

MINUTES OF THE CITY COUNCIL

CITY OF AUSTIN, TEXAS

Special Called Meeting

November 9, 1977  
8:00 P.M.

Council Chambers  
301 West Second Street

The meeting was called to order with Mayor McClellan presiding.

Roll Call:

Present: Mayor McClellan, Councilmembers Cooke, Goodman, Mayor  
Pro Tem Himmelblau, Councilmember Mullen

Absent: Councilmembers Snell, Trevino

PUBLIC HEARING ON ELECTRIC RATES

Mayor McClellan opened the public hearing scheduled for 8:00 p.m, noting that Councilmembers Trevino and Snell would be absent from the meeting due to other business. She indicated that the meeting was being taped, however, and that the absent Councilmembers could review the proceedings at a later date. Mayor McClellan stated that the Council needed to make a decision as quickly as possible and suggested scheduling another special called meeting for Monday, November 14, 1977, at 5:00 p.m., to decide upon the predicates for the new electric rate structure.

Motion

Councilmember Cooke moved that the Council hold a special called meeting for Monday, November 14, 1977, at 5:00 p.m., as recommended by Mayor McClellan. The motion, seconded by Mayor Pro Tem Himmelblau, carried by the following vote:

Ayes: Mayor McClellan, Councilmembers Cooke, Goodman, Mayor  
Pro Tem Himmelblau

Noes: None

Absent: Councilmembers Snell, Trevino

Not in Council Chamber when roll was called: Councilmember Mullen

MR. PAT LOCONTO, Director of Management/Services Operations for Touche Ross consultants, spoke before the Council. Mr. Loconto indicated that his company prepared its initial report on the cost of service and rate design study on October 6, 1977, and publicly presented the report to the City Council on October 10. He stated that the Council was requested to act on six general areas which were as follows:

1. Adoption of the Methodology Used in the Allocations in the Cost of Service Study.

The last cost of service study was done in the late 1950's. The benefits of a cost of service study were that it would provide the quantifiable common denominator upon which to make decisions, give a base of which to move cost base rates, and once established, a methodology upon which we could rely.

2. Adoption of the Customer Classes as Recommended in the Report.

Mr. Loconto stated the following: "We are recommending 14 different classes of customers; residential type customer broken down to two parts, one with combined fuels, and one with space heat; commercial type service which is essentially general service with space heating, which would be small commercial, would be the non-demand, and also the demand. We have the same categories for commercial customers with combined fuels, the large general service which is commonly referred to as "industrials" which is broken down into 3 categories. Other two categories were City of Austin, which is broken down between Water and Wastewater, Traffic and Street Lighting and all other, and then the last two special categories is the night watchman and special contracts, special contract being the University."

3. Adoption of the Total System Revenue Requirements for 1978 and 1979.

Recommend adopting a 2-year rate, based upon our analysis that this is a major transmission period taking place within the Electric Department. 1979 will be the highest cost year per kilowatt hour, 1980 rates will decline. Essentially, we are recommending that the rates be set based on 1979 essentially debt service requirements. Those rates be superimposed upon 1978 consumption, and the results as presented in the report would produce a total revenue requirement in 1978 of \$144,023,000 (144 million 23) and that would compare to the current rates without the fuel credit of \$144,045,000, so essentially the current rates without the fuel credit and the recommended rates that we are recommending would essentially be the same for 1978. In 1979 the key year, we are recommending total revenue requirements of \$152,444,000 which compares to what the current rates have produced without fuel credit again of \$167,296,000.

4. Adoption of the Revenue Requirements by Customer Class.

Touche Ross recommends that the Council adopt the City Electric Department's recommended 1.4 differential between commercial and industrial and residential customers. The justification for the differential essentially is a historical justification which is

presented in the report and essentially reflects a perceived higher risk on the part of commercial and industrial customers as opposed to residential. It recognizes that these businesses can deduct these expenses for tax purposes and, therefore, get a tax deduction. It is a recognition of the value of service to industrial versus residential. It reflects an ability to pay and also an ability to pass on the cost through pricing.

5. Adoption of the Fuel Clause to allow for Revenue Collection of Fuel Costs Only.

We are recommending a shift to a fuel clause, which will recover essentially dollar for dollar the fuel costs that are incurred, and only the fuel costs that are incurred.

6. Adoption of a Rate Management Program.

We are asking the City Council to adopt as a policy that they want a rate management program within the City of Austin and are willing to support such action, and essentially gather a great deal more data than they now have to that the better identification of load characteristics and load patterns by not only the classes we have identified, but by sub-classes within those classes and to constantly update and look at the rate structure as it finally develops in order to react to changing characteristics, use patterns, whatever.

Mr. Loconto said, "Once we get the decision to move, assuming no major recalculations are required, we would be ready to give you a proposed rate design and rate impacts in two weeks. If a different differential is selected, it possibly could add at least one week to that. But, I am talking about our reaction time. We are saying if other than a 1.4 is selected, you would have to add 2 to 3 weeks to the 2 weeks that I talked about."

