AUSTIN ENERGY'S 2022 BASE RATE REVIEW	**§**	**BEFORE THE CITY OF AUSTIN**
	§	
	§	**IMPARTIAL HEARING EXAMINER**

REBUTTAL TESTIMONY

OF

GRANT RABON

ON BEHALF OF AUSTIN ENERGY

JULY 7, 2022

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I. INTRODUCTION

Q. PLEASE STATE YOUR NAME, OCCUPATION, AND BUSINESS ADDRESS.

A. My name is Grant Rabon. I am a Partner at NewGen Strategies & Solutions, LLC (NewGen), a management and economic consulting firm specializing in serving the utility industry. I work out of the Austin office of NewGen located at 8140 North Mopac Expressway, Suite 1-240, Austin, Texas 78759.

Q. ON WHOSE BEHALF ARE YOU TESTIFYING?

A. I am testifying on behalf of Austin Energy.

Q. DID YOU PREPARE THIS TESTIMONY?

A. Yes. This testimony was prepared by me or under my direct supervision.

Q. PLEASE DISCUSS BRIEFLY YOUR EDUCATIONAL BACKGROUND, PROFESSIONAL EXPERIENCE, AND QUALIFICATIONS.

A. I was awarded a Bachelor of Science degree in Chemical Engineering from Texas A&M University in College Station, as well as a Master of Business Administration from the University of Texas at Austin. Since 2005, I have been assisting utilities with the conduct of cost of service and rate design studies, financial feasibility studies, valuations, and other management consulting engagements for electric, natural gas, water, wastewater, and solid waste utilities.

Q. HAVE YOU PROVIDED AN ATTACHMENT THAT DETAILS YOUR EDUCATIONAL BACKGROUND AND PROFESSIONAL EXPERIENCE?

A. Yes. I provide this information in Exhibit GR-1 to my testimony.

Q. PLEASE EXPLAIN THE PURPOSE OF YOUR REBUTTAL TESTIMONY.

A. The purpose of my rebuttal testimony is to respond to certain recommendations that are contained in the testimony and position statements of Independent Consumer Advocate (ICA) witnesses Clarence Johnson and David Effron; Two Women Ratepayers (2WR); NXP witnesses James Daniel and Chuck Loy; and Texas Industrial Energy Consumers (TIEC) witnesses Billie LaConte and Jeffry Pollock.

Q. PLEASE SUMMARIZE THE ISSUES YOU WILL ADDRESS AND YOUR RECOMMENDATIONS.

A. I will be addressing the following issues:

- Clarence Johnson's suggestions on the functionalization of FERC account 920, FERC account 930, and certain revenues as well as the allocation of uncollectible expense, meter expense, services, load dispatch, and customer service;
- David Effron's suggestions on the level of non-nuclear decommissioning expense;
- 2WR's suggestions on the representation of Austin Energy's non-electric utility business as well as the allocation of the 311 Call Center costs and uncollectible expense, and the general fund transfer as it relates to the customer charge;
- James Daniel's suggestions on service area lighting;
- Chuck Loy's suggestions on the cash flow approach return and internally generated funds for construction;
- Billie LaConte's suggestions on the implications of Austin Energy's financial policies; and
- Jeffry Pollock's suggestions on the general fund transfer, billing determinants, and the impacts of including pass-through costs in the analysis.

Further, I will be recommending the rejection of all suggestions from these witnesses on these issues, save one. I accept Mr. Johnson's suggestion that new service connection revenues should be functionalized to customer, rather than demand.

II. REBUTTAL TO TESTIMONY OF CLARENCE JOHNSON

FERC Account 920

Q. DID MR. JOHNSON, REPRESENTING THE ICA, SUGGEST A CHANGE TO THE WAY FERC ACCOUNT 920 EXPENSES WERE FUNCTIONALIZED?

A. Yes. He suggested that the functionalization of FERC account 920 expenses should be altered so that more of these expenses would be assigned to the production function. Basically, he developed his own labor functionalization allocator that added his estimate of labor costs at South Texas Project (STP) and Fayette Power Project (FPP) to Austin Energy's labor costs, increasing the proportion of FERC account 920 expenses functionalized to production.

Q. DO YOU AGREE WITH MR. JOHNSON'S SUGGESTION?

A. No. First, Austin Energy's use of labor to functionalize the portion of FERC account 920 expenses that were not directly assigned to the production function is consistent with the NARUC Electric Utility Cost Allocation Manual's (NARUC CAM)[1] treatment of this expense. Second, the production function direct assignment is associated with expenses related to operations at STP and FPP. Given that Austin Energy is able to directly assign this proportion of the overall FERC account 920 expenses to production, it is appropriate to do so. Finally, the remainder of FERC account 920 expenses are correctly functionalized based on Austin Energy's labor

[1] National Association of Regulatory Utility Commissioners' (NARUC) Electric Utility Cost Allocation Manual (Jan. 1992) (NARUC CAM Manual).

costs, which exclude labor expenses at STP and FPP because Austin Energy employees do not operate or manage these generation units.

Q. WHY IS THAT FINAL POINT IMPORTANT?

A. The nature of the expenses in FERC account 920 (such as executive management, accounting, finance, human resources, planning, budgeting, etc.) are most appropriately affiliated with Austin Energy's workforce. Because Austin Energy's employees do not operate STP or FPP, it would be inappropriate to include an estimate of labor costs at STP and FPP in the labor allocator used for functionalization of this expense. This would have the outcome of ignoring a direct assignment of a portion of this expense in favor of a more general allocation. When direct assignments are practical, as in this case, they should be favored.

FERC Account 930

Q. DID MR. JOHNSON SUGGEST A CHANGE TO THE WAY FERC ACCOUNT 930 EXPENSES WERE FUNCTIONALIZED?

A. Yes. He stated that less than one percent of the expenses in FERC account 930 consist of salaries and suggested the use of non-fuel operations and maintenance (O&M) expense as an alternative allocator.[2]

Q. DO YOU AGREE WITH MR. JOHNSON'S SUGGESTION?

A. No. First, Mr. Johnson's observation that less than one percent of the FERC account 930 expenses are labor-related is misleading. He is correct that less than one percent of the FERC account 930 expenses are composed of Austin Energy's employee labor, but many of the expenses in FERC account 930 are related to supporting Austin

[2] Initial Presentation of Clarence Johnson on Behalf of the Independent Consumer Advocate (ICA) at 33-37 (Jun. 22, 2022) (Johnson Presentation).

Energy's employees, such as Human Resources, Information Technology, and Corporate Support Services.

Further, similar to FERC account 920 expenses, it is appropriate to functionalize expenses that were not directly assigned to the production function based on labor, as Austin Energy has done. This is consistent with treatment in the NARUC CAM.

