	§	**BEFORE THE CITY OF AUSTIN**
AUSTIN REVIEW	§	
2022 BASE RATE REVIEW	§	**HEARINGS EXAMINER**

2WR'S POST HEARING BRIEF

TO THE HEARING EXAMINER:

Two Women Ratepayers (2WR) file this post hearing brief as follows:

I.
INTRODUCTION

The Austin City Council ("COA") and Austin Energy ("AE") performed heroically in FY2020 and FY2021.[1] To help AE customers during the pandemic, the Council reduced AE customers' rates, increased CAP discounts, and waived various fees.[2] This was done knowing that operating revenues would decrease while operating costs would not. These rate and fee adjustments continued through the first month of FY2021. Then in February 2021 winter storm Uri hit, considered "unprecedented" by AE.[3]. The Council stepped up again and waived late payment fees and provided for a bill credit.[4] The winter storm affected up to 220,259 AE customers.[5] While many of the outages from this winter storm were ERCOT directed outages, the start of the storm impact started on February and continued thereafter until complete restoration of service was accomplished on February 21, 2021. AE estimated the ERCOT directed outages caused 509,828,944 customer electric service disruption, causing the loss of base revenues[6], but base operating costs incurred in operating its generation during the storm continued.[7] And during this winter storm event, AE employees went beyond their paychecks, leaving their homes every day and working in extremely freezing weather until every customer's

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[1] FY refers to fiscal year and refers to the COA's budget year that runs from October 1 to September 30.
[2] See 2WR Exhibit 5, pp.14 and 20.
[3] See Austin Energy, "Austin Energy February Winter Storms, After-Action Report 2021" (October 2021). published at athttps://austinenergy.com/wcm/connect/482f26ba-7c94-465a-8a00-59bd65f33967/Feb2021-WinterStormsAfterActionReport.pdf?MOD=AJPERES&CVID=nPCVCw-

[4] See 2WR 5, p.6
[5] 2WR
[6] Id., p. 4, 13.
[7] Rate Filing Package, p. 51.

service was restored. 2WR commends the Council's and AE's courage and dedication to AE's customers during these two events.

FY2020 and FY2021, impacted by two extraordinary events, were used in this rate case before your Honor. They were used without consideration of the financial impacts of the pandemic and winter storm URI as a motivating reason to recommend dramatic changes to AE's residential rate design. FY2021 normalized for weather and adjusted for known and measurable changes was used to establish the test year ("TY2021") for proposing rate increases and drastic residential rate designs. This was done without regard to the state of the economy and the pandemic. In this brief 2WR will primarily focus on FY2020 and FY2021 in relation to AE's use of this data to justify its residential rate design changes. 2WR will also address AE's other arguments for proposing the drastic residential rate design. Lastly, 2WR will be addressing specific components of AE's TY2021 cost of service ("COS") recommending that certain adjustments be made to AE's TY2021 COS. 2WR's failure to comment on portions of AE COS does not infer agreement, but a recognition of its limited resources.

This is a base rate case. While the COA retains original jurisdiction over the setting of AE's rates, a rate appeal to the Public Utility Commission ("PUC") is available to customers whose service locations are located outside COA's boundaries.[8] In the appeal, the PUC relies upon state statutory ratemaking regulatory standards and its own ratemaking substantive rules. The statutory standards are set out in chapter 36 of the Public Utility Regulatory Act ("PURA").[9] The relevant rules are set out at PUC SUBST. Rule 25.231 ("PUC Rule 25.231").[10] PURA Chapter 36 and PUC Rule 25.231 provide a regulatory rate making framework for this rate case.

Under PURA §36.006 AE has the burden of proving the prudence and reasonableness of its expenditures.[11] And AE enjoys no presumption that its expenses are reasonable and necessary.[12] PUC Rule 25.231(b) restricts AE's expenses to its FY2021 expenses as adjusted for

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[8] See Tex.Util.Code §33.054, Subchapter D. See also *Public Util. Com'n of Texas v. City of Austin,* 728 S.W.2d 907, 917 (Tex. App.—Austin 1987, writ ref'd n.r.e.).