Councilmember Cooke asked what the fiscal impact would be if the City adopts the recommendations of the consultants. Mr. Loconto stated that there would be no commitment from a financial viewpoint until after the City decided to adopt the philosophy of having one. Councilmember Cooke asked if any attention had been given to the rate structure of the 1980's, beyond the scope of the currently proposed rate structure. Mr. Loconto indicated that his company did not forecast beyond 5 years. He stated that it was difficult to project that far ahead due to all of the variability that could occur within the rate structure.

The Mayor asked if T. P. & L. had a 1.39 differential. Mr. Loconto stated that in the last order of the Commission, differential came out to be a 1.39. The Mayor asked if this was upheld by the Public Utility Commission and Mr. Loconto answered it was their decision essentially. The Mayor asked about the more recent decision on Texas Electric. What was the differential there? Mr. Loconto replied, "On Texas Electric the order just came out recently, but we attempted to calculate or estimate what the differential was. The reason we cannot be accurate about it, was there is no specific adoption in the order of any cost of service. It was more than one cost of service study presented. There was no specific adoption of which allocations were adopted or not adopted, but you know we estimated the differential and it came out to be

approximately 1.2 in the Texas Electric case. And I should mention that the order itself said specifically that there was evidence in the record that the rates of return should be equal. However, they did not want to move all at once in that direction, but it was their desire to move in that direction. So I would say that the drift right now at the Commission, at least staff level, is equal rates of return. As opposed to differentials. I don't particularly agree with that view but that's where the drift is."

Councilmember Cooke stated that this particular study doesn't move in that direction.

Mr. Loonto made the following statement: "Well, this particular proposal could move in that direction, because we have some instances where differentials were higher than 1.4 when we started. You know what this proposal is, is essentially what we feel you need to get you through the transition period and we are in no way saying you know 1.4 is the magic number, or 1.5 or 1.45 or 1.2 for that matter. All we are saying is this appears to be the best thing we can do in this 2-year period, and the rate management program becomes very important to look at during that 2-year period so the next time around that we have a little better basics upon which to move from there. You know, the 1.4 is really an end result type number. It produces an end result which appears to be, at least before we go to the actual rates, appears to be bearable if you will by all parties concerned. The important thing is once we decide on whatever differential we do, we have got to look at a rate structure which will impact different customers in each group in a different way, and that is what we have got to be concerned with and see whether there is any 100% increase versus, you know, 50% decrease."

Councilmember Goodman asked if different kinds of fuel being used accounted for the rate of return. Mr. Loonto stated that it did not in that rate of cost to maintain the system would be set after which a return differential based on socio-economic factors would be set also. Councilmember Goodman asked if a 1.45 differential would be defensible. Mr. Loonto felt that, in his opinion, anything the Council adopts would be justifiable as long as it was by majority vote and was not capricious.

MR. EUGENE REEDER, JR., was concerned about some of the recommendations being cost effective. Mr. Reeder indicated that he would speak on the following criteria:

1. The projected system revenue requirement.
2. The excess generating capacity management.
3. The general fund transfer policy.

In regard to the system revenue requirement, Mr. Reeder pointed out that the absence of historical data in the report made it difficult to compare the cost effectiveness of the recommendations. Mr. Reeder indicated that there would be an excess of generating capacity due to the future use of coal, lignite and nuclear energy. He stated that inefficient generating capacity could be replaced with more efficient generating capacity. He questioned if there was a more effective resource means of utilizing the excess capacity. Mr. Reeder stated that safeguards needed to be built into the rate policy which would

assure that excess capacity revenues be passed on to the rate paying customer. In regard to the general fund transfer policy, Mr. Reeder pointed out that the policy is not reflected in the operating statements of appendix number 3 of the report.

MR. BILL NALLE, representing Nalle Plastics Company, addressed the revenue adjustments as is related to the different classes of customers outlined in the report. He indicated that increasing industrial rates would force industry out of the Austin area. Mr. Nalle felt that rate increases should be shared equally throughout the community and that industry should not have to carry the main burden of cost for the system.

MR. AHMAD SHARIF passed on his turn to speak before the Council.

MS. DELLA PHILLIPS, a senior citizen, stated that she was concerned about the rate increase for the individual consumer. She hoped that the Council would study the rate proposals to the best interest of the community.

MS. C. RUTH UPSHAW indicated that the previous speaker, Ms. Phillips, had adequately expressed what she had wanted to say and therefore passed on her turn to speak before the Council.

