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

AUSTIN ENERGY'S RESPONSE TO INDEPENDENT CONSUMER ADVOCATE'S EIGHTH REQUEST FOR INFORMATION

Austin Energy files this Response to the Independent Consumer Advocate's ("ICA") Eighth Request for Information ("RFI") submitted on July 8, 2022. Pursuant to the 2022 Austin Energy Base Rate Review Procedural Guidelines § F(2)(f)(1), this Response is timely filed.

Respectfully submitted,

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ATTORNEYS FOR THE CITY OF AUSTIN D/B/A AUSTIN ENERGY

ICA 8-1: Please update the response to ICA 4-5.

ANSWER: There is no update available for ICA 4-5.

Prepared by: GG

Sponsored by: Gerado Galvan

ICA 8-2: Referring to Rabon Rebuttal Testimony, page 16, please provide workpapers supporting the annual non-nuclear decommissioning amount of $8.4 million.

ANSWER: Upon reviewing the calculation that developed the $8.4 million stated on page 16 of my testimony, I determined that (contrary to my contention) the method I used was not consistent with Mr. Effron's methodology. Thus, I will be requesting that question and answer be stricken from my testimony. Nonetheless, I continue to recommend that Mr. Effron's suggestion to reduce the non-nuclear decommissioning expense be rejected for the other reasons, as outlined in my testimony.

Prepared by: GR

Sponsored by: Grant Rabon

ICA 8-3: Referring to Gonzales Rebuttal Testimony, page 6, lines 1-6, please describe any efforts by Austin Energy to recover the disputed revenue.

ANSWER: Austin Energy has been attempting to resolve the dispute with the customer in order to receive pole attachment rental revenue. This includes having multiple meetings with the customer. In addition, Austin Energy has conducted an internal count of poles with customer attachments to support contract discussions.

Prepared by: MG

Sponsored by: Monica Gonzalez

ICA 8-4: At page 42, Mr. Murphy states that he agrees that only costs which directly vary with number of customers should be included in the customer charge. Please provide evidence and proof that the following costs on Schedule G-5 (Customer Classification) directly vary with the number of customers: Account 920 (A&G salaries); Account 930 (General Expenses); and General Fund Transfer.

ANSWER: In the Austin Energy Cost-of-Service Study, all costs assigned to the customer function are classified as customer-related, with the exception of EGRSO costs. Customer-related means the costs vary with number of customers. Included in the customer function is an appropriate share of common costs in accounts 920 and 930, as well as GFT. These common costs and the GFT are allocated broadly among functions. These are costs that are necessary to support each of the functions of the utility, and the share assigned to the customer function can reasonably be said to vary with number of customers. The GFT is a function of revenues, and the customer charge generates revenues.

Prepared by: BTM

Sponsored by: Brian Murphy / Grant Rabon

ICA 8-5: At page 46 of Mr. Murphy's testimony, he states that "cost-based rates send accurate price signals." Does Mr. Murphy agree that his definition of cost-based rates and accurate price signals does not include the effect of economic externalities, such as climate change? Is it inappropriate to consider the impact of economic externalities in designing rates?

ANSWER: Austin Energy has invested in scrubbers and other equipment to reduce harmful emissions at fossil plants. These investments were made to address externalities associated with human-health, and are part of production invested capital in this proceeding. Other than that, Mr. Murphy is not aware of any externalities that are reflected in Austin Energy's base-rate costs. Outside of base rates, the Value of Solar rates are designed to accurately reflect the value provided by solar output, including a component for the avoided costs of carbon emissions.

It can be appropriate for policymakers to consider externalities when designing rates. However, it is incumbent upon the technician to point out the tradeoffs that come from emphasizing one or another policy objective, including what is lost when unquantified externalities receive a strong emphasis, and the challenges in quantifying externalities.

