MINUTES OF THE CITY COUNCIL

CITY OF AUSTIN, TEXAS

Special Meeting

October 10, 1977
4:00 P.M.

Council Chambers
301 West Second Street

The meeting was called to order with Mayor McClellan presiding.

Roll Call:

Present: Mayor McClellan, Mayor Pro Tem Himmelblau, Councilmembers Mullen, Snell, Trevino

Absent: Councilmembers Cooke, Goodman

Mayor McClellan stated that this was a Special Called Meeting for the purpose of receiving the preliminary study concerning electric rate design from Touche Ross Rate Consultants. She stated that it was the first complete cost of service study rate analysis since 1953 in Austin. She introduced BRUCE TODD, Chairman, Commission on Electric Utility Rates, who introduced members of the Commission who were present.

PAT LOCONTO, speaking for Touche Ross, introduced other staff members, and then made the following presentation:

PRESENTATION OF COST OF SERVICE STUDY

Mr. Loconto stated that this initial report presented the cost of service study and recommended adoption of certain items before the actual rates were produced. Those rates would be recommended to the Council for adoption and implementation. He anticipated that the rates would be available in late October or early November.

Mr. Loconto explained the need for a cost of service study and its benefits as follows:

1. Quantifiable common denominator (the dollar)
2. Ability to design cost-based rates
3. Evaluation of changing relationships
4. Economic use of resources
5. Quantification of non-cost decisions

Customer groups were the first thing required in a cost of service study. Touche Ross recommended 14 distinct customer groups:

RESIDENTIAL TYPE

1. Residential Type Service - Combined Fuels
2. Residential Type Service - Space-Heating

COMMERCIAL TYPE

1. General Service Space-Heating - Non-Demand
2. General Service Other - Non-Demand
3. General Service Space-Heating - Demand
4. General Service Other - Demand

INDUSTRIAL TYPE

1. Large General Service 12.5 KV (Over 3,000 KW)
2. Large General Service 12.5 KV (Under 3,000 KW) - Other
3. Large General Service 12.5 KV (Under 3,000 KW) - Space-Heating

CITY

1. Traffic and Street Lighting
2. Water and Wastewater
3. Other City

OTHER

1. Night Watchmen
2. Special Contract

Mr. Loconto then discussed the characteristics which defined each group. After defining the customer classes, Touche Ross proceeded to try to determine total system revenue requirements without regard to customer class. To achieve that purpose revenue requirements were forecast for five years as follows:

ESTIMATED SYSTEM REVENUE REQUIREMENTS

Fiscal Year	Revenue	Revenue Per KWH Sales
1978	$ 144,023	5.02¢
1979	152,444	5.13¢
1980	154,313	5.01¢
1981	147,835	4.63¢
1982	151,917	4.60¢

1979 would be the peak year in terms of cost per kilowatt hour. After that point cheaper fuels would come into use in the system, but debt service would be higher due to conversion costs. For that reason, Touche Ross recommended setting electric rates for two years only (through 1979) and reviewing them in 1980.

Using the current rates, without the fuel credit, Mr. Loconto compared the revenues that those rates would produce at the projected 1978-1979 consumption. The following two tables indicate that essentially the current rates without the fuel credit would produce essentially the same revenues as the proposed revenues for 1978 and 1979:

FISCAL 1978

Customer Group	Revenue Requirements (000's) Current Rates	Proposed Rates	Percent Increase (Decrease)
Residential - Combined Fuels	$ 45,655	$ 42,860	(6.1)
Residential - Space Heating	11,909	10,743	(9.8)
General Service - Space Heating - Non-Demand	243	217	(10.7)
General Service - Combined Fuels - Non-Demand	8,078	6,954	(13.9)
General Service - Space Heating - Demand	4,486	4,783	6.6
General Service - Combined Fuels - Demand	54,545	56,297	3.2
Large General Service - Over 3,000 KW	5,441	6,028	10.8
Large General Service - Combined Fuels	6,466	6,944	7.4
Large General Service - Space Heating	2,509	2,665	6.2
Street Lighting/Traffic	812	2,264	178.8
Water and Wastewater	1,780	1,998	12.2
Other City	1,232	1,363	10.6
Nightwatchmen	188	247	31.4
Special Contract	698	660	(5.4)
Total System	$144,045	$144,023	(.01)%

FISCAL 1979

Customer Group	Revenue Requirements (000's) Current Rates	Proposed Rates	Percent Increase (Decrease)
Residential - Combined Fuels	$ 52,744	$ 45,346	(14.0)
Residential - Space Heating	14,122	11,566	(18.1)
General Service - Space Heating - Non-Demand	277	228	(17.7)
General Service - Combined Fuels - Non-Demand	9,196	7,357	(20.0)
General Service - Space Heating - Demand	5,184	4,987	(3.8)
General Service - Combined Fuels - Demand	63,967	59,846	(6.4)
Large General Service - Over 3,000 KW	6,361	6,297	(1.0)
Large General Service - Combined Fuels	7,559	7,280	(3.7)
Large General Service - Space Heating	2,865	2,727	(4.8)
Street Lighting/Traffic	885	2,350	165.5
Water and Wastewater	1,940	2,108	8.6
Other City	1,325	1,421	7.2
Nightwatchmen	212	260	22.6
Special Contract	761	671	(11.8)
Total System	$167,396	$152,444	(8.9)%

In 1979 the current rate without the fuel credit would produce $167,000,000. Touche Ross recommended a rate be set for $152,444,000 or a decrease of 8.93%.

