

**AUSTIN ENERGY 2022 BASE RATE  
REVIEW**

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**BEFORE THE CITY OF AUSTIN  
HEARING EXAMINER**

**TEXAS INDUSTRIAL ENERGY CONSUMERS' RESPONSE TO AUSTIN ENERGY'S  
FIRST REQUEST FOR INFORMATION**

Texas Industrial Energy Consumers ("TIEC") files the following responses to the First Request for Information ("RFI") to TIEC filed by Austin Energy ("AE"). The request was submitted to the Impartial Hearing Examiner and received by TIEC on June 29, 2022. TIEC's response is timely filed. TIEC's responses to specific questions are set forth as follows, in the order of the questions asked.

Respectfully submitted,

O'MELVENY & MYERS LLP

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**ATTORNEYS FOR TEXAS INDUSTRIAL  
ENERGY CONSUMERS**

**CERTIFICATE OF SERVICE**

I, John R. Hubbard, Attorney for TIEC, hereby certify that a copy of this document was served on all parties of record in this proceeding on this 5<sup>th</sup> day of July, 2022 by electronic mail, facsimile, and/or First Class, U.S. Mail, Postage Prepaid.

*/s/ John R. Hubbard*

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John R. Hubbard

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**AE-TIEC 1-1** Please describe what binding impact PUCT precedent has on Austin City Council decisions regarding Austin Energy's base rates.

**Response:**

Austin City Council is not legally mandated to follow PUCT precedent as binding authority; however, TIEC believes that PUCT decisions should be treated as persuasive precedent given that the PUCT is the state's designated authority on electric ratemaking practices and policies, and has extensive expertise and experience on these issues.

**Preparer:** Counsel

**Sponsor:** None

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**AE-TIEC 1-2** Regarding pages 6 and 7 of LaConte's testimony, please explain the relevance of credit ratings for IOUs to Austin Energy for this Base Rate Review.

**Response:**

The credit ratings for the referenced IOUs are relevant because, like Austin Energy, these utilities have to access debt markets to finance their operations. Further, these utilities have vertically integrated electric operations in Texas, similar to Austin Energy. In addition, the referenced IOUs and Austin Energy all operate utility-owned generation facilities in competitive wholesale markets for the benefit of their captive retail customers. Compared to the referenced Texas IOUs, Austin Energy is similarly exposed to commodity markets, environmental regulation and capital requirements. Furthermore, Austin Energy should generally have rates that are competitive with those of other Texas utilities, which is an indicator of its ability to retain customers, recover costs and maintain debt service payments.

**Preparer:** Billie S. LaConte

**Sponsor:** Billie S. LaConte

**TEXAS INDUSTRIAL ENERGY CONSUMERS' RESPONSE TO AUSTIN ENERGY'S  
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**AE-TIEC 1-3** Regarding page 7 of LaConte's testimony:

- a. Please indicate if the current 24 bp spread between 'A' and 'AA' ratings can be relied upon to stay constant (or similar) into the future.
- b. Is LaConte aware of any other ramifications of Austin Energy's credit rating changing from 'AA' to 'A' other than cost of debt?

**Response:**

- a. The historical spread between 'AA' rated debt and 'A' rated debt has ranged from a minimum of 5 bp to a maximum of 62 bp for the period June 28, 2017 through June 28, 2022. The average spread during that time period is 23 bp, the median is 26 bp and the midpoint is 34 bp. While the spread can thus fluctuate, the current 24 bp spread is a reasonable estimate of the spread in the future.
- b. A change in Austin Energy's credit rating will affect its risk, which will affect a potential investor's decision as to whether or not it should purchase Austin Energy's bonds. It may also affect which lenders Austin Energy uses to issue its bonds.

**Preparer:** Billie S. LaConte

**Sponsor:** Billie S. LaConte

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**AE-TIEC 1-4** Regarding page 9 of LaConte's testimony:

- a. Please identify the specific bond covenants that allow for the exclusion of Austin Energy's non-electric revenue, expense, and debt service from the calculation of debt service coverage.
- b. Please identify any and all credit rating agencies that exclude Austin Energy's non-electric revenue, expense, and debt service from the calculation of debt service coverage.

**Response:**

- a. Ms. LaConte has not performed the referenced analysis. Regardless, it should not be the responsibility of Austin Energy's retail electric customers to ensure that revenue, expense, and debt service relating to non-electric service is sufficient to meet Austin Energy's debt service coverage requirements.
- b. Credit rating agencies will include non-electric revenues, expense, and debt service when calculating debt service coverage. However, Austin Energy electric customers are not accountable for non-electric revenues, expenses, and debt service. Therefore, the proper debt service coverage ratio for Austin Energy electric operations *only* should exclude all non-electric revenues, expense, and debt service and the City of Austin should manage non-electric revenues, expenses and debt *outside of electric rates* such that Austin Energy maintains appropriate ratings.

**Preparer:** Billie S. LaConte

**Sponsor:** Billie S. LaConte

**TEXAS INDUSTRIAL ENERGY CONSUMERS' RESPONSE TO AUSTIN ENERGY'S  
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**AE-TIEC 1-5** Regarding page 4 of Pollock's testimony, please admit Austin Energy's generation assets benefit Austin Energy's customers throughout the year (not just in the summer months). If deny, please explain why Austin Energy's customers did not benefit from Austin Energy's generation during Winter Storm Uri.

**Response:**

Mr. Pollock can neither confirm nor deny as the question does not define the meaning of the term "benefit." However, assuming that benefit means that AE customers are paying lower power supply costs associated with AE's generation, rather than paying higher market prices from ERCOT, then AE's customer will benefit when market prices are higher than the cost of owning and operating AE's generation. Mr. Pollock admits that AE's generation assets provide a physical hedge; however, as shown in Exhibit JP-4, the benefits of this physical hedge primarily occur during the summer months when ERCOT market prices and AE's purchases of energy from the ERCOT markets are highest. Mr. Pollock is generally aware that prices in ERCOT were at the cap during Winter Storm Uri, which means that AE's generation assets provided an economic physical hedge, but this period was clearly an anomaly and the sustained high prices are subject to ongoing litigation.

**Preparer:** Jeffry Pollock

**Sponsor:** Jeffry Pollock

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**AE-TIEC 1-6** Regarding page 13 of Pollock's testimony, please explain how Exhibit JP-1 accounts for declining residential kWh sales over the past decade.

**Response:**

Exhibit JP-1 measures the actual kWh sales per customer for the four prior fiscal years and fiscal year 2021. There is no indication that average residential kWh sales have declined in the recent past.

**Preparer:** Jeffry Pollock

**Sponsor:** Jeffry Pollock



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**AE-TIEC 1-7** Regarding page 23 of Pollock's testimony, please indicate if high prices in the ERCOT energy market, referenced in Mr. Pollock's testimony, are limited to the summer months.

**Response:**

The question does not define what constitutes "high" prices. Exhibit JP-4 demonstrates that the highest average hourly LMPs occurred during the summer months in the mid to late afternoon, when AE's and ERCOT's annual system peaks typically occur. Mr. Pollock acknowledges that high prices can occur for operational reasons outside the summer months, but they primarily coincide with peak or net peak load conditions on the ERCOT system, which mostly occur during the summer.

**Preparer:** Jeffry Pollock

**Sponsor:** Jeffry Pollock