[9] See Public Utility Regulatory Act, Tex. Util. Code §§36.01-36.406 (West 2016)

[10] 16 Tex. Admin. Code §25.231 (Texas Secretary of State published at https://texreg.sos.state.tx.us/public/readtac$ext.TacPage?sl=R&app=9&p_dir=&p_rloc=&p_tloc=&p_ploc=&pg=1&p_tac=&ti=16&pt=2&ch=25&rl=231) (Texas Public Utility Commission, Cost of Service)

[11] *Texas Agencies & Institutions of Higher Learning v. Public Util. Com'n of Texas,* 450 S.W. 3d 615, 631 (Tex. App—Austin 2014) aff'd in part, rev'd in part on other grounds sub.nom. Oncor Electric Delivery Co. v. Public Util. Com'n of Texas, 507 S.W.3d 706 (Tex. 2017).

[12] *Id.*, See also PURA §36.051 ("In establishing an electric utility's rates, the regulatory authority shall establish the utility's overall revenues at an amount that will permit the utility a reasonable opportunity to earn a reasonable

known and measurable changes to arrive at the TY2021 expenses for determining whether current rates should be adjusted. AE has defined a known and measurable adjustment as one the utility shows is quantifiable and reflects an investment or expense that is used and useful in the delivery of electric service or will become so prior to the effective date of COA approved rate changes.[13] 2WR would only add that the adjustment has to also be reasonable and necessary.[14] Because AE is a municipally owned utility ("MOU"), AE may substitute a rate of return analysis assumed in PURA §36.051 with a cash flow analysis. NXP witness Loy explains this concept.[15] For purposes of this rate case, AE has employed a cash flow analysis.

II.

Revenue Requirement

B.(1)(c). Heavy Equipment Lease

AE increased its FY2021 heavy equipment lease expense by$7,471,2332, as a test year adjustment. This amount was calculated by averaging lease amounts into the future well past the effective date of the rates to be set in this case. The use of future year budgets to develop TY expenses runs counter to AE use of averages of historical year data to calculate adjustments to the FY2021.[16] This expense adjustment based on future budget years that will occur far past the year the rates will be in effect is contrary to the regulatory guideline of an adjustment. A known and measurable expense adjustment is one that is quantified and one AE shows is used useful in the delivery of electric service or will become so prior to the effective date of COA approved rates. This adjustment is not known and measurable. ICA witness Efforn's adjustment to this expense should be recommended for approval by the COA.[17] At least the FY 2021 expense as amended for known and measurable changes should not exceed the FY 2023 budgeted amount, a decrease of $5,338,897 from AE's adjusted amount.[18]

B(1)(h). Other Expenses. 311 Call Center

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return on the utility's invested capita used and useful in providing service to the public in excess of the utility's reasonable and necessary operating expenses.").

[13] See p. 27, Rate Filing Package.

[14] See PURA §36.051. A Cadillac purchased by AE may be used and useful in transporting its employees but it is not a reasonable expense given the underlying cost and availability of alternatives.

[15] See NXP. Exhibit 1, Rebuttal Testimony of Chuck Loy pp. 50-52.

[16] RFP, pp.39-43, Table 4-B

[17] See ICA Ex. 2, Effron Testimony, pp 10,. 92-94 Attachment ICA2-8, p.2.,

[18] RFP, App.C, WP D-1.2.12, 135 (C-113)..

The 311 Call Center is a 24-hour city-wide departmental information center.[19] The total costs of the 311 Call Center are within the overall costs that AE has because AE is administrating the Call Center.[20] This is a shared service which AE is to receive reimbursement for costs allocated to the other City departments. AE's allocation of 311 Call Center costs includes a 25% surcharge because the center is staffed after business and serves as a back-up for reporting outages for AE.[21]