MR. BILL HART, President of Hart Graphics, made a presentation to the Council. (See Appendix I)

MR. BOB MOSSMAN, Facilities Manager for Texas Instruments of Austin, also made a presentation before the Council. (See Appendix II)

MR. SAM GRAHAM, Vice-Chairman of the Electric Utility Commission, spoke before the Council in regard to 1.5 differential recommended by the Commission. He stated that one of the objects of rate reform is to try and get the lowest rate of return possible for both residential and commercial users. He also felt that the 1.5 differential was reasonable. Mr. Graham indicated that industrial users could shift the increased cost of utilities whereas a residential user would have to absorb the increase. He pointed out that one of the things that is looked for in determination of plant locations is the reliability of the electric system in the area. Mayor Pro Tem Himmelblau stated that she was concerned about raising the differential because major users such as the State have already initiated a feasibility study as to the possibility of obtaining energy from LCRA. Mr. R. L. Hancock, Director of the Electric Utility Department, verified this to be true. Mr. Graham, however, submitted that Travis County lobbyists in the Legislature could be used to counter this. Mayor McClellan asked Mr. Graham if it would be advisable to call Touche Ross in to testify in defense of whatever rate differential is decided upon. Mr. Graham replied that that would be the proper thing to do.

MR. STEVE MILLER, Manager of Plant Engineering for Glastron Boat Company, told the Council that his company opposed the proposed restructuring of the City's electric rates on the basis that rate increases to specific large users are not economically justifiable. He stated that Glastron felt that utility rates for various classes of customers should be generally related to the cost of providing services to those customers. The proposed rate structure abandons the City's historical philosophy that large volume users cost less to supply than small users and therefore are entitled to rate discounts. Mr. Miller

indicated that his company's utility costs have more than doubled in the past three years with negligible increases in consumption. Continued increases in utility rates will make Glastron and many other Austin industries less competitive and will discourage growth of new and existing industries in the Austin area. Consequently, Glastron urged that the proposed rate structure be realigned to reflect the lower cost of providing service to large volume users.

MR. JAMES GUERIN, attorney representing I.B.M., stated that his company felt that everyone should pay a fair share of the cost of electricity. Mr. Guerin indicated that his company felt that the fairest rate structure would be one which allocates cost on an economic basis and reflects the City's actual cost of providing such services to its customers. He stated that the City should incorporate into its rate structure, factors other than considerations for cost of service. Mr. Guerin indicated that the best way to cut down on energy expenditure was by conservation and made reference to an energy conservation seminar to be hosted by I.B.M. on November 15, 1977.

MR. RICHARD WORELL, representing I.B.M. also, passed on his turn to speak in lieu of the previous remarks made by Mr. Guerin.

MR. ROBERT JONES, Electrical Engineer (P.E.) representing the Motorola Company, told the Council that his company firmly agreed with many of the comments made by the previous speakers. He stated that the Motorola MOS Semiconductor plant located in Austin based its amount of productivity on what its operating costs are. He indicated that Motorola has recently bought land in south Austin for construction of a new Automotive Division plant and that plans to build on the site will be contingent upon what the business climate in Austin is in the near future. Mr. Jones also presented the Council with a copy of the Touche Ross response to information requested by the Electric Utility Commission. (See Appendix III). He indicated that this material gave ample justification for not choosing a 1.5 differential as recommended by the Commission to the Council.

MR. GARY WEED, a science instructor, told the Council that he was in support of the 1.5 differential. He felt that no matter what rate differential is chosen, the residential user would wind up paying for it anyway. Mr. Weed indicated that there was little that residential users could do to decrease their utility costs and that they just had to deal with it. He indicated that it was much easier for commercial users to absorb such increases within their operating costs. Mr. Weed pointed out that industry could reduce its utility costs by means of conservation.

MS. BARBARA CILLEY spoke in favor of the 1.5 differential. She felt that the 1.4 differential did not make very much of a difference. She stated that the Council owed it to the majority who represent residential usage, to give them the best deal they can come up with. Ms. Cilley stated that she was in favor of the rate maintenance program as proposed by Touche Ross consultants. This would allow the City to periodically monitor the performance of the rate structure without an additional cost for consulting fees.

MR. JEFF CASE, President of the Texas Student Publications Board of Operating Trustees, told the Council that he hoped some research could be done into the prospect of peak load demand pricing. In regard to the nightwatchman program, Mr. Case stated that this program has great value from the standpoint

of security. Mayor Pro Tem Himmelblau indicated that she would like to see a test run of peak load demand pricing.

MR. RICH ELLMER passed on his turn to speak before the Council.

MS. SHUDDE FATH also passed on her turn to speak before the Council.

