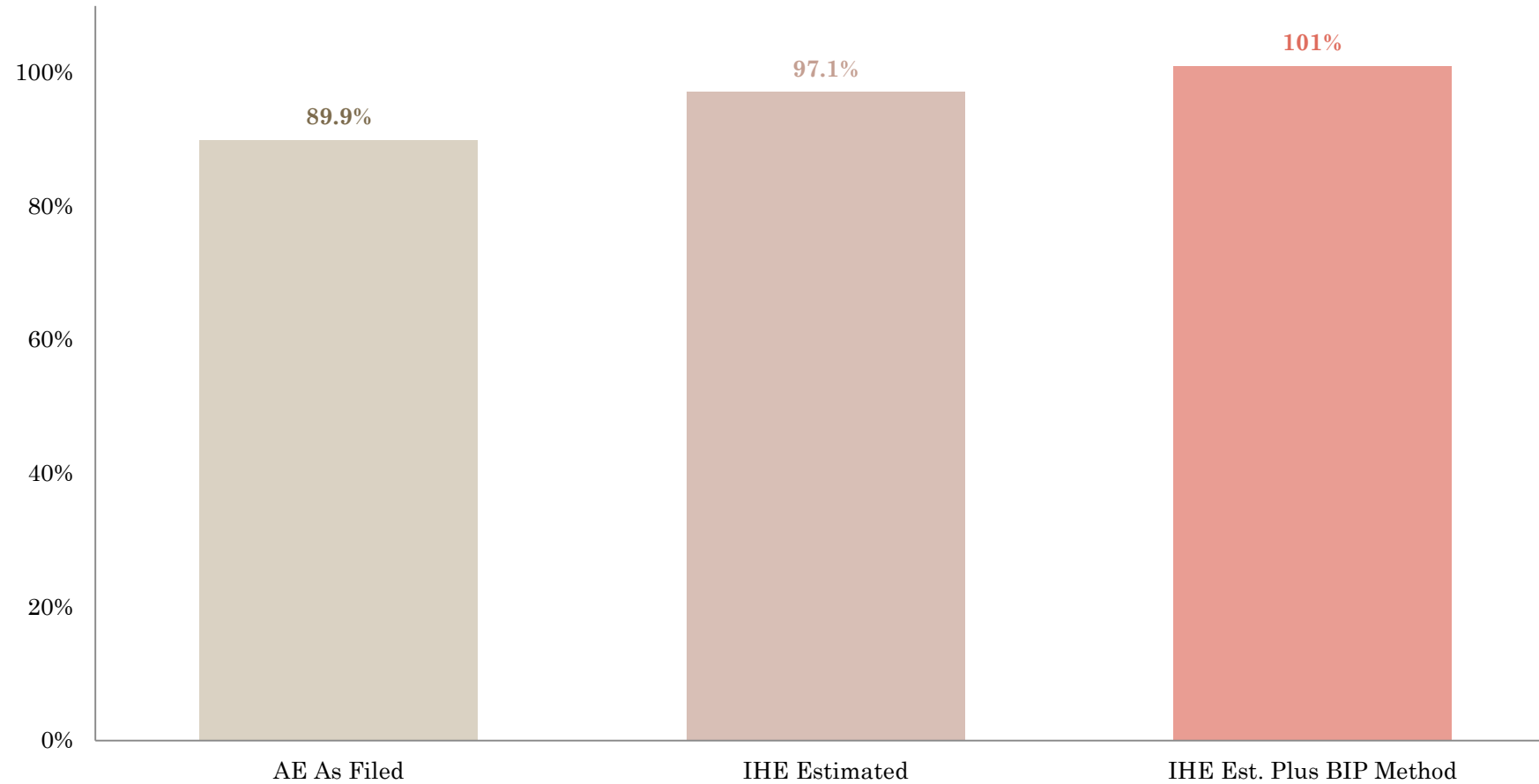
Cost of Service Studies are Merely a Guide

- Three studies with varying results were entered into evidence in this rate review:
 - Austin Energy
 - NXP/Samsung
 - ICA
- The IHE recommended 12 CP, but adopted some allocations proposed by ICA, moving the residential and S1 cost of service closer to our result.
- Each study involves multiple subjective decisions about the categorization, functionalization, and allocation of costs. As the IHE notes, there are a myriad of “correct answers”.

