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MEMORANDUM

TO: Mayor and Council Members

CC: Spencer Cronk, City Manager

FROM: Jackie A. Sargent, General Manager *JAS*

DATE: August 27, 2019

SUBJECT: Adjustment in Austin Energy's Power Supply Adjustment Rate for Fiscal Year 2020

Austin Energy customers will see an 8.5% increase in the Power Supply Adjustment (PSA) charge on their utility bills starting November 1, 2019. The PSA on residential electric bills will increase from the current 2.895 cents to 3.139 cents per kilowatt-hour (kWh); therefore, an average residential customer bill of 860 kWh per month will increase by \$2.10 per month.

This adjustment is due to the elimination of a previous large over-recovery, bringing the new PSA closer to current supply costs for power, and extreme high Electric Reliability Council of Texas (ERCOT) power prices during the month of August 2019. A significant portion of the PSA adjustment is a consequence of the under-recovery trends outlined in Austin Energy's quarterly financial updates to Council, and the full adjustment for the coming year falls within the 6-9% range communicated to the Electric Utility Commission on August 12, 2019 and the Austin Energy Utility Oversight Committee on August 14, 2019.

Policy

The PSA tariff requires that the rate be determined as part of the City of Austin's annual budgeting process, including a public hearing. The tariff also provides that the PSA rate may be adjusted during the year to eliminate any over- or under-recovery as described within the tariff. To enact such an adjustment, the City Manager must publicly present a report to the City Council that provides the underlying calculations for the PSA, both pre- and post-adjustment by customer class, within 30 days of any adjustment of the PSA.

In compliance with the adopted tariff, this memorandum serves as the City Manager's public report to the City Council. Public notice of the PSA adjustment will be provided through the City's Communications and Public Information Office.

Background

The PSA is a dollar-for-dollar cost pass-through to electric utility customers for the recovery and crediting of ERCOT settlements, fuel costs, and net purchased power agreement costs, with an

adjustment for the over- or under-recovery balance for the period preceding the adjustment of the PSA. There is no gain or general fund transfer on PSA charges.

The PSA on residential bills will increase from the current 2.895 cents to 3.139 cents per kilowatt-hour (kWh), which represents an 8.5% increase effective with November 2019 electric bills. An average residential customer bill of 860 kWh per month will increase by \$2.10 per month. Austin Energy's residential and commercial Business Cents and Energizer customers who subscribe to GreenChoice® will also see an increase, because GreenChoice® customers pay an additional \$0.0075 (3/4 of one penny) per kilowatt hour added to the PSA rate.

The PSA charge for Fiscal Year 2020 will move closer to current costs for power production due to the elimination of a 2018 over-recovery balance. A reduced PSA rate throughout the 2019 fiscal year resulted in the repayment to customers of \$21 million as of July 2019. With the over-recovered balance returned, the 2020 PSA will increase to approach current production costs.

The PSA charge for Fiscal Year 2020 also reflects an adjustment to replenish a significant under-recovery during extreme market conditions in August 2019. During the period of August 12 through August 16, ERCOT simultaneously experienced high temperatures, very low renewable energy output, and high forced outages. This combination of events led to increased scarcity pricing and ultimately to significantly higher costs. ERCOT issued Energy Emergency Alerts twice within three days and deployed emergency response services in order to maintain the reliability of the electrical grid. The supply scarcity drove wholesale market prices to the price cap over peak energy usage periods.

Underlying Calculations for the PSA

Austin Energy utilizes a standardized formula to develop the PSA average system rate, as shown below:

$$\left(\frac{(\text{Over}) \text{ or Under Recovery}}{\text{Normalized GWh Forecast}} \right) + \left(\frac{\text{Historical Costs}}{\text{Historical GWh}} \right)$$

Historical costs and load (GWh or kWh) may be adjusted to reflect known and measurable changes to account for one-time events, abnormal weather, abnormal operating conditions, or other events not reflected or improperly reflected in the historical numbers. The current PSA average system rate, developed during the FY 2019 annual budget process, utilized adjusted historical costs and an over-recovery balance as of July 31, 2018, a forecast of net costs for August 1 through October 31, 2018, and a normalized load forecast period of November 1, 2018 through October 31, 2019. The result was an average system rate of 2.880 cents per kWh, as shown below (in millions of dollars and GWh):

$$\left(\frac{(\$21.1\text{M})}{12,588 \text{ GWh}} \right) + \left(\frac{\$381.5\text{M}}{12,514 \text{ GWh}} \right)$$

The proposed 2020 PSA average system rate utilizes adjusted historical costs and an updated under-recovery amount that reflects the balance as of July 31, 2019, a forecast of net costs August 1 through October 31, 2019, and a normalized load forecast period of November 1, 2019 through October 31, 2020. The result is an average system rate of 3.124 cents per kWh, as shown below (in millions of dollars and GWh):

$$\left(\frac{\$19.1\text{M}}{12,598 \text{ GWh}} \right) + \left(\frac{\$371.1\text{M}}{12,486 \text{ GWh}} \right)$$

Adjustment for Customer Classes

Austin Energy adjusts the average system rates based upon the level of voltage in which the customer receives electricity. Customers served at primary and transmission level voltage install and maintain their own transformer(s) and related equipment, at their site, as needed to step down the voltage before the power enters their facility. Electricity delivered at higher voltages results in lower line losses between the point of generation and delivery to the customer. As a result, primary and transmission customers pay a slightly lower PSA charge. Residential and most business customers receive secondary service. All customers will receive an 8.5% increase in their PSA rate. The total impact of this increase on a customer's bill is dependent upon their voltage level, consumption, and usage pattern.

The following table indicates the PSA rates per kWh by voltage level on bills beginning November 1, 2019.

Voltage Level	Adjustment Factor	Power Supply Rate (\$/kWh)
<i>System Average</i>	1.0000	\$0.03124
<i>Secondary</i>	1.0049	\$0.03139
<i>Primary</i>	0.9821	\$0.03068
<i>Transmission</i>	0.9696	\$0.03029

If you have any questions please contact me or Mark Dombroski, Austin Energy's Deputy General Manager, Chief Financial and Risk Officer.

xc: Electric Utility Commission
 Elaine Hart, Chief Financial Officer, City of Austin
 Ed Van Eenoo, Deputy Chief Financial Officer, City of Austin