Mr. Loconto spoke on the area of projected revenue requirements. There was a question as to whether these requirements were cost effective which Mr. Loconto took to mean, does the revenue requirement reflect efficient operations. Mr. Loconto indicated that there had been no efficiency study done. Touche Ross had accepted the costs at the level they were and projected what they would be on certain economic assumptions. In regard to the excess capacity, Mr. Loconto indicated that the proposed fuel cost adjustment clause would take into consideration any sale or purchase of power. In regard to transfers to the general fund, Mr. Loconto indicated that one of the goals of the City was that the utility would earn a return on investment which would be equivalent to what a privately-owned or investor-owned utility would earn. Another goal was that it would transfer to the general fund, funds which would be equivalent to a normal dividend pay-out policy of an investor-owned utility. Mr. Loconto indicated that Touche Ross proposed that after 1979, with more information being gained in the interim period of implementation, the utility would move to a rate of return concept where it will get a fair rate of return on investments and it will transfer to the general fund an amount equivalent to what a normal public utility would pay out through dividends and shareholders. In regard to the lower T. P. & L. differential and utility costs, Mr. Loconto indicated that T. P. & L. has a lower fuel cost. They have a lower fuel cost per kilowatt hour of fuel because they have already converted to lignite and a major portion of their generation is accomplished with lower-cost fuels.

Mr. R. L. Hancock, Director of the City Electric Utility, stated that it was an accepted practice among utilities to operate the system in the most cost effective manner. In regard to system reliability, Mr. Hancock stated that this was due to administration and the 650 employees in his department. In regard to nightwatchman, Mr. Hancock indicated that this was a very difficult program to evaluate.

MR. JOE RIDDELL stated that the methods by which Touche Ross arrived at their calculations were limited by the data they had to work with. In regard to the recommendation that the City have a rate management study, Mr. Riddell indicated that this did not have to be decided upon right away and suggested postponing this for awhile. In determining the amount of revenues that will be coming from the different customer classes, Mr. Riddell indicated that the 1.5 differential will save residential users about \$5.7 million in the 1978 fiscal year and about \$6.1 million in the 1979 fiscal year. The 1.5 differential would save small businesses not quite a million dollars in fiscal 1978 and a little over a million dollars in fiscal 1979. He indicated, however, that these figures may need to be adjusted as the City was already into fiscal year 1978. Mr. Riddell went on to translate these figures down for an individual residential user. He pointed out that even with the 1.5 figure the City would still be getting a certain amount of return from residential users.

MR. RICH ELLMER, a member of the Electric Utility Commission, spoke in regard to the minority report from the Commission, which favored a 1.4 rate

differential. He indicated that there was too much of a disparity between residential rate decreases and industrial rate increases per varying differentials. From a commercial standpoint, Mr. Ellmer stated that businesses had to set their prices at competitive rates and that raising these prices to offset increased operating costs was bad for their sales.

Councilmember Goodman moved that the Council close the public hearing. The motion, seconded by Councilmember Cooke, carried by the following vote:

Ayes: Councilmembers Cooke, Goodman, Mayor Pfo Tem Himmelblau,  
Councilmember Mullen, Mayor McClellan

Noes: None

Absent: Councilmembers Snell, Trevino

ADJOURNMENT

The Council then moved to adjourn at 10:35 p.m.

  
Mayor

ATTEST:



City Clerk



# *hart graphics*

**& OFFICE CENTERS, INC.**

8000 SHOAL CREEK BLVD. 78758 • P.O. BOX 968 AUSTIN, TEXAS 78767  
512/454-4761

((APPENDIX I))

**TO:** The City Council, City of Austin  
**FROM:** William L. Hart  
**DATE:** November 1, 1977  
**SUBJECT:** Electric Utility Rates

Hart Graphics, formerly Steck-Warlick and the Steck Company, owns and occupies a 165,000 square foot building at 8000 Shoal Creek Blvd. right off Anderson Lane. We employ 250 people, 230 located at 8000 Shoal Creek Blvd.

We believe that the proposed restructuring of the city electric rates that will increase the electric utility costs to industry as much as 12% are insupportable by any recognized economic analysis including that of the city and its consultants. Our comments and objections to this rate proposal are based on two premises:

1. That the proposed surtax is not economically justified.
2. That the proposed surtax is in fact a subsidy to a segment of our citizens and as such should be included in the portion of the general fund budget, not as a discriminatory utility rate increase.

In 1974, our power consumption for the 12 months was 3,669,000 KWH. Because of the energy shortages and requests of the city administration to reduce consumption by every means possible, we undertook a crash program to do just that. We have been so successful that our power consumption for the 12 months, July, 1976 through June, 1977, was reduced to 2,429,000 KWH. This is a 1,240,000 or 34% reduction! At the same time, we added new printing machinery to our plant and the value of printing produced in our plant increased from \$6,000,000 to \$8,000,000, a 33% increase.

We believe the greatest contribution to our savings of energy was due to a \$20,000 modification we made in all our heating and air conditioning controls. We operate two and three shifts in our plant so some of our consumption takes place at night when power demands are the least. We begin our largest shift at 7:30 a.m. before demands on the city's energy system reach midday peak loads. Our plant's energy efficient operation depends on accurate temperature and humidity controls. Heat, cooling, and/or moisture loss or gain through the large expanse of our flat roof is of concern to us. We have applied for federal technical assistance in an effort to alleviate this problem. We got absolutely no help. However, we have made a financial grant to the Engineering department at the University of Texas and they have assigned a graduate team to survey the situation and recommend economically viable solutions that will further reduce electrical consumption.