AE did not perform a cost study to allocate the costs of the Center among the various city departments.[22] In a 2WR RFI response, AE did refer to an ECA Exhibit that purported to show an allocation table based on customer call durations of the departments.[23]2WR has been unable to identify or find the costs underlying the cost numbers laid out in the produced AE Table. Moreover, even the budget numbers presented do not add up. The total client budget for all departments is $9,472,140.75 providing a 25% surcharge of $2,368,035.18, a number less than the number identified on the Table as the 25% surcharge. While AE stated that its FY2021 cost allocation was based on the actual results from FY2019,[24] AE incorporated AE's FY2021 minutes of call duration into the Table, a higher number than the call duration for FY 2019.[25] Given the inconsistent math as well as the apparent inconsistent reporting of the purported FY2019 annual data in the Table, the Table is not reliable for the purpose stated by AE.

In reviewing AEs cost of service ("COS"), 2WR was able to find a few references to the 311 Call Center. One reference involved a series of costs removed or included in AE's COS from various identified expenses because they involved related to AE's non-utility business which is outside the rate case.[26] The record is to the relationship between the non-utility business and 311 Call Center costs and the effect that relationship had on the 311 Call Center costs allocated to the city departments including AE. 2WR was also able to identify a 311 Call Center purchase from City support and insurance for a 311 Call Center building.[27] Once again there is

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[19] AE Ex. No. 5, Galvan Rebuttal at p.3
[20] Transcript, Day 3, p. 48, Ls 36 and 37, 2WR cross of AE rebuttal witness Rabon.
[21] AE. Ex. No. 5, Galvan Rebuttal at p. 6
[22] 2WR Ex. No. 20, p. 2, AE Resp. to 2WR RFI No. 4-1(a).
[23] *Id*., 2WR Ex. No. $, p.2.
[24] 2WR Ex. 20, p, 2 AE to 2WR RFI No. 4-1.
[25] 2WR Ex. No. 20, p. 3.
[26] See RFP, App. C, W.P. E-4.2, p. 167 (also represented as p. C-145 in AE's COS). The totaled costs reduced from the COS match the summary of AE's COS at RFP, Sched. A, Line 11.
[27] See RFP, App. C, W.P. D 1.2.5.1, F-18.

nothing that can be found on whether these two sets of costs were identified and included in costs allocated to the other City departments. AE witness Galvan did not opine about the reasonableness of either the 311 Call Center Costs or the Center's surcharge to AE.[28] AE witness Rabon who sponsored the COS did not know whether any of AE' overhead costs relating to the 311 Call Center that were allocated to AE's allocated portion of the 311 Center were also allocated to the other City departments sharing the service.[29] It is not 2WR's burden to prove all costs relating to the 311 Call Center were included in the costs allocated to the participating City departments, that the costs were reasonable and necessary expenses, that the allocation methodology was reasonable resulting in a reasonable allocated cost. That burden falls upon AE to prove that the costs were reasonable and necessary. Simply opening its books to inspection is not enough.[30] AE did not meet its burden of proof. There is no credible evidence to identify what costs were allocated to what department.

Your Honor could recommend to the COA that AE's request to recover the 311 Call Center costs be denied. But 2WR is only requesting a very conservative adjustment be made to exclude the 311 Call Center surcharge to AE be recommended removed (including the respective overhead costs). It is an expense that is not necessary and it is excessive.[31] And as mentioned above, the Table itself lacks credibility. Further the surcharge to provide after business ours 311 call coverage for AE.[32] Yet AE witness Galvan testified that the call center answered calls for other departments, not just for A providing free, uncompensated services to the other departments.[33] There is no need for the 311 Center to provide backup for outage reports. AE has a several resources available to learn of an outage: customer call in, customer online reporting, customer text messages, smart meter informing AE a piece of AE communicating equipment is open causing outages, and an operator field crew updates the outage map.[34] All these options make the 311 Call Center back up redundant and unnecessary.

<u>B.(4) and (6)(a). Internally Generated Funds for Construction and Debt Service Coverage Ratio</u>

[28] AE Ex. 5, Galvan Rebuttal at pp. 6-7.
[29] Transcript, Day Three, p. 49, Ls 35-43, 2WR cross of Rabon.
[30] *Texas Agencies,* 450 S.W.3d at 631
[31] See p. 4 above.
[32] AE Ex. No.5, Gavin Rebuttal, pp. 6-7.
[33] Transcript, Day Three, Pp. 6, L.44 -7, L.2.
[34] 2WR Ex. No.20p.2, AE Response to 2WR RFI No. 4-1(c).