Prepared by: BTM

Sponsored by: Brian Murphy

ICA 8-6: At page 13, Mr. Murphy states that he believes a 25.7% increase to the Residential class would constitute "rate shock." Does Mr. Murphy disagree with Mr. Johnson's testimony that AE's proposal would result in a 26% base revenue increase for Inside City-Non CAP residential customers? (Johnson Initial Presentation at 11) Does the base revenue increase for Inside City residential customers constitute "rate shock?"

ANSWER: No, Mr. Murphy does not disagree with Mr. Johnson's testimony that Austin Energy's proposal would result in a 26% base revenue increase for Inside City-Non CAP residential customers.

No, the base revenue increase for Inside City residential customers does not constitute "rate shock." A 26% increase for inside-city non-CAP customers would not constitute rate shock. Rate shock is a function of the dollar increase in the customer's bill and how the customer responds to the dollar increase.

Figure 7-32 to the Base Rate Filing Package shows that an inside-city, non-CAP customer's bill would increase by about $18, from about $32 to about $50. The bill begins at a very low level that is only 48% of cost of service, and would increase to a low level under proposed rates, to only 75% of cost of service. An $18 dollar increase from a very low bill to a low bill does not constitute rate shock. Please note that had the class been assigned a 26% increase, the dollar increase for low-usage inside-city customers would have been higher. In the revenue distribution phase, the best approach to gradualism is in part a function of the increases that different groups of customers would experience under the rate design.

Austin Energy is increasing the bills for inside-city non-CAP customers to be consistent with the reality of recovering Austin Energy's costs. Usage in higher tiers is disappearing, and the cost recovery must occur where the usage occurs, which is in the lower tiers, so that Austin Energy's residential rate design promotes financial health to a degree consistent with Council-adopted financial policies. There is nowhere else for the cost recovery to be assigned that is viable from the standpoint of revenue stability.

Rate shock is also about how customers respond to changes in the bill. Price signals are only effective when the customer sees a link between use of the system and the bill, and rate shock is a disruption of that link. The dominant policy goal of the rate design is to promote conservation, and inside-city non-CAP customers at low levels of usage had been experiencing very low bills. Under such low bills, the customers would have had little incentive to invest in energy-efficiency measures to avoid consumption. Basic economic theory suggests that below-cost charges encourage wasteful use of the system, not conservation. Viewed this way, the changes to the charges for low usage customers strengthen rather than weaken the conservation price signals in the rates, and therefore do not disrupt the relationship between a customer's use of the system and the customer's expectation of the bill that will result from it.

However, as discussed in the Base Rate Filing Package, Austin Energy has not been able to find evidence that residential customers are responding to conservation price signals in the current rate structure. If customers are not responding to price signals, then a rate change cannot disrupt the price signals.

Prepared by: BTM

Sponsored by: Brian Murphy

ICA 8-7: At page 23, Mr. Murphy references Dr. Bonbright's *Principles of Public Utility Rates* in his discussion of rate design objectives. Please confirm that Dr. Bonbright viewed the merits of public utility fully distributed cost studies as "dubious" because the analyses fail to distinguish between cost determination and mere cost apportionment—between those costs which can be imputed to specific customer classes and those costs which are unallocable from the standpoint of cost determination. (Principles of Public Utility Rates, 1961, page 367)

ANSWER: Not confirmed. Austin Energy does not have the 1961 edition of Bonbright's book, as referenced. Upon review of Chapter 19 of the second edition of Bonbright (1988), "Fully distributed costs," Mr. Murphy cannot agree that the statement in the request is a correct reading of Bonbright. In Chapter 19, Bonbright identifies common criticisms of the fully distributed cost study. He identifies these common criticisms for the reader's consideration without stating whether in his view one or another criticism should carry the day and cause the technician to lessen the weight assigned to the fully distributed cost study. Additionally, Dr. Bonbright states that there was at the time of his writing no satisfactory resolution to the criticisms. This is not the same thing as accepting the criticisms as a valid basis for disregarding the cost study and seeking to assign greater weight to non-cost considerations in ratemaking.

Prepared by: BTM

Sponsored by: Brian Murphy