Other Functionalization Issues

Q. DID MR. JOHNSON SUGGEST A CHANGE TO THE WAY CERTAIN REVENUES WERE FUNCTIONALIZED?

A. Yes. Mr. Johnson suggested that fees for electric meter damage, broken seals, after-hours connections, and new service connections be functionalized to customer, rather than distribution.[3]

Q. DO YOU AGREE WITH MR. JOHNSON'S SUGGESTION?

A. Partially, yes. The meters and services are distribution assets and the functionalization of revenues should align with the functionalization of costs. However, Austin Energy classified meters as being customer-related. Thus, meters are correctly functionalized as distribution, but this category of costs and revenues is classified as customer-related and allocated to customer classes based on a weighted customer meter allocator. The revenues for electric meter damage, broken seals, and after-hours connections are similarly classified as customer-related within the distribution function. Thus, Austin Energy has already correctly addressed the customer-related nature of these three revenues in its proposal and no adjustment is appropriate.

[3] *Id*. at 37-38.

However, I find Mr. Johnson's suggestion that new service connection revenues should be functionalized to customer, rather than demand, persuasive. The new service connection fee is a flat fee per new connection—independent of the demands the customer will place on the electric system. Thus, I agree with his suggestion.

To clarify the record, it is worth noting that Mr. Johnson's contention that the revenues functionalized to distribution will be allocated to customer classes based on non-coincident peak demand (NCP) is not totally accurate. While some of the revenues will be allocated to customer classes based on NCP, some are also allocated based on sum of maximum demands (SMD), or a combination thereof.

Q. WHAT IS THE RESULT OF ACCEPTING MR. JOHNSON'S SUGGESTION REGARDING THE FUNCTIONALIZATION OF NEW SERVICE CONNECTION REVENUES?

A. Making this change reduces the identified customer-related costs. For the residential customer class, this results in the customer charge cost of service decreasing from $24.66 per month to $24.30 per month.

<u>Uncollectible Expense</u>

Q. DID MR. JOHNSON SUGGEST A CHANGE TO THE WAY UNCOLLECTIBLE EXPENSE IS ALLOCATED TO CUSTOMER CLASSES?

A. Yes. Mr. Johnson suggested that instead of using a direct assignment of this expense, Austin Energy should use revenue as the basis for the allocation of this expense.[4]

Q. DO YOU AGREE WITH MR. JOHNSON'S SUGGESTION?

[4] *Id*. at 39-42.

A. No. The NARUC CAM, cited by Mr. Johnson, says the following:

> Customer-related costs (Accounts 901-917) include the cost of billing and collection, providing service information, and advertising and promotion of utility services. By their nature, it is difficult to determine the "cause" of these costs by any particular function of the utility's operation or by particular classes of their customers. An exception would be Account 904, Uncollectible Accounts. Many utilities monitor the uncollectible account levels by tariff schedule. Therefore, it may be appropriate to directly assign uncollectable accounts expense to specific customer classes.[5]

The direct assignment method is appropriate and recognizes that there is a different likelihood (or risk) of uncollectible expense depending on the customer class. Thus, direct assignment based on historical experience better aligns the test year cost with the customer classes that have contributed to this cost.

Q. WHAT ABOUT MR. JOHNSON'S SUGGESTION THAT THE RELATIVE SIZE OF THE ELECTRIC BILL FOR LARGE COMMERCIAL CUSTOMERS SHOULD INDICATE ADDITIONAL POTENTIAL FOR UNCOLLECTIBLE EXPENSE?[6]

A. The test year uncollectible expense is based on what has actually happened in the past, not the potential for what could have happened, so it is preferable to align the allocation of this cost based on the historical cause of the expense.

Meter Expense

Q. DID MR. JOHNSON SUGGEST A CHANGE TO THE WAY METER EXPENSE IS ALLOCATED TO CUSTOMER CLASSES?

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[5] NARUC CAM Manual at 102.

[6] Johnson Presentation at 41.

A. Yes. Mr. Johnson suggested that, rather than having all of the meter expense allocated to customer classes based on Austin Energy's meter cost weighted customer allocation, a portion of the meter cost (specifically 51 percent) should, instead, be allocated based on revenue requirement.[7] His reasoning is that a portion of the cost of the meter (51 percent) is related to the newer features that "smart meters" allow beyond what traditional meters would facilitate.

Q. DO YOU AGREE WITH MR. JOHNSON'S SUGGESTION?

A. No. The additional features allowed by smart meters, such as customer reporting, communicating with customers, and remote start/stop of service, are appropriately allocated to customer classes based on Austin Energy's selected allocator. These benefits apply to all customers relatively equally and are not influenced by customer size or revenue. Allocating this expense based on revenue requirement would assign a significant amount of this cost to customer classes based on energy (as energy costs compose a significant proportion of the revenue requirement). This makes Mr. Johnson's suggestion a poor fit with the nature of the fixed cost of meters, which do not vary with energy use, and his suggestion should be rejected.

Services

Q. DID MR. JOHNSON SUGGEST A CHANGE TO THE WAY SERVICES ARE CLASSIFIED AND ALLOCATED TO CUSTOMER CLASSES?

A. Yes. Mr. Johnson suggested services should be classified as customer-related, rather than demand-related, and that this cost should be allocated to customer classes based

[7] *Id*. at 42-45.

on a weighted allocator comprised of 50 percent 12 NCP and 50 percent customer count.[8]

Q. DO YOU AGREE WITH MR. JOHNSON'S SUGGESTION?

A. No. Mr. Johnson is correct that it is not unusual for services to be allocated based on a weighted customer allocation. However, Austin Energy views services as demand-related because the cost of services varies with a customer's individual demand. Thus, Austin Energy allocated services to customer classes based on SMD excluding primary and transmission voltage customers (not 12 NCP as claimed by Mr. Johnson). While Mr. Johnson's suggestion of a weighted allocator may not be inappropriate, as this is an area of transition between customer and demand, the use of SMD as the selected allocator for services is fair and reasonable because this allocator is derived through a combination of customer (meters) and demand. SMD is the sum of customer maximum demands at the meter which is, in fact, a weighted customer allocator that reflects both customer count and demand. Further, it is worth noting that Mr. Johnson's suggested weighted allocator of 50 percent 12 NCP and 50 percent customer count yields a virtually identical outcome for residential customers as the allocator selected by Austin Energy.