Mr. Loconto then explained how the most important part of the cost of service study was allocated. After identifying the 14 groups, based on usage characteristics, all costs were then allocated essentially to three functional categories: capacity, energy and customer cost.

Based upon the methodology followed in the study, the following current rates of return were calculated for Fiscal 1979:

FISCAL 1979

Customer Group	Return Current Rates	% of System Average
Residential - Combined Fuels	6.42%	81%
Residential - Space Heating	8.04%	101%
General Service - Space Heating - Non-Demand	13.68%	172%
General Service - Combined Fuels - Non-Demand	14.40%	181%
General Service - Space Heating - Demand	9.12%	115%
General Service - Combined Fuels - Demand	9.86%	124%
Large General Service - Over 3,000 KW	8.39%	106%
Large General Service - Combined Fuels	9.15%	115%
Large General Service - Space Heating	9.51%	120%
Street Lighting/Traffic	(3.13%)	(139%)
Water and Wastewater	1.84%	23%
Other City	2.03%	26%
Nightwatchmen	0.28%	4%
Special Contract	10.73%	135%
Total System	7.94%	100%

Mr. Loconto stated that there was no rhyme or reason for the existing rates of return for the various customer classes. Typically rates of return between classes of customers are viewed from a differential standpoint. The required return by groups was a policy decision, and should reflect total risk of the group to the system. It should also reflect the socio-economic goals of the regulatory body.

Mr. Loconto stated their recommendation is that the Council adopt a 1.4 differential for commercial-industrial customers versus residential and City type customers. That would be 140% of the system average. What that would do to the rate of return, he illustrated by use of the following chart:

FISCAL 1979

Customer Class	Proposed Return	% of System Average
Residential - Combined Fuels	3.46%	60%
Residential - Space Heating	3.46%	60%
General Service - Space Heating - Non-Demand	8.11%	140%
General Service - Combined Fuels - Non-Demand	8.11%	140%
General Service - Space Heating - Demand	8.11%	140%
General Service - Combined Fuels - Demand	8.11%	140%
Large General Service - Over 3,000 KW	8.11%	140%
Large General Service - Combined Fuels	8.11%	140%
Large General Service - Space Heating	8.11%	140%
Street Lighting/Traffic	3.46%	60%
Water and Wastewater	3.46%	60%
Other City	3.46%	60%
Nightwatchmen	3.46%	60%
Special Contract	8.11%	140%
Total System	5.79%	100%

The problem of the current rate structure, according to Mr. Loconto, were summarized as follows:

1. We feel there is an excessive number of rate blocks. For example, residential has four blocks in the summer time, and 5 blocks in the winter time, and they are declining blocks. General service customers have 4 blocks, both summer and winter, and commercial all electric have 5 blocks summer and winter. Again they are declining blocks. Now these declining blocks create the impression of volume discount. In fact what they really are is an attempt to recover fixed cost up front, as I explained in my last presentation. However, we feel this excessive number of blocks complicates communication with the customer as to how his bill is 1. calculated, and 2. what those charges represent.

2. The second area is there is an inconsistent application of summer-winter price differential. We do not have summer-winter price differentials for all classes. There is none for residential all-electric. There is none for general service and there is none for large general service. And we feel that there should be a summer-winter price differential because there is definite cost associated with peak. Peak occurs in the summer, and it costs you more to generate energy in the summer than it does in the winter. Therefore you should be paying more.

3. We have a demand ratchet which is inconsistent with utility goals that we presented at the last meeting. Essentially what we have is 3 customer groups that have ratchets..maybe I need to explain what a ratchet is. Essentially, their demand charge is ratcheted or geared to their previous 11 months. In other words the highest demand that they have had in the previous 11 months, if they do not exceed that, that is what they will get billed anyway. Now the problem with that is if you have an off-peak..a customer who does not peak with the system..for example, an all-electric..that would promote usage during the summer for that person, and it would discourage use during the winter, because he is going to be billed on his ratcheted, so the less he uses in the winter, the less he will get billed in the summer, and the more he uses in the winter, the more he has to use in the summer, because he is going to pay for it anyway. So essentially, we feel that that particular ratchet discourages one of our goals, which is to increase the load factor.