Internally generated funds for construction are cash payments AE customers pay through rates to fund in addition to debt AE's construction projects.[35] Because cash funding is more expensive than debt for financing construction, a mixture of debt and capital is used resulting in a debt: cash ratio. The COA has a financial policy that adopts a cash financing of construction ranging from 35-60%.[36]

Another COA financial policy tied to AE's revenue requirement is AE's debt service coverage ratio. Like a mortgage, debt service is the amount AE includes in its COS to repay its debts to finance its construction created through the issuance of bonds.[37] As a condition of issuing the bonds, AE agrees to establish set rates that will cover 150% of its annual debt repayment.[38] This number referenced as 1.5 is considered the debt service coverage ratio. COA has a financial policy that electric rates be designed to generate sufficient revenues to ensure a debt service coverage ratio of 2.[39]In discovery AE provided an annotated calculation of AE's debt-service ratio based on its proposed revenue requirement.[40] Even though AE removed its non-utility revenue from its COS to develop its revenue requirement, the non-utility business; revenues expenses and bonds are included in AE's calculations of its debt-service coverage ratio based on its proposed TY 2022 revenue requirement.[41]The effect of this inclusion is a .18 reduction in AE's debt service coverage ratio.[42] Using the method and data provided to calculate AE's debt service coverage ratio of .67, less than the non-utility's needed debt payment. This represents a $5,053,127 deficit that will have to be recovered by AE's proposed rates.[43] This subsidy amount should be removed from AE's revenue requirement, leaving AE with a debt service coverage ratio consistent with COA financial policies.[44]

2WR recommends that an adjustment should be made to AE's revenue requirement to remove the above non-utility subsidy amount. This is a conservative requested adjustment because the non-utility business's bond covenant requires it to have sufficient revenues to

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[35] NXP Ex. No.1, Loy testimony at pp. 51 and 52.
[36] RFP, App. B, Financial Policy No. 14.
[37] See e.g. RFP, App. C, C-31, p. 87 (C-65)
[38] Transcript, Day 1, p. 97, Ls.. 20-21.
[39] RFP, App. B, p. 21 Financial Policy Nos. 6 and 17
[40] 2WR Ex. No.2, p.3.
[41] *Id*.
[42] TIEC Ex. No. 3, LaConte's testimony at p. 9
[43] 2WR Ex. 2, p.3. Testimony, Day Three, p. 14, Ls 1-21.
[44] 2WR calculated the ration by following AE's calculations but reducing the base revenue rates by the subsidy amount.

provide for a debt service ratio of 1.5 and not the 1.0 debt service coverage ratio used to calculate the subsidy.

B.(5). General Fund Transfer

The general fund transfer is an amount transferred to the COA. It is based on a formula set out in COA's financial policies that takes a 12 % of the most recent three years revenues.[45]

AE increased the FY2021 general fund transfer by $7,000,000 calculated by only multiplying the 12% to the TY revenue requirement and not the average of the three most recent FY revenues.[46] At the hearing AE provided no explanation for veering from COA's financial policy. AE simply repeated what it calculated not why it did so,[47] Also, at the hearing a portion of COA's proposed FY2023 budget that included the general fund transfer proposed for FY2023 was introduced.[48]The budget revealed a general fund transfer of $115,000,000, 6,000,000 less than AE's calculation to include in the TY2021 revenue requirement.[49] AE agreed that it had followed COAs financial policy to derive the FY2023 amount[50]. The more credible evidence in the record supports the FY2023 amount. 2WR recommends that the TY2021 general fund transfer expense be reduced by $6,000,000.

III.

Cost Allocation

B.(4)(a). Customer Service Function, 311 Call Center

The 311 Call Center Costs were functionalized as customer Service Function. 2WR is asking that these costs, like the CAP program and the State, military and local school district rate discounts, be allocated on a per kWh basis and will discuss more below.