Distribution Load Dispatch Expense

Q. DID MR. JOHNSON SUGGEST A CHANGE TO THE WAY DISTRIBUTION LOAD DISPATCH EXPENSES ARE ALLOCATED TO CUSTOMER CLASSES?

A. Yes. Mr. Johnson suggested that distribution load dispatch be allocated to customer classes based on average demand, rather than 12 NCP. His rationale primarily related

[8] *Id*. at 45-46.

to the contention that distribution load dispatch activities occur in all hours of the year—not just during the summer peaks.[9]

Q. DO YOU AGREE WITH MR. JOHNSON'S SUGGESTION?

A. No. While distribution load dispatch activities do occur in all hours of the year, the primary cause for load dispatch activities is to manage changing system load conditions. However, I do agree that such conditions can occur throughout the year. Thus, Austin Energy selected 12 NCP as the appropriate allocator for this cost. This recognizes the year-round nature of this activity.

Further, although average demand sounds like it is a demand allocator, it is important to note that average demand is synonymous with energy. Load dispatch is not a cost that varies with the amount of energy used, so the use of average demand, which is essentially energy, is not appropriate.

Customer Service Expense Allocation

Q. DID MR. JOHNSON SUGGEST A CHANGE TO THE WAY CUSTOMER SERVICE EXPENSES ARE ALLOCATED TO CUSTOMER CLASSES?

A. Yes. Mr. Johnson suggested a weighted allocation comprised of 61 percent revenue requirement and 39 percent number of customers.[10] The 61 percent represents the proportion of costs identified as Customer Service on Schedule G-5 of the Base Rate Filing Package that are associated with FERC accounts 911, 912, 913, and 916 as compared with the total costs identified as Customer Service on Schedule G-5 associated with FERC accounts 907 through 916.

Q. DO YOU AGREE WITH MR. JOHNSON'S SUGGESTION?

[9] *Id*. at 46-48.

[10] *Id*. at 48-50.

A. No. The programs reflected in this expense are targeted to smaller, less sophisticated customers—not large commercial or industrial customers. Thus, the use of a revenue requirement allocator will inappropriately allocate disproportionate amounts of this cost to the large commercial or industrial customers. Mr. Johnson's suggestion is not equitable and should be rejected. These costs are appropriately allocated based on number of customers, as Austin Energy has done.

III. REBUTTAL TO TESTIMONY OF DAVID EFFRON

Non-Nuclear Decommissioning Expense

Q. DID ICA WITNESS MR. EFFRON SUGGEST A CHANGE TO THE AMOUNT OF NON-NUCLEAR DECOMMISSIONING TO BE RECOVERED IN RATES?

A. Yes. Mr. Effron suggested a significant reduction in the amount of non-nuclear decommissioning to be recovered in rates.[11]

Q. WHAT WAS HIS RATIONALE FOR THIS SUGGESTION?

A. Mr. Effron referenced a 2015 decommissioning study performed for Austin Energy and then made a series of assumptions that arrived at a suggested $2 million reserve contribution, as compared with the $8 million requested by Austin Energy.

Q. DO YOU AGREE WITH MR. EFFRON'S ANALYSIS?

A. No. It relies on a series of assumptions with which I do not agree. For example, his analysis starts by calculating a mid-point estimate of the cost of decommissioning each generation unit based on the low range and high range estimates from the 2015

[11] Initial Presentation of David Effron on behalf of the ICA at 5-7 (Jun. 22 2022) (Effron Presentation).

decommissioning study.[12] This fails to recognize that the cost to decommission a generation unit has increased since 2015 due to inflation, that the decommissioning costs are estimates and, thus, the actual cost of decommissioning may be significantly higher, and Austin Energy's prior history with decommissioning the Holly Power Plant, which was longer, more extensive, and more expensive than originally estimated. Regarding the decommissioning of the Holly Power Plant, it is instructive to note the original estimate was $19 million, but the total actual cost was approximately $32 million. Further, Austin Energy is now planning for the eventual decommissioning of the Nacogdoches Generating Facility, which was not included in the 2015 decommissioning study because Austin Energy did not own the facility at the time. Thus, Mr. Effron's analysis does not capture this generation plant.

Mr. Effron also developed a weighted average remaining life for the existing generation units based on net plant and depreciation expense. Depreciation can be a misleading indicator of a generation asset's remaining economic life given the numerous external, non-accounting factors, such as regulation, policy objectives, and ERCOT market conditions.

Q. HOW DID AUSTIN ENERGY ARRIVE AT THE $8 MILLION REQUESTED FOR THIS COST?

A. Austin Energy had originally requested approximately $19.4 million per year for non-nuclear decommissioning in the 2016 Base Rate Review. This had been based on the high range estimates from the 2015 decommissioning study and the presumed closure date for each generation unit. However, at the end of the process, Austin Energy agreed to a much reduced $8 million as part of the settlement agreement. Austin Energy has reserved $8 million each year since that time.

[12] Effron Presentation at 4-7.

Q. WHAT WAS ICA WITNESS JOHNSON'S POSITION ON THE NON-NUCLEAR DECOMMISSIONING FUNDING IN THE 2016 BASE RATE REVIEW?

A. In the 2016 Base Rate Review, Mr. Johnson recommended a 48% reduction in the $19.4 million amount Austin Energy requested. This seems to suggest that, at the time, Mr. Johnson would have supported the $8 million per year Austin Energy is currently requesting.

Q. GIVEN THAT THE DECOMMISSIONING CONTRIBUTION OF $8 MILLION ANNUALLY IS AN ESTIMATE, WHAT ARE THE CONSEQUENCES TO RATEPAYERS IF AUSTIN ENERGY'S ESTIMATE IS TOO HIGH OR TOO LOW?

A. If the $8 million per year proves to be too low, Austin Energy will have to find additional funds, such as issuing debt, to pay for the decommissioning obligations for generation units at the time of retirement. This is likely to involve funding that would be contributed by future customers that may never have benefited from the generation units when they were in service. This presents an intergenerational equity issue.

If the $8 million per year proves to be too high, Austin Energy can holdover funds to decommission the next non-nuclear unit to be decommissioned. If, in the future after retiring a unit, it appears that the $8 million per year is going to over-fund this obligation long-term, the $8 million per year can be reduced. However, there is currently no indication that $8 million per year is going to over-fund this obligation. Inflation and Austin Energy's past experience with the Holly Power Plant would suggest the $8 million per year will prove insufficient to fully fund this obligation.

Q. DO YOU HAVE ANY OTHER COMMENTS REGARDING MR. EFFRON'S SUGGESTION REGARDING NON-NUCLEAR DECOMMISSIONING EXPENSE?

A. Yes. If I apply Mr. Effron's methodology but change the basis of the decommissioning expense from the mid-point developed by Mr. Effron to the estimate used by Austin Energy in the last Base Rate Review, it suggests that the annual non-nuclear decommissioning amount should be approximately $8.4 million. This supports Austin Energy's request for $8 million and I recommend Mr. Effron's suggested adjustment be rejected.