So, all in all, we believe we have an exemplary record of trying to cooperate with the city to conserve electrical consumption.

Even though our consumption has been significantly reduced, the increasing cost of energy has gone through the ceiling! Here are the figures:

	<u>1974</u> <u>12 months</u>	<u>1976-1977</u> <u>12 months</u>	<u>% of</u> <u>+ or -</u>
KWH Consumption	\$3,669,000	\$2,429,000	-34%
Value of Goods Produced	\$6,000,000	\$8,000,000	+33%
Average Rate per KWH	.0223	.0415	+86%
Annual Fuel Bill	\$ 82,000	\$ 102,000	+24%
Monthly Rate	Jan., 1974--\$.0184	Aug., 1977--\$.0417	+127%

Had we not reduced our electrical consumption, our current electric bill would be \$203,486 based on the a 33% growth of our business since 1974 and a 127% rate hike!

Hart Graphics' electrical utility costs are one and one half the average costs in the printing industry. These "extra" utility costs amount to about 10% of the average profits after taxes in our industry which, unfortunately are less than 5% of sales.

As I understand the proposed rate restructure, we will be subject to another increase over current high rates. This means that regardless of what voluntary action we have taken to reduce consumption, we will be charged a surtax to subsidize other electric consumers who may or may not have taken voluntary action to reduce their usage.

In this same time frame, 1974-1977, the individual all electric residential user (class 230) has also suffered rate increases. Since my personal residence falls in this category, these figures are taken right from my utility bill:

	<u>Jan., 1974</u>	<u>Aug., 1977</u>	<u>% Change</u>
KWH Consumption	4279	4482	+4%
Rate Per KWH	.0258	.0418	+62%
Monthly Bill	\$110.39	\$187.34	+70%

While Hart Graphics commercial rate since January, 1974, has jumped 127%, the all electrical residential rate has increased only 62%. Also, you will note the commercial and residential rates are now almost identical at .0417 and .0418. So, there is no current justification for assumptions that industrial users are paying less than residential users.

Touche Ross recommends a rate differential based on rate of return on investment to 14 classes of customers. They justify a much higher rate of return from industrial users because of an assumed higher rate of risk. In fact, the majority report of the Electric Utility Commission recommended a higher differential in rate of return than Touche Ross recommended as the absolute maximum, much higher than Touche Ross considered to be comfortable and higher than T.P. & L. and C.P. & L. actual experience rates.

Since the risk factor is at best only marginally supported statistically, then utility rates should generally track costs, i.e.:

1. Cost of generating a KWH of electricity
2. Cost of distribution to the user.
3. Cost of servicing and billing the user.

I assume that the cost of generating and servicing are relatively constant per customer. The variable factor would then seem to be the cost of getting the electricity from the main trunk lines throughout the city to each individual home or business. I would assume that the installation of the service lines and the meter box are a one time installation charge and that any differential in these cost would not be reflected in the monthly rate per KWH.

It follows that the City of Austin can annually produce and deliver to Hart Graphics 4,000,000 KWH of electricity at less cost than it costs to deliver annually 40,000 KWH of electricity to 100 residential users. The cost of running the lines and setting 100 meters instead of two meters and reading the meter, keeping the accounts and billing 100 different customers is simply more expense than it costs to deliver and bill to one user. In addition, Hart Graphics is generally not going to pose any collection problems and generate few, if any, service calls for removal of service, etc. The risk of doing business with Hart Graphics would seem to be less than the risk of doing business with 100 residential users.

Private business does not pay their electric bills or their taxes--their customers pay. But, customers are generally pretty indignant about paying too high electric rates and taxes. Sooner or later, and generally sooner, they rebel, and quit becoming customers.

Pure economic rationale would conclude that a volume user of electric power should be entitled, from a strictly cost factor, to a rather substantial volume discount over a residential user. In fact, that's what the City of Austin has encouraged for years with their all electric rates.

Since the cost figures seem to be conclusive that higher commercial rates are not economically justified, then any action to further increase the differential can only be justified by a desire to structure rates on the basis of ability to pay. This then becomes a social issue. It is not my intention to discuss the merits of social or political issues. If the council feels an obligation to provide a financial subsidy to homeowners, then this subsidy should be in the form of a tax rebate, or by inclusion in the social services section of the city budget. In this manner, the subsidy becomes a budget consideration and if the taxes need to be raised, then all taxpayers share the load, not just a few.

Finally, I make this observation. The city and school taxes on our real property increased from \$25,256 for 1974 to \$35,437 in 1977, a 40% increase, totally due to revaluation.