**Residential Cost Recovery:
AE Filed, IHE As Estimated by ICA, and IHE Plus ICA BIP Method**



Residential Current Revenues as Percent of Cost of Service

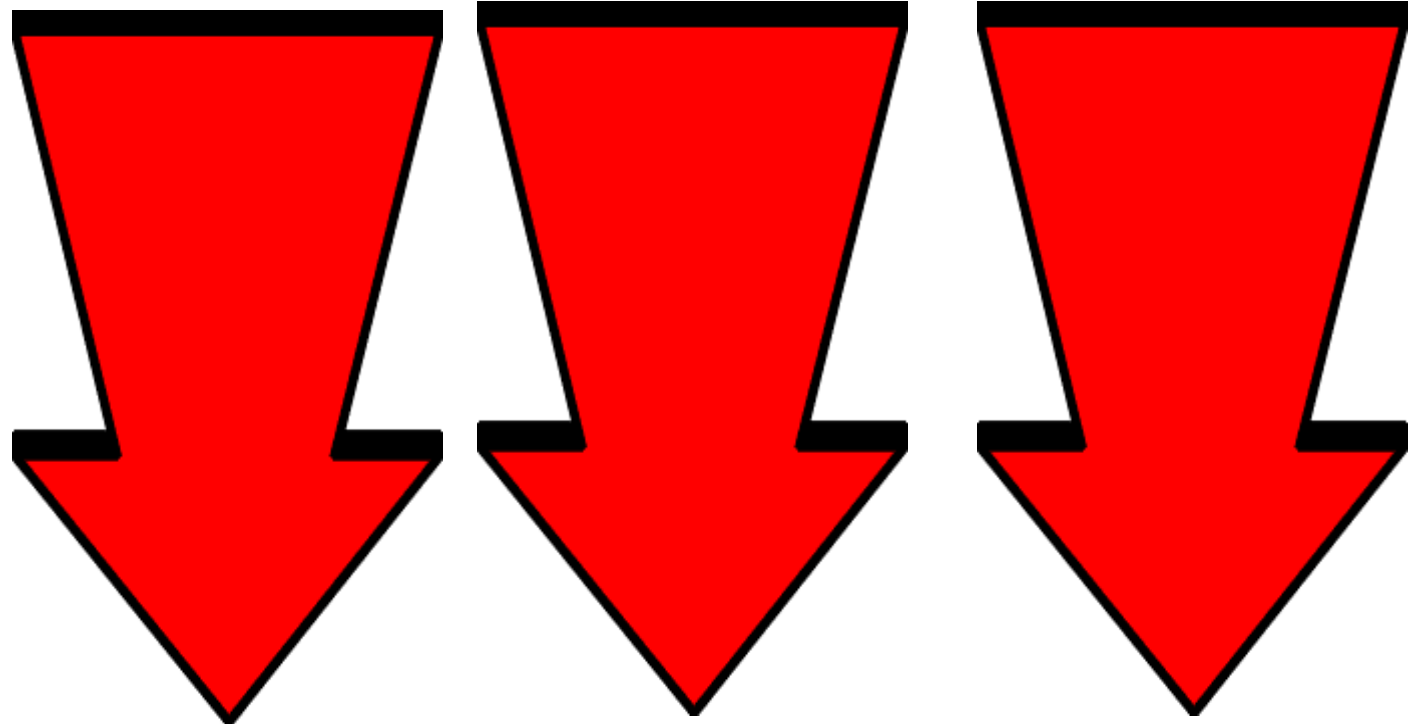


Principles of Utility Rate Design

- Class cost of service studies are not generally applied by utility regulators with mathematical precision nor strictly followed. Typically, a class cost of service study is balanced together with other recognized public policy goals, such as:
 - Gradualism
 - Public Acceptance
 - Avoidance of Rate Shock
 - Fairness and Equity
 - Encouraging Conservation, Energy Efficiency, and Demand Response

Another generally accepted PUC ratemaking principle:

No customer class should receive a rate increase while other customer classes are getting a rate decrease.



Austin Energy's would Raise Base Electric Charges for the Average Residential Customer

- Austin Energy's rate design proposal will result in a 5% in base electric charges for the typical or average residential electric customer (AE FY2017 Proposed Budget Presentation, p. 11).
 - The slope of increasing block rates would be lowered by dramatically shifting costs applied to First Tier usage (up to 500 kwh). This causes the lowest users and the average user to experience a rate increase.
 - Only at the upper range of the Second Tier of usage (500-1000 kwh) would savings occur.
 - Without some mitigation of this rate design change, most households will receive an annual rate increase.

Residential Rate Design (First Tier)

- Austin Energy's proposed changes within the residential class would shift costs from high electricity users to low electricity users.
- The ICA differs with Austin Energy on the cost justifications for this change.
- AE's rate design hurts low usage customers
- AE's rate design runs counter to the goals of energy conservation, by weakening the reward for a customer who makes changes to control their monthly electric bill.

As a compromise, ICA supports a mere \$5 million reduction to the First Tier

- As an offer of compromise, ICA proposes applying the \$5 million reduction to the residential customer class to the First Tier of usage.
- This compromise would merely reduce Austin Energy's proposed \$14-19 million increase slated for the First Tier.
- The majority of the “smoothing” that Austin Energy wants will still occur, lowering the slope of inclining block rates as it had originally proposed.
- However, this compromise will reduce the number of households that would otherwise experience a base electric rate increase.

House of Worship

- Retain the cap of 13.015 cents per kWh
- Retain the practice of measuring peak usage during weekdays only
- Without transition, some HOWs will experience significant rate increases.
- These current provisions should not end until after the planned studies of S1 rate design and peak demand have been completed and after the next rate case is completed.
- Outreach to HOWs for participation in the studies.

Remove Late Fees on CAP Customers

- Consistent with Texas PUC policy
- Supports goals of the program—making electricity more affordable for low income customers
- Reduces built-up debt
- Does not change obligation to pay or disconnection policy
- Endorsed by the IHE

Compromise Will Achieve Balance among ICA, AE and other parties

- Reduces increases to residential first tier; but maintains AE “smoothing”
- Provides rate benefit to smallest commercial customers
- Assists low income customers through elimination of late fees on CAP
- Lowers mid-sized and large commercial and primary class rates more than AE proposed
- Satisfies HOWs