Q. HOW CAN INTERGENERATIONAL EQUITY CONCERNS BE ADDRESSED?

A. Fully funding the non-nuclear decommissioning reserve is the best way to mitigate intergenerational equity concerns. This allows current customers that benefit from the generation plants to bear some of the cost responsibility for decommissioning the plants. To the extent Austin Energy does not have sufficient funds to decommission generation plants at the end of their useful lives, it could necessitate charging future customers that do not benefit from the generation plants, to pay for this expense.

IV. REBUTTAL TO TESTIMONY OF TWO WOMEN RATEPAYERS

Non-Electric Utility Business

Q. DID 2WR SUGGEST THERE WAS A SUBSIDY FOR AUSTIN ENERGY'S NON-ELECTRIC UTILITY BUSINESS?

A. Yes. 2WR implied there was a subsidy benefitting the non-electric business in fiscal year (FY) 2021.[13] However, in response to Austin Energy's first request for

[13] Two Women Ratepayers' (2WR) Position Statement at 4 (Jun. 22, 2022) (2WR Position Statement).

information to 2WR (specifically, RFI 1-1 as shown in Exhibit GR-2), 2WR made clear they were not contending that the test year revenue requirement used to develop the proposed rates reflected a subsidy for the non-electric utility business. Their main point seems to have been that, like all other facets of Austin Energy's business, the results from the non-electric utility in FY 2021 impacted the overall financial condition of the utility. They went on to suggest this implied Austin Energy's representation of its financial results in FY 2021 (specifically in Figure 7-23 on page 101 of the Base Rate Filing Package) was misleading.

Q. DO YOU AGREE THAT AUSTIN ENERGY'S REPRESENTATION WAS MISLEADING?

A. No. The revenues and expenses depicted in Figure 7-23 did not include Austin Energy's non-electric business. Further, the impact of the non-electric business on Austin Energy's cash reserves, if there was an under-recovery, would be small in comparison to Austin Energy's other lines of business. Thus, I find Austin Energy's depiction in Figure 7-23 to be accurate.

311 Call Center Allocation

Q. DID 2WR MAKE A SUGGESTION REGARDING THE ALLOCATION OF 311 CALL CENTER EXPENSES?

A. Yes. 2WR indicated the 311 Call Center provides "a social benefit to the community" and, as a result, it should be allocated differently.[14]

Q. DO YOU AGREE WITH 2WR'S SUGGESTION?

[14] *Id*. at 7.

A. No. While the 311 Call Center does handle a myriad of different issues, only the estimated portion of this cost that relates to assisting electric utility customers with issues involving the electric utility was included in the test year revenue requirement. Thus, these costs are directly related to electric utility customers and should be allocated to customers, as Austin Energy has done. 2WR's suggestion should be rejected.

Uncollectible Expense

Q. DID 2WR MAKE A SUGGESTION REGARDING THE ALLOCATION OF UNCOLLECTIBLE EXPENSE?

A. Yes. Similar to Mr. Johnson, 2WR suggested uncollectible expense should be allocated based on revenue requirement. However, 2WR incorrectly indicated that Austin Energy has allocated this expense based on customers.[15] As previously discussed, Austin Energy has used a direct assignment based on historical experience to align the uncollectible expense with the customer classes that have contributed to this cost.

Q. DO YOU AGREE WITH 2WR'S SUGGESTION?

A. No. For the same reasons given in response to Mr. Johnson's suggestion, 2WR's suggestion should be rejected.

General Fund Transfer

Q. DID 2WR MAKE A CONTENTION REGARDING THE GENERAL FUND TRANSFER (GFT) AS IT RELATES TO THE CUSTOMER CHARGE?

[15] *Id*.

A. Yes. 2WR suggested the identified customer charge was inflated by the inclusion of the GFT, which 2WR described as a profit. 2WR also suggested that the GFT be allocated based on revenues.[16]

Q. DO YOU AGREE WITH 2WR'S CONTENTION?

A. No. First, the GFT is an expense that must be paid to the City of Austin. Thus, it is a real cost of doing business that must be recovered from customers. Second, the GFT is functionalized based on revenue requirement (excluding Power Supply Adjustment costs and non-electric costs) and then, for the portion that is functionalized to customer, sub-functionalized based on revenue requirement. Thus, the portion of the GFT that ends-up in the customer charge has been allocated based on revenue requirement.

Q. WHY IS THE GFT FUNCTIONALIZED BASED ON REVENUE REQUIREMENT EXCLUDING POWER SUPPLY ADJUSTMENT AND NON-ELECTRIC COSTS?

A. Per Austin Energy Financial Policy 13, this is the basis for the calculation of the GFT.

V. REBUTTAL TO TESTIMONY OF JAMES DANIEL

Service Area Lighting

Q. DID MR. DANIEL MAKE ANY CONTENTIONS REGARDING SERVICE AREA LIGHTING?

A. Yes. Mr. Daniel asserted that, although Austin Energy provides street lighting, there is not a street lighting rate class because Austin Energy provides this service for free. He further contends that the cost of street lighting is recovered through the Service

[16] *Id.* at 9-10.

Area Lighting component of the Community Benefit Charges, which are pass-through charges.[17]

Q. DO YOU AGREE WITH MR. DANIEL'S ASSESSMENT?

A. Mr. Daniel's assessment is partially correct. First, there is a service area lighting class and a separate rate for service area lighting in Austin Energy's rate tariff.[18] Austin Energy needs a tariff for this service because it is used to bill nearby cities for lighting provided within their city limits. Thus, although the cost associated with providing service area lighting within the City of Austin is recovered through the Service Area Lighting component of the Community Benefit Charges, not all costs of service area lighting are recovered in this manner.

Q. WHAT ABOUT MR. DANIEL'S CONTENTION THAT SERVICE AREA LIGHTING IS PROVIDED FOR FREE?

A. All services provided by Austin Energy have an associated cost and the recovery of these costs is ultimately dictated by the Austin City Council. Austin Energy is recovering the cost of providing service area lighting inside the City of Austin as directed by the Austin City Council in the adoption of the base rates in 2012.[19] This approach equitably recovers this cost from all electric customers inside the City of Austin.

VI. REBUTTAL TO TESTIMONY OF CHUCK LOY

Cash Flow Approach Return

[17] NXP Statement of Position, Testimony of James Daniel at 34-35 (NXP Position Statement).

[18] *See* Austin Energy 2022 Base Rate Filing Package, Appendix F at F-20-21 (Apr. 18, 2022) (RFP).

[19] *See* City of Austin Ordinance No. 20120607-055 (Jun. 7, 2012).

Q. DID MR. LOY, REPRESENTING NXP, HAVE AN OPINION REGARDING AUSTIN ENERGY'S DEVELOPMENT OF RETURN UNDER THE CASH FLOW APPROACH?