Manufacturing businesses are being forced to consider if they can economically justify operating a substantial manufacturing operation within the City of Austin. New employers have, in some cases, already reached the decision that Williamson County offers economic advantages not available within Austin. Our company's electric costs in Williamson County under Texas Power & Light Company would have been \$62,000 over the same 12 month period referred to above. That's a \$40,000 savings annually. Either their rate structure is considerably less or their risk differential is much lower than Austin. Sizable savings can also be realized in property taxes. Assuming that both electric power and taxes are going up no matter where a business is located, the rate of acceleration and the trends established and proposed by the city council force consideration of all alternatives, including moving.

I urge the council to:

1. Not impose the utility surcharge on large electric consumers.
2. That if rate relief is socially desirable, that it be accomplished through the general tax fund budget.

If you do impose this surcharge, you will further pollute the atmosphere for large businesses in Austin and cause the removal of jobs from the community--the same people you had hoped to benefit from this unwise surcharge proposal.

Respectfully,

*William L. Hart*

William L. Hart  
President

WLH/pm

TEXAS INSTRUMENTS PRESENTATION TO THE  
AUSTIN CITY COUNCIL NOVEMBER 9, 1977 ((APPENDIX II))

We would like to commend the City of Austin for funding a cost of service study for our electric utility system. It is now possible to determine, in a reasonable manner, what it costs to serve various classes of customers and the rates of return which can be expected for various revenue allocations.

We are especially supportive of the recommendation found in Chapter VII of the Touche Ross & Company study where it is stated: "We recommend that the City of Austin immediately undertake the necessary commitment and investment to establish a rate management program." Such a program is vital if we are to know where we've been and where we're going.

Methods used in compiling and analyzing data in cost of service studies are always subject to debate, but often times such debates are over differences which do not materially affect final costs. Therefore, we do not wish to initiate lengthy debate but merely state that, based on the limited information we have available (namely, the Touche Ross October 6th report), unanswered questions remain:

1. Should transmission and distribution plant be allocated based on peak demand or should costs be derived by customer class if historical data are not available?
2. Should customer costs be allocated based on consumption or should actual costs be pursued?
3. Have the Construction Work In Progress funds been estimated and assigned to the rate base properly?
4. Why are there no load curves shown for LGS customers in the report?

Finally, there is one area of the study that does cause special concern - the proposed rates of return for various customer classes.

The Touche Ross report on page 16 states: "It is generally accepted in the utility field that the commercial and industrial type customer groups should produce a higher rate of return than residential type groups." While this may have been true in some historical rate cases, in the proposed Substantive Rules of the Public Utility Commission of Texas, it was specifically stated that: "The Commission may establish specific rate structures, and until such rate structures are established, rates shall be designed so that the rate of return on investment from each class of customers shall, as nearly as practical, be equal to the overall rate of return for the utility." We recognize that this language has been deleted from the final rules, but we have been informed that the words, "unreasonably preferential, prejudicial, discriminatory, sufficient, equitable and consistent in application to each class of service," which were in the proposed rules, and which still remain in the adopted rules, rendered the previous explicit statement unnecessary inasmuch as they address the same issue.

To illustrate that this remains the intent of the Public Utility Commission; (i.e., equalization of rates of return by customer class) let me quote from the recent Final Order (November 2, 1977) of the Public Utility Commission of Texas in the matter of the application of Texas Electric Service Company for a rate increase: "The Commission is sensitive to the need to move all rates in the direction of costs and is aware that there may be evidence in the record to support each customer class paying the system wide rate of return; however, The Commission is concerned that too abrupt a change in rate levels may place an undue hardship on some customers. It is the desire of The Commission to move toward cost-based rates in moderate steps."

To illustrate that this is not an isolated case, let me quote from the most recent Dallas Power & Light rate case (I quote from the examiners report): "In allocating the additional revenue requirement among the rates, higher percentage increases were placed on those rates with a rate of return below the system average and lesser percentage increases on those rates with return above the system average.

DP&L's stated intention was for each of the rates to bear a more equitable share of the Company's total cost of providing service. Even so, the Company's proposed rate of changes do not equalize the contribution to total return from each of the customer classes. The cost of service study revealed such a wide disparity between classes that equalization of the returns in one adjustment would impose an unreasonable increase on several classes of customers. Therefore, the company took the position that rate reform should be transitional; only an incremental step should be taken at this time."

Thus, we find that the philosophy of equalizing rates of return by customer class has influenced the action of our Public Utility Commission and has been evident in local rate hearings as well. In both cases, the disparity between existing rates of return by customer classes was so large (just as we have here in Austin), that the regulatory bodies took only incremental steps to equalize them. But the trend is obvious: "non-discriminatory, equitable and consistent (in) application to each class of service" includes equalization of rates of return based on cost of service.