D. Cost allocation

Rate Discounts to Military, State and local school district rate discounts.

AE provides a 20% rate discount to military, state and local school districts. These customer accounts spread throughout various commercia classes.[51]The recovery of these

[45] RFP, App. B, p. 21, Financial Policy No.13
[46] See 2WR Ex. 2, p.5 which reproduces the relevant workpaper.
[47] Transcript, Day 3, p. 43, Ls 34-36.
[48] Transcript, Day 3, pp. 38-39; TIEC Ex. No. 25.
[49] *Id*.
[50] *Id*.
[51] See RFP, p. 77, Table 5-A.

subsidies has been intraclass whereby the subsidy was spread in each customer class containing a discount customer, the subsidy cost was spread to the other customers in that rate class[52]

In this rate case, AE is proposing the recovery for this subsidy be spread across all customer classes excluding the lightening classes. The allocation used was not utilized for any other cost in the COS.[53]The result of AE utilizing a cost allocation method not used in the COS is that the residential customer class picks up 54% of the military, state, and local school district subsidy. Even using AE's revenue requirement without street area lighting allocator results in a 48.5% allocation, a $328,8882 reduction to AE's proposed allocation amount.[54] Neither of these allocators are fair because residential customers did not cause any of the unrecovered costs. A fair allocation would be average demand where the costs are spread over the customer classes based on the kWhs consumed by each customer class, adjusted by line losses.[55] This allocation is more consistent with the CAP allocation, albeit commercial customers per kWh charges were capped at the now-defunct state low-income electric rate discount program (the System Benefit Fund) level.[56]. Use of the average energy allocator is also fairer because the energy allocator contains no residual indirect costs imputed to be incurred by each customer class that the other allocators contain. The appropriate allocator to use to spread the costs of the subsidy should be one reflective of the costs incurred by the respective subsidized customers indirectly or otherwise. Residential customers did not cause the costs underlying the subsidies. 2WR recommends that costs related to the military, state, and local school districts discounts be allocated on energy.

311 Call Center

The 311 Call Center provides city-wide information about the various city departments and city services. AE administers the Center. 2WR has already addressed the reasonableness of the expenses above. The Center is utilized by commercial and residential customers.[57] Unlike meter reading and billing, not all customers utilize this service, many don't. As such, the Center is a community benefit and the costs incurred by AE are in furtherance of the public interest.

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[52] RFP, p. 129.
[53] See RFP, p. 71, App.C, Sched. F-6 that lists the cost allocation factors.
[54] RFP, App.C.,Sched. F-6, L.30; RFP, p. 77, Table 6-A.
[55] See RFP, p.7, Table 5-N, energy related costs.
[56] 2WR Ex. No. 15, p.2; PURA §39.903(b)(m) required System Benefit Funds costs to be allocated to customers based on the amount of kWhs used
[57] 2WR Ex. No.4, p.3.

The benefits AE customer receive from the Center extends beyond AE. The Center is an information portal to all departments. It is a one-stop shopping center for information. All AE customers have equal access to the Center and the Center is not run to benefit any one customer class but to benefit all. As such, the cost allocated to AE should be re-allocated to its customer classes on a more general allocator, reflective of the community purpose of the Center of offering equal access to all customers. 2WR recommends an allocator that reflects the contribution each class makes to the over-all cost AE incurs in providing electric service, the revenue requirement excluding street lighting.

V.

Rate Design

A. Residential Rate Design;(1) customer charge; (2) Tiers; (3) Rate Differentials; (4) Outside City Customers; (5) Revenue Sufficiency; (6). Customer Growth; (7) Change in Tiers(8). Impacts on Vulnerable Customers

B. Proposed Residential Rates; (1) CAP Program Benefits

F. Rate-making Principle; (1) Weather-based volatility in Revenues

G. Load Factor

H. Load Size

I. Increased Transparency; (3) Gradualism

(A.(5) Revenue Sufficiency; B. (6) customer growth)After the total operating costs are calculated; after those operating costs are allocated among the customer classes utilizing a variety of allocation factors the next step in the ratemaking process is to develop a customer class rate design in order for each class rates to recover its allocated costs, subject to adjustments to avoid rate shock.