A. Yes. Mr. Loy contends that Austin Energy's inclusion of depreciation and amortization in the development of the return under the cash flow approach was in error.[20]

Q. DO YOU AGREE WITH MR. LOY'S CONTENTION?

A. No. First, as Mr. Loy recognizes, the Public Utility Commission of Texas (PUC) has promulgated a Transmission Cost of Service Rate Filing Package for Non-Investor-Owned Utilities.[21] The section discussing Schedule C-3 in this document contemplates use of the cash flow approach. There is also a section discussing Schedule E-1, which accounts for depreciation expense. Both are requirements of the rate filing package for non-investor-owned utilities making a filing at the PUC. Thus, because depreciation is a part of the expenses included by the utility, the cash flow approach must recognize this non-cash expense when developing the cash flow return, as Austin Energy has done. Austin Energy's approach is consistent with every non-investor owned utility transmission rate filing at the PUC that has utilized the cash flow approach.

Q. WHAT IF MR. LOY WERE CORRECT AND DEPRECIATION AND AMORTIZATION WERE REMOVED FROM THE DEVELOPMENT OF THE REVENUE REQUIREMENT?

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[20] NXP Position Statement, Testimony of Chuck Loy at 51-54.

[21] *See* Instructions for Transmission Cost of Service Rate Filing Package for Non-Investor Owned Transmission Service Providers in the Electric Reliability Council of Texas (Non-IOU TCOS RFP) https://www.puc.texas.gov/industry/electric/forms/rfp/Non_IOU_TCOS_Instr.pdf.

A. As Mr. Loy suggested, the implied return on rate base would increase, but it would not have any impact on the overall revenue requirement. For every dollar of depreciation and amortization that is removed from the analysis, one dollar of additional cash need is added. Thus, the resulting revenue requirement is unchanged. If Austin Energy were using the utility basis to develop its revenue requirement, then the return on rate base would be relevant.

Q. WHY DID AUSTIN ENERGY NOT USE THE UTILITY BASIS IN DEVELOPING THE REVENUE REQUIREMENT?

A. The utility basis is most easily applied to investor-owned utilities, which have a profit motive. Austin Energy is not a for-profit entity, so the application of the utility basis can be complicated by difficulties determining the appropriate return. The cash flow approach is better aligned with the key considerations for a municipally-owned utility, such as Austin Energy.

Q. WHY IS MR. LOY CONCERNED ABOUT THE PRESENTATION OF IMPLIED RETURN ON RATE BASE?

A. It is not clear. He may want to make Austin Energy's request appear unreasonable by framing it in a way that is inconsistent with common utility practice, or he does not understand the cash flow approach. His statement that "the imputed 13.8% is a cash flow return and is not comparable to a return that would be granted to a regulated IOU, as it excludes the effect of depreciation and amortization" suggests it is the former.[22]

Internally Generated Funds for Construction

[22] NXP Position Statement, Testimony of Chuck Loy at 54.

Q. DID MR. LOY HAVE ANY SUGGESTIONS REGARDING INTERNALLY GENERATED FUNDS FOR CONSTRUCTION (IGFFC)?

A. Yes. Mr. Loy suggested that Austin Energy change the IGFFC so that it targets 35 percent, rather than the 50 percent used by Austin Energy. He also commented that this would be within the guidelines contained in Austin Energy Financial Policy 14.[23]

Q. IS HE CORRECT REGARDING AUSTIN ENERGY'S FINANCIAL POLICY?

A. Yes. The financial policy does provide a range of potentially acceptable funding between 35 percent and 60 percent. Mr. Loy's suggestion is at the lower end of this range.

Q. IF IT COMPLIES WITH FINANCIAL POLICY 14, DO YOU AGREE WITH MR. LOY'S SUGGESTION?

A. No. First, the range of potentially acceptable funding in the financial policy has to be balanced with the other financial policies, such as Austin Energy Financial Policy 6, as well as Austin Energy's objective to maintain its credit rating. Further, Austin Energy was instructed, at the conclusion of the Base Rate Review in 2012,[24] to prospectively implement a policy of 50 percent funding for IGFFC. Thus, adopting Mr. Loy's suggestion would be contrary to Council's direction.

VII. REBUTTAL TO TESTIMONY OF BILLIE LACONTE

Financial Policies

Q. DID MS. LACONTE MAKE ANY OBSERVATIONS WITH REGARD TO THE GFT, IGFFC, AND AUSTIN ENERGY'S FINANCIAL POLICIES?

[23] *Id*. at 54-56.

[24] *See* City of Austin Ordinance No. 20120607-055, Part 7.

A. Yes. Similar to Mr. Loy, Ms. LaConte observed that Austin Energy's financial policies do not mandate a certain IGFFC. Ms. LaConte also observed that Austin Energy's financial policies do not mandate a certain GFT.[25]

Q. ARE THESE INSTRUCTIVE OBSERVATIONS?

A. Although accurate, they do not impact Austin Energy's base rate proposal.

Q. WHY NOT?

A. As previously discussed, Austin City Council-approved policy dictates Austin Energy implement a policy of 50 percent funding for IGFFC, so the fact that the financial policies do not mandate a particular level of IGFFC is not particularly significant. Similarly, City Council requires Austin Energy to maintain the GFT at the 12 percent level. Thus, the fact that the financial policy limits the GFT to not exceed 12 percent does not mean Austin Energy has the discretion to set the GFT at a lesser rate.

Q. DID MS. LACONTE MAKE A SUGGESTION REGARDING THE IGFFC?

A. Yes. Ms. LaConte suggested that IGFFC be reduced to 40 percent.[26]

Q. DO YOU AGREE WITH THIS SUGGESTION?

A. No. As previously discussed, Austin City Council approved a policy for Austin Energy implement 50 percent funding for IGFFC. Further, this directive is in alignment with Austin Energy's other financial objectives.

Q. DID WITNESS LACONTE MAKE ANY OTHER OBSERVATIONS REGARDING THE GFT ON WHICH YOU WOULD LIKE TO COMMENT?

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[25] Direct Testimony of Billie LaConte on behalf of Texas Industrial Energy Consumers (TIEC) at 6 (Jun. 22, 2022).

[26] *Id*. at 13-15.

A. Yes. In Table 5 of her testimony, Ms. LaConte calculated the GFT as a percent of operating revenues for FY 2018, FY 2019, and FY 2020. She then observed that her calculation showed that the GFT averaged 7.8 percent of operating revenues over these three years.[27]

Q. DO YOU AGREE WITH THIS ASSESSMENT?

A. No. It appears to me that Ms. LaConte used total operating revenues for this calculation, which is in error.

Q. WHY?

A. Because, as previously discussed as well as outlined in Austin Energy Financial Policy 13 and in Work Paper C-3.2.1 of the Base Rate Filing Package, the GFT is based on revenues excluding Power Supply Adjustment costs and non-electric costs. Thus, Ms. LaConte's comparison of the 7.8 percent she calculated to the amount requested in Austin Energy's test year revenue requirement is comparing apples and oranges. Further, any conclusions she draws from this analysis should be disregarded.