I would direct your attention to the foldout sheets in the Touche Ross report.

One will observe that for the year ending Sept. 30, 1978, the existing rates lead to larger rates of return for General Service and Large General Service customers than all other classes and under the proposed rates, two of the General Service and all of the Large General Service rates of return disparities are pushed even higher. In 1979, even though the general revenue requirements are proposed to be reduced, one can observe that Residential and City customers will return about 3.5% while General Service and Large General Service customers return over 8% - 2.3 times as much!

Recommendations

In conclusion we recommend:

1. The City establish a rate management program.
2. There be a careful examination of Construction Work in Progress funds that are assigned to the rate base.
3. Transmission and distribution costs be allocated on historical or derived costs by customer class.
4. Customer costs be allocated on historical or derived costs by customer class.
5. Load factor should be considered in setting rates for classes of customers.
6. If there is a risk in serving various classes of customers, this should be quantified through historical analysis and then applied as costs to serve each class of customer.
7. If there is to be a rate change, any change should include a move toward equalization of rates of return by customer class.



CITY OF AUSTIN

RESPONSE TO  
UTILITY COMMISSION'S  
INFORMATION REQUESTS

October 17, 1977

GUADALUPE VALLEY ELECTRIC COOPERATIVE

COMPARISON OF INDUSTRIAL TO OVERALL RATE OF RETURN

<u>Company</u>	<u>Year</u>	<u>Rate of Return</u>		<u>Ratio of Industrial to System</u>
		<u>Industrial</u>	<u>System</u>	
<u>Alabama Power Company (A)</u> (Utility)	1974	6.02	4.94	1.22
<u>Alabama Power Company (A)</u> (Utility)	1975	6.08	5.71	1.06
<u>Arkansas Power &amp; Light Co. (A)</u> (Utility)	1974	9.75	6.51	1.50
<u>Arkansas-Missouri Power Co. (A)</u> (Utility)	1974	9.06	5.10	1.78
<u>Boston Edison Company (A)</u> (Utility)	1974	8.60	6.52	1.32
<u>Boston Edison Company (A)</u> (Utility)	1975	9.38	7.51	1.25
<u>Central Maine Power Co. (A)</u> (Utility)	1974	8.59	6.80	1.26
<u>Central Maine Power Co. (A)</u> (Utility)	1975	7.29	7.16	1.02
<u>Columbus &amp; Southern Ohio Electric (A)</u> (Utility/Intervenor)	1974	5.36	4.82	1.11
<u>Commonwealth Edison Co. (A)</u> (Utility) (Ill.)	1973	8.50	8.83	0.96
(Utility)	1973	8.43	8.83	0.95
(Utility)	1973	10.01	8.83	1.13
(Utility)	1973	9.92	8.83	1.12
<u>Consolidated Edison Co. of N.Y. (A)</u> (PUC Staff)	1971/72	7.28	7.16	1.02
(Utility)	1970	7.85	6.41	1.22
(PUC Staff)	1971/72	8.12	7.16	1.13
<u>Consolidated Edison Co. of N.Y. (A)</u> (Utility)	1972	8.80	7.67	1.15
(PUC Staff)	1972	8.59	7.71	1.11
(Intervenor)	1972	8.38	7.67	1.09
(Examiner)	1972	8.80	7.71	1.14

(A) Source: Profiles in Electric Issues Vol. I, No. 1, February 1977

GUADALUPE VALLEY ELECTRIC COOPERATIVE

COMPARISON OF INDUSTRIAL TO OVERALL RATE OF RETURN (CONTINUED)

<u>Company</u>	<u>Year</u>	<u>Rate of Return</u>		<u>Ratio of</u>
		<u>Industrial</u>	<u>System</u>	<u>Industrial</u>
				<u>to System</u>
<u>Consolidated Edison Co.</u>				
<u>of N.Y. (A)</u>				
(Utility)	1973	11.82	9.97	1.19
(Examiner)	1973	11.91	9.97	1.19
(Examiner)	1973	11.11	9.97	1.11
<u>Consolidated Edison Co.</u>				
<u>of N.Y. (A)</u>	1974	9.93	8.72	1.14
(Utility)				
<u>Consumers Power Company (A)</u>	1973	5.75	5.46	1.05
(Utility) (Mich.)				
<u>Consumers Power Company (A)</u>	1974	7.01	6.60	1.06
(Utility)				
<u>Dayton Power &amp; Light (A)</u>				
(Utility)	1974	6.20	6.99	0.89
(Utility)	1974	7.20	6.99	1.03
(Utility)	1974	6.64	6.99	0.95
(Utility)	1974	6.73	6.99	0.96
<u>Delmarva Power &amp; Light Co. (A)</u>	1974	8.89	8.68	1.02
(Utility) (Del.)				
<u>Detroit Edison Company (A)</u>	1973	6.41	6.68	0.96
(Utility)				
<u>Detroit Edison Company (A)</u>	1974	6.50	6.35	1.02
(Utility)				
<u>Detroit Edison Company (A)</u>	1975	7.83	7.27	1.08
(Utility)				
<u>Duqueann Light Company (A)</u>	1971	7.04	6.90	1.02
(Utility) (Pa.)				
<u>Georgia Power Company (A)</u>	1972	7.31	7.08	1.03
(Utility)				
<u>Gulf Power Co. (A)</u>	1974	5.71	4.79	1.19
(Utility) (Fla.)				
<u>Gulf Power Co. (A)</u>	1973/74	6.21	5.33	1.17
(Utility)				