4. There is a minimum bill provision currently in the rate structure, however, it has nothing to do with the cost. There is a minimum charge..it is not high enough, it is $1 something, and it is geared to the first 20 kilowatt hours used. We feel that it should not be geared to usage at all, and that it should reflect the actual cost to serve the customer.

5. The fuel clause as you all know includes non-fuel charges. It was designed to collect not only fuel but some operation and maintenance costs, and that is the reason we now have the so-called fuel clause credit, because it over collects on fuel as it was designed to do originally, and then it collects a little more than that sometimes.

6. Last but not least there is a lack of effective customer communication, which might be the understatement of the year. But the billing does not itemize the various cost components, which are included in the bill and no one really knows what they get the bill for. All they know it is awful high.

Given that the Council would adopt hopefully our recommended total revenue requirement and revenue requirements by customer class, the next obvious step would be to design the rate structure. We feel that the Council has before it essentially three alternatives regarding rate structure.

1. The first is to essentially retain the existing rate structure with all its infirmities, and increase or decrease each rate by a percentage which would reflect the increase or decrease by customer group that the cost of service study would indicate. Now the result of that and the most inviting part of it, is that every customer within the group would receive the same percentage increase or decrease, and that's because we are comparing it to the existing rate structure. It is also the easiest to design, obviously, because we don't have to design anything. It is just a mathematical calculation.

2. Okay, the other end of the spectrum is to have substantial rate revision, and I will be discussing that in the next chart.

3. And then finally, what we referred to as limited rate revision, would be changes in rate design..well, let's start, you know, we may find that although we desire substantial rate revision, when we run out the rates and the impact on various groups of customers within customer groups or sub-classes if you will, or individuals, we may find economic impact to be too great. The Council may determine that it is too great. In that case the Council would have the alternative to essentially take those parts of the rate revision that they deem most critical and initiate them during this transition period of 1978-79, with the intention of full reform in 1980 or 1981.

Mr. Loconto continued that they would recommend 2 block rates, as opposed to the multi-block rates that now exist in some of the classes. He said they would propose summer-winter differentials for all classes. For calculation purposes, peak load costs would be collected during the summer, although the impact might prove to be too great on some customers. This would mean that summer bills may be twice as high as they are now, but winter bills would be a lot less. He said he would recommend a cost base fixed charge per customer within a customer group, and the customer charge would be different depending on which group you were in.

A redesign of the customer bill is also recommended with a display of each charge being made to the customer, Mr. Loconto said. The final recommendation would be a forecast of fuel cost that would recover actual fuel cost only.

Mr. Loconto reiterated that the City of Austin is going through a major transition period and will probably continue with transition periods. Therefore, he recommended the setting up of a Rate Management Group which would report to the Director of the Electric system. That group would be responsible for essentially implementing this entire program. The transition period, according to Mr. Loconto, may be 5 to 20 years in length.

Reference was made to his entire report, by Mr. Loconto, and he pointed out the areas he is asking Austin to adopt from the specific report. They are:

1. The first one is the adoption of the methodology used to allocate plant costs and operating expenses. All of the comparisons we have seen are based on the cost of service study. The cost of service study is based on the allocation method that we have used. Now I will tell you there are as many ways to allocate as there are people. I told you that before. What's important is once we adopt the methodology, we can continue to allocate in the same manner and therefore our comparisons from study to study become valid even though the basic allocation system may not be the only one.

2. The second area is the adoption of the recommended customer classification. Again we have shown you impact by customer classifications. We have recommended 14 of them. We need for the Council to say that at least at this particular point in time, that we will proceed to design rates based on those 14 customer classifications.

3. The third one, the adoption of recommended system revenue requirements for fiscal year 1978-79. This is total system requirements. Essentially, this is what we feel the utility needs to operate, and we are asking you to adopt those numbers as revenue requirement numbers for those two years.

4. The next one, adoption of recommended revenue requirements by customer group for fiscal year 1978-79. Essentially that is the adoption of the 1.4 differential that we recommended. Once that is accepted, we can proceed and design rates. Rates cannot be designed until we identify revenue requirements by customer group. If we start changing either the customer classifications or who is in one group versus another group, you are talking about a whole new cost of service study, a reallocation and who knows when we will have rates then. But we can't design rates unless we can isolate on a customer group who is in that group and what revenues we want to receive from that group.

5. The next one is the adoption of the recommended fuel clause, which would permit the actual recovery of fuel cost, no more, no less.

6. And last, but not least, the adoption of the policy of initiating and implementing a continuous on-going rate management program.

Mayor McClellan asked Mr. Loconto what date he could return with precise information if the Council arrives at a decision on adoption of the six premises by October 20, 1977. Mr. Loconto replied it could probably be done, at the latest, by early November.

ADJOURNMENT

After some questions from the Council, the Special Called Meeting adjourned at 5:15 p.m.

APPROVED Carole Keeton McClellan
Mayor

ATTEST:

Grace Monroe
City Clerk