VIII. REBUTTAL TO TESTIMONY OF JEFFRY POLLOCK

General Fund Transfer

Q. DID MR. POLLOCK MAKE ANY SUGGESTIONS ON THE GFT?

A. Yes. Mr. Pollock suggested reducing the GFT in the test year revenue requirement to the average amount of the actual GFT in FY 2018, FY 2019, and FY 2020.[28]

Q. DO YOU AGREE WITH THIS SUGGESTION?

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[27] *Id*. at 11-12.

[28] Direct Testimony of Jeffry Pollock on behalf of TIEC at 9 (Jun. 22, 2022).

A. No. This misunderstands the way the GFT is calculated. As previously stated, Austin Energy does not have the discretion to reduce the GFT rate. Thus, Austin Energy cannot summarily change the GFT amount to an historical level. Mr. Pollock's suggestions on the GFT should be rejected.

Billing Determinants

Q. DID MR. POLLOCK MAKE ANY SUGGESTIONS REGARDING APPROPRIATE BILLING DETERMINANTS?

A. Yes. Mr. Pollock suggested that the future billing determinants for FY 2023 be utilized to set base rates for Austin Energy.[29]

Q. DO YOU AGREE WITH MR. POLLOCK'S SUGGESTION?

A. No. Austin Energy is using a historical test year for its Base Rate Review. Mr. Pollock's suggestion is reflective of a future test year concept, which is incongruent with the historical test year approach. This would misalign Austin Energy's historical FY 2021 costs, adjusted for known and measurable events, with billing determinants from a future year—specifically FY 2023. This is unreasonable and unnecessary.

Q. IS THERE ANYTHING ELSE YOU WANT TO COMMENT ON REGARDING BILLING DETERMINANTS?

A. Yes. Mr. Pollock suggests using the average energy consumption for customers over the four years from FY 2017 through FY 2020 as a basis for judging the billing determinants in the test year.[30] This approach is incorrect.

First, the historical energy sales he used are not weather normalized. Second, this approach fails to recognize that average residential energy sales are on a multi-

[29] *Id*. at 12-14.

[30] *Id.*

year downward trend, as outline extensively in Austin Energy's Base Rate Filing Package. Thus, the suggestion to use this data should be rejected.

Pass-Through Costs

Q. DID MR. POLLOCK MAKE ANY COMMENTS ON PASS-THROUGH COSTS IN AUSTIN ENERGY'S ANALYSIS?

A. Yes. Mr. Pollock contends that pass-through costs should not be included in the base cost of service analysis. Further, he suggests that having pass-through costs represented in the cost of service impacts the allocation of service area lighting. Therefore, he developed a version of the cost of service with pass-through costs removed.[31]

Q. DO YOU AGREE WITH MR. POLLOCK'S SUGGESTION?

A. I agree that the pass-through costs should not impact the base cost of service, but I do not agree that having pass-through costs represented in the analysis will cause the recovery of service area lighting costs to be impacted.

Q. WHY HAS AUSTIN ENERGY INCLUDED PASS-THROUGH COSTS IN ITS COST-OF- SERVICE ANALYSIS?

A. First, it allows the entirety of Austin Energy's business operations to be represented, ensuring that no cost has been missed or duplicated, which ensures transparency. Further, it allows Austin Energy to represent estimated electric utility bills for different customers. Only having base costs in the cost of service might make it difficult to represent the whole bill. In the end, as illustrated in the schedules contained within the Base Rate Filing Package, all pass-through costs were quantified and only base costs were included for recovery through Austin Energy's proposed base rates.

[31] *Id.* at 17-19.

Q. WHAT ABOUT MR. POLLOCK'S CONTENTION THAT THE INCLUSION OF PASS-THROUGH COSTS IMPACTS THE ALLOCATION OF SERVICE AREA LIGHTING?

A. Mr. Pollock's contention is likely a result of the illustrated allocation of service area lighting shown on Schedule G-6 and Schedule G-7 of the Base Rate Filing Package. These schedules show the service area lighting costs being allocated to customer classes based on revenue requirement (including pass-through costs). However, service area lighting for the City of Austin is a pass-through cost, which is not being addressed in this Base Rate Review. Thus, although there is an allocation shown on Schedule G-6 and Schedule G-7, these allocations are not proposals for how to recover this cost. Because the Service Area Lighting pass-through charge was not being set in this Base Rate Review, Austin Energy did not develop a special allocator for service area lighting that accounted for all of the various limitations on the recovery of this cost. Further, no matter how service area lighting costs are allocated to customer classes in the Base Rate Filing Package, it will have no impact on the base cost of service or resulting proposed base rates. To prove this, I invite any interested party to change the allocator used to allocate service area lighting to customer classes on Schedule G-6 and Schedule G-7. As long as the allocator for service area lighting is the same between these two schedules, meaning there is not a disagreement within the model as to how this cost is allocated, there is no impact on the identified base cost of service for any customer class.

IX. CONCLUSION

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

Grant RABON

PARTNER

Since 2005, Mr. Rabon has managed electric, water, wastewater, natural gas, and solid waste utility projects designed to safeguard clients' financial integrity primarily through the performance of financial feasibility studies, depreciation studies, valuations/ appraisals, or comprehensive cost of service analyses. His educational background facilitates a unique understanding of the financial implications for technical projects. Further, he is one of less than 20 individuals in the nation with an Accredited Senior Appraiser designation in Public Utilities from the American Society of Appraisers.

CONTACT

8140 North Mopac Expressway, Ste 1-240
Austin, TX 78759

Email: grabon@newgenstrategies.net
Website: www.newgenstrategies.net

EDUCATION

Master of Business Administration, University of Texas at Austin

Bachelor of Science in Chemical Engineering, Texas A&M University

PROFESSIONAL REGISTRATIONS/ CERTIFICATIONS

Accredited Senior Appraiser (ASA) designation in Public Utilities from American Society of Appraisers

KEY EXPERTISE

Cost of Service and Rate Design

Financial Feasibility and Planning

Utility Appraisals and Valuations

Depreciation Studies

Regulatory and Litigation Support

NewGen Strategies & Solutions

RELEVANT EXPERIENCE

Depreciation

Mr. Rabon has conducted comprehensive depreciation studies to establish appropriate depreciation rates for utilities, including benchmarking depreciation rates among peer utilities.

Cost of Service and Rate Design

Mr. Rabon has conducted numerous comprehensive cost of service and rate design studies. Rates designed as a result of these engagements equitably recover the cost of service and align with the utilities' goals, including special consideration for affordability and best practice rate structures. Stakeholder outreach and benchmarking analyses were common tasks within these projects.