(A) Source: Profiles in Electric Issues Vol. I, No. 1, February 1977

GUADALUPE VALLEY ELECTRIC COOPERATIVE

COMPARISON OF INDUSTRIAL TO OVERALL RATE OF RETURN (CONTINUED)

Company	Year	Rate of Return		Ratio of Industrial to System
		Industrial	System	
<u>Idaho Power Company (A)</u>				
(Utility)	1975	8.81	6.44	1.37
(Intervenor)	1975	7.51	6.58	1.14
<u>Illinois Power Co. (A)</u>	1974	9.94	7.53	1.32
(Utility)				
<u>Illinois Power Co. (A)</u>	1975	10.99	8.05	1.37
(Utility)				
<u>Indianapolis Power &amp; Light Co. (A)</u>	1974	7.59	7.22	1.05
(Utility)				
<u>Niagara Mohawk Power Co. (A)</u>				
(Intervenor) (N.Y.)	1971	6.82	6.97	0.98
(Intervenor)	1971	7.07	6.97	1.01
(Intervenor)	1971	7.67	6.97	1.10
(Intervenor)	1972	7.30	8.00	0.91
(Intervenor)	1972	7.80	8.00	0.98
<u>Niagara Mohawk Power Co. (A)</u>				
(Utility)	1972	7.10	8.02	0.89
(PUC Staff)	1972	7.19	8.02	0.90
<u>Niagara Mohawk Power Co. (A)</u>				
(Utility)	1975	3.89	6.21	0.63
(PUC Staff)	1975	5.22	6.29	0.83
(PUC Staff)	1975	5.86	6.29	0.93
<u>Northern States Power Co. (A)</u>	1976	8.17	7.92	1.03
(Utility) (Minn.)				
<u>Ohio Edison Company (A)</u>	1974	6.80	6.60	1.03
(PUC Staff)				
<u>Pacific Gas &amp; Electric Co. (A)</u>				
(Utility) (Calif.)	1975	5.73	6.88	0.83
(Utility)	1975	6.41	6.88	0.93
(Utility)	1975	5.57	6.88	0.81

GUADALUPE VALLEY ELECTRIC COOPERATIVE

COMPARISON OF INDUSTRIAL TO OVERALL RATE OF RETURN (CONTINUED)

<u>Company</u>	<u>Year</u>	<u>Rate of Return</u>		<u>Ratio of</u>
		<u>Industrial</u>	<u>System</u>	<u>Industrial</u>
				<u>to System</u>
<u>Pennsylvania Power &amp; Light</u>				
<u>Co. (A)</u>				
(Utility)	1973	7.35	8.06	0.91
(Utility)	1973	8.72	8.06	1.08
(Utility)	1973	6.89	8.06	0.85
(Utility)	1973	8.83	8.06	1.10
(Utility)	1973	8.02	8.06	1.00
<u>Philadelphia Electric Co. (A)</u>				
(Utility)	1974	6.06	6.00	1.01
(Utility)	1974	6.47	6.00	1.08
(Utility)	1974	5.99	6.00	1.00
(Utility)	1974	6.82	6.00	1.14
(Utility)	1974	5.74	6.00	0.96
(Utility)	1974	6.20	6.00	1.03
(Utility)	1974	5.68	6.00	0.95
<u>Public Service Electric</u>				
<u>Gas Company (N.J.) (A)</u>	1973	4.26	5.04	0.85
(Utility)				
<u>Public Service Electric</u>				
<u>&amp; Gas Company (A)</u>	1974	7.01	8.03	0.87
(Utility)				
<u>Public Service Co. of</u>				
<u>Indiana (A)</u>	1974	7.50	6.20	1.21
(Utility)				
<u>Potomac Electric Power Co.</u>				
<u>(Utility) (Wash.D.C.) (A)</u>	1974	6.05	6.69	0.90
<u>Public Service Co. of</u>				
<u>Colorado (A)</u>				
(Utility)	1974/75	7.56	8.21	0.92
(Intervenor)	1974/75	7.93	8.21	0.97
<u>Southern California Edison</u>				
<u>Co. (A)</u>				
(Utility)	1972	5.45	6.47	0.84
(PUC Staff)	1972	5.71	6.84	0.83