Key projects include:

Austin Energy – Cost of Service and Testimony

Conducted a comprehensive, unbundled cost of service analysis for the electric utility and designed equitable rates to achieve the City of Austin's goals, including improving fixed cost recovery while incentivizing conservation through a five-tier rate structure and providing support for distributed generation, such as rooftop solar. Filed direct testimony on behalf of the City of Austin d/b/a Austin Energy at the Public Utility Commission of Texas in defense of the electric rates adopted by Austin City Council (PUC Docket No. 40627). Later, in 2015, conducted various analyses on issues of critical importance to Austin Energy, such as a financial reserves study and review of small commercial rates, and assisted Austin Energy staff in an update to the cost of service and rate design. These projects included extensive public involvement and stakeholder engagement.

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Lower Colorado River Authority – Wholesale Water Benchmarking and Rate Analysis

Performed a benchmarking analysis to identify best practices among wholesale water entities around the nation, with an emphasis on innovative rate structures and water conservation efforts. A long-term rate analysis was conducted to incorporate projected capital projects to expand the water supply over a 90-year horizon under various rate structures.

College Station – Electric Transmission Filing

Conducted a comprehensive cost of service analysis for the transmission function and regulated rate filing with the Public Utility Commission of Texas, including development of all schedules, workpapers and testimony (PUC Docket No. 52728).

Greenville Electric Utility System (GEUS) – Electric Transmission Filing

Performed a quality assurance review of a comprehensive cost of service analysis for the transmission function and regulated rate filing with the Public Utility Commission of Texas.

Texas Municipal Power Agency (TMPA) – Electric Transmission Filing

Developed an interim regulated rate filing for the transmission function with the Public Utility Commission of Texas and filed direct testimony on behalf of TMPA (PUC Docket No. 51439).

Georgetown Electric Utility – Rate Projects

Conducted a series of rate projects for the City of Georgetown, Texas to improve cost recovery and equity. This includes a redesign of the distributed generation rate tariff, evaluation of a large contract customer load, and design of a new rate tariff for commercial "fast charging" plug-in electric vehicle charging stations.

Other Cost of Service and Rate Design Studies

Conducted one or more comprehensive cost of service and rate design studies for the following entities:

- City of Athens, Texas
- City of Borger, Texas
- City of Bryan, Texas
- City of Del Rio, Texas
- City of Greenville, Texas
- City of Hobbs, New Mexico
- City of Las Cruces, New Mexico
- City of Longview, Texas
- City of New Braunfels, Texas
- City of Nogales, Arizona
- City of Olathe, Kansas
- City of Peoria, Arizona
- City of Pflugerville, Texas
- City of Sealy, Texas
- City of Sioux Falls, South Dakota
- City of Stillwater, Oklahoma
- City of Sugar Land, Texas
- City of Tempe, Arizona
- City of Temple, Texas
- City of Tucson, Arizona
- City of Vernon, California
- City of Weatherford, Texas
- Greater Ouachita Water Company, Louisiana
- Levi Water Supply Corporation, Texas
- Liberty City Water Supply Corporation, Texas
- Gonzales County Water Supply Corporation, Texas
- Manville Water Supply Corporation, Texas
- North Slope Borough, Alaska
- Pima County, Arizona
- Rockett Special Utility District, Texas
- St. Tammany Parish, Louisiana
- Snohomish County, Washington
- Town of Estes Park, Colorado
- Walker County Special Utility District, Texas
- Wellborn Special Utility District, Texas
- York County, South Carolina

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Financial Feasibility

Mr. Rabon has evaluated the financial feasibility of various projects through business case analyses and the development of financial models. This includes a project to evaluate a proposed 20 million-gallon-per-day brackish groundwater desalination facility for San Antonio Water System based on the relative capital and operational costs as well as total lifecycle costs under various project delivery options, including traditional DBB, DB, DBO and a customized DBOOT. Another project included financial feasibility modeling to evaluate the development of a proposed water source for a municipal client.

Utility Appraisals and Valuations

Mr. Rabon has conducted valuations as well as fair market value appraisals to determine an indication of value for acquisitions/dispositions, or to evaluate municipalization or privatization of utilities. His experience also includes service area valuations to determine compensation for decertification of areas covered by certificates of convenience and necessity.

Key projects include:

Greater Ouachita Water Company (GOWC) – Utility Acquisition and Regulated Rate Filing

Conducted a fair market value appraisal of an investor-owned utility, including 13 water systems and 27 wastewater systems, in support of an acquisition of some of these systems by Greater Ouachita Water Company (GOWC). Subsequently conducted a comprehensive cost of service analysis for the existing water and wastewater utilities of GOWC and developed rates to recover all costs, including the acquisition and necessary capital improvements. Filed required schedules with the Louisiana Public Service Commission in support of the acquisition and rate request. (LPSC Docket No. U-32803)

Other Utility Appraisals or Valuations

Conducted one or more appraisal or valuation study of the following entities:

- Aqua Texas, Inc. (a portion of the system)
- Aqua Indiana, Inc. (a portion of the system)
- Bi-County Water Supply Corporation
- Brownsville Navigation District
- Clear Water Estates Water System
- Commons Water Supply, Inc.
- El Jardin Water Supply Corporation
- City of El Paso's Clint and McCombs Municipal Landfills
- EnLink (a portion of a gas pipeline in Alexandria, Louisiana)
- Esperanza Water Service Company
- Greater Ouachita Water Company
- Guadalupe-Blanco River Authority
- Jarrell-Schwertner Water Supply Corporation
- Johnson County Special Utility District
- Liberty City Water Supply Corporation
- Pacific Gas and Electric's electric transmission and distribution system in San Francisco, California
- Pennichuck Corporation's water utility in the City of Nashua
- Rice Water Supply & Sewer Supply Corporation
- City of Superior's Moccasin Mike Landfill
- Utilities Investment Company, Inc. and UIC 13, LLC
- Xcel Energy's electric distribution system in the City of Boulder, Colorado
- An investor-owned utility's electric distribution system in a confidential location

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Regulatory and Litigation Support

In addition to the regulatory work associated with some of the projects previously mentioned, Mr. Rabon has also provided litigation support to his clients. This includes a project calculating damages owed to three electric cooperatives and one municipally owned utility as part of a wholesale rate dispute with the Lower Colorado River Authority in Travis and Kerr County, Texas District Courts. This included recreating billing determinants and the development of a market access rate. (Cause No. D-1-GN-12-002156 and Cause No. 12-1001-B) In another project Mr. Rabon calculated damages owed to a municipality in a contract dispute with its ERCOT Qualified Scheduling Entity.

Customer Advocacy and Engagement

Mr. Rabon served as the residential rate advocate for Austin Water's water, reclaimed water, and wastewater cost of service and rate design study, representing the interests of the residential customer class in the process, much like the Texas Office of Public Utility Counsel often does for regulated rate cases. This involved participating in a stakeholder engagement process, and presenting at a series of independent meetings with residential customer groups around the City to explain the process and solicit feedback on important policy issues from residents. Also, reviewed and critiqued Austin Water's prior comprehensive rate review, completed in 2009, and the validity of the methodologies employed therein. Finally, given that any rates proposed by Austin Water could be reviewed by the Public Utility Commission of Texas, provided invaluable input on acceptable practices based on extensive prior work in this venue. In a separate engagement, provided written comments on proposed changes to Austin Water's financial policies.

TESTIMONY

Public Utility Commission of Texas

- Electric Rate Filing on behalf of Austin Energy – PUC Docket No. 40627
- Interim Electric Transmission Rate Filing on behalf of Texas Municipal Power Agency – PUC Docket No. 51439
- Revenue Requirement and Cost Recovery Issues on behalf of Windermere Oaks Water Supply Corporation – PUC Docket No. 50788
- Electric Transmission Rate Filing on behalf of the City of College Station – PUC Docket No. 52728

Louisiana Public Service Commission

- Water and Wastewater Rate Filing on behalf of Greater Ouachita Water Company – LPSC Docket No. U-34865
- Wastewater Cost of Service Rate Filing on behalf of National Water Infrastructure – LPSC Docket No. U-36383

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PARTNER

PRESENTATION AND PUBLICATIONS

Mr. Rabon has given various industry presentations focused on utility finances and rates.

American Water Works Association and Water Environmental Federation's Utility Management Conference

- Regionalization Efforts: A Louisiana Case Study (2013)
- Austin Water Affordability Assessment (2020)

National Rural Water Association Conferences

- Rate Planning for a Sustainable System (2018)
- Small Water System Financing 101 (2019)

Texas Public Power Association Conferences

- Adapting to Distributed Generation (2017)
- Is Change Coming?: Transmission Rate Filings at the Public Utility Commission (2018)
- Effectively Managing Significant Rate Changes (2019)

Texas Rural Water Association Conferences

- Keeping Your System Financially Fit; Learn How to Set Good Water Rates (2012)
- CCN Valuations: Financial Considerations Related to Decertification and Expedited Release (2014)
- Water Rates 101 (2015)
- Financial Planning and Tools (2016)
- Rates that Support Current and Future Needs (2018)
- Financial Management and Fiduciary Responsibilities (2019)
- How to Structure Rates to Ensure a Successful Future for Your System (2019)
- CCN Decertification Compensation – What's Fair? (2021)

USDA Rural Development

- Nuts and Bolts of Setting Sustainable Rates (2018)

2WR's Response to AE's 1st RFI No. 1

AE1-1: Regarding page 4: AE1-1: Regarding page 4: a. Please explain your position that non-electric revenue or expense are comingled within the base revenue requirement. b. Please explain what "almost $20 million subsidization" is referenced and how it impacts the base revenue requirement. c. Please confirm Austin Energy has not included the replenishment of financial reserves as a component in its revenue requirement.

2WR Response

a. Please explain your position that non-electric revenue or expense are comingled within the base revenue requirement.

The TY2021 reference is in error. The proper reference is FY2021. 2WR's statement of position did not state that the non-electric revenue or expenses was commingled within the base revenue requirement. The last three sentences of the section regarding the non-electric business on p.4 reads as follows: "In this case, AE addressed the subsidy issue for purposes of calculating the TY net revenues for setting rates. But at the same time, it included the subsidy costs to portray a utility losing money in a significant enough amount to justify drastic changes to residential rate design. Not a good public policy moment."

During FY2021 AE ratepayers paid rates whose revenues already impacted by winter storm Uri and the Pandemic rate discounts covered the subsidy AE's non-electric business incurred during FY2021. The 2020 and 2021 financial data were "based on unadjusted revenues and cost data." AE Response to 2WR's 1st RFI No.1-16. This data was used by AE, not for purposes of setting rates, but to justify drastic rate design changes. See Figure 7-23, AE Response to 2WR's 1st RFI Nos. 1-15 and 1-16. It was data that was used before the City Council to argue that the Customer charge needed to be at 250% of its current level and that rate tiers needed to be reduced with the initial tier cut in half. Rate design is a significant issue in this rate case. AE's proposed changes cause huge increases within and among residential customers.

The subsidization occurring in FY2021 raises more than the significant issue of rate design, it also raises the issue of why should ratepayers' revenues be used to subsidize non-utility business. Is FY2021 an anomaly or has AE ratepayers been subsidizing this business in previous FYs. Subsidization means that AE ratepayers receive no benefit be it a future share in the profit or a repayment of at best characterized as a forced no interest loan from the non-utility business. At the very least, AE ratepayers should be repaid for this subsidy. Consequently, costs and revenues should be tracked for this non-utility business and the subsidies should be tallied to determine either AE ratepayer's share of the business for purposes of profit sharing or to repay the ratepayers for the forced loan.

Lastly, 2WR acknowledges and agrees with TIEC witness LaConte's pre-filed testimony that AE's debt service coverage calculation for purposes of determining the revenue requirement includes a subsidy to AE's non-utility business. See, pre-filed TIEC LaConte's testimony at p. 10, and AE Supplemental Response to TIEC 3rd RFI No. 3-3. Removing AE's non-utility business expenses, revenues, and debt service from AE's calculation raises AE's debt service coverage to 2.5. *Id.* Using

the data AE relied upon in its Response to TIEC 3rd RFI No.3-3, the business operations of the non-utility business show a debt service coverage of approximately .67. Logically this means, AE ratepayers are asked to not only use its proposed TY 2021 rates to meet the financial policy of 2X debt service ratio, but they are being asked to pay a portion of AE's non-utility's mortgage, the non-utility's debt service. This is subsidization.

b. Please explain what "almost $20 million subsidization" is referenced and how it impacts the base revenue requirement.

Please see 2WR's answer to AE RFI No. 1-1(a) above.

c. Please confirm Austin Energy has not included the replenishment of financial reserves as a component in its revenue requirement.

2WR can neither confirm nor deny this statement because they did not address this issue. 2WR only addressed the financial reserves to counter AE's argument that the current rate design is causing AE to turn to its reserves to address the gap between base revenues and costs. 2WR pointed out that AE decreased its reserves to transform a power supply contract with a power plant owner to buying the power plant and becoming the owner. This $27 million decrease to reserves is one reason for the declining reserves AE addressed in Fig. 7-23 in its rate-filing package to justify radical rate design changes. This graph set out in Fig. 7-23 was used before the City Council and the EUC as proof that radical residential rate design changes needed to be made.

Prepared by: Lanetta Cooper

Sponsoring witness: Lanetta Cooper