The first issue to address is whether the rates to be set or the current rates provide adequate and stable revenues. AE opines the current residential rate structure does not provide revenue sufficiency. To support its opinion, AE utilizes several arguments starting with arguments that AE's residential customer sales are decreasing while customers are increasing, and that is causing such a decline in base revenues that there is a widening gap between base revenues and base costs.[58]But AE omits the fact that commercial customer sales are also declining and visually

[58] RFP, pp. 81, 101

appear to be more rapidly declining that residential household sales[59] This fact is ignored by AE to such an extent that it labeled its graph representations of residential and commercial sales as "Decline in Residential Sales Per Household, 2020-2020".[60] AE shows the gap between base revenues and base costs in Figure 7-23.[61] The graph shows that but for FY2020 and FY2021, the base revenues exceeded base costs at greater amounts than FY2014, the start of the timeline review. This graph is not an accurate representation of a trend of base revenues falling further and further behind as each new FY approaches. FY2020 and FY2021 were anomalies. Because the revenues and costs were based on base revenues and costs unadjusted for neither the pandemic or Winter Storm Uri. The base revenues and costs were also not normalized for weather.[62] FY 2020 was impacted with the Covid-19 pandemic. Rate reductions and fee waivers were provided to AE customers at the direction of COA.[63] Further effecting electric sales was the economic effect the pandemic had on AE customers and electric sales. As ICA witness Johnson testified, AE customers lost employment, work from offices was stopped, and school and universities were closed.[64] This economic effect of the pandemic continued into FY 2021.[65]

The pandemic rate and fee relief provided by AE continued through the first month of FY 2021.[66] Also in FY2021 winter storm URI caused the ERCOT-forced outages of up to 220,259 AE customers.[67]There is no quantification of the amount of AE revenues lost because of the forced outages. The only evidence is an AE report to the PUC estimating that AE electric service to its customers was interrupted for 509,828,944 customer minutes of electric.[68] Moreover, there were additional outages of up to 35,000 customers before the ERCOT-forced outages.[69] These outages also represent lost sales and base revenues but they are unquantified. The COA reacted to the storm by waiving some fees and directing AE to provide a one-time bill credit to its customers.[70]AE estimated the pandemic caused it to suffer a loss of $8,100,000 in

[59] RFP, p. 81, Figure 7-4.
[60] *Id*.
[61] RFP, p.10, Figure 7-23: Impact of Revenue Gap on Cash Reserves.
[62] 2WR Ex. No. 6, pp. 2 and 3
[63] See Introduction paragraphs above.
[64] ICA Ex. No.3, ICA witness Johnson testimony at p.15, Ls 17-20.
[65] *Id*.
[66] 2WR Ex. No.6, p.4
[67] 2WR Ex. No.5, p. 13
[68] 2WR Ex. No. 5, p.13.
[69] 2WR Ex. No.5, p.4
[70] 2WR Ex. No. 5, p. 20

base revenues.[71]Another reason FY2021 had declining revenues was the use of AE's revenues to cover AE's non-utility business debt service coverage requirements of $11,242,159.[72] This subsidy takes on increased financial concern because it in all likelihood caused AE's debt service coverage ratio to fall to 1.89, below the minimum coverage ratio of 2 established by COA's financial policy No. 17.[73]

These examples of economic and AE revenue impacts occurring during FY 2020 and FY 2021 show that these two FYs are anomalies and are not appropriate for using as normal FYs for establishing a trend. At best these two FYs should have been adjusted to address the extraordinary events that occurred within them. Removing the anomalies from the Graph data in Fig. 7-23[74]leave FYs whose base revenues exceed base costs. This Figure 7-23, adjusted to remove the anomalies, shows stable revenues that provide revenue sufficiency for the proposition that the current residential rate design provides stable revenues.

(A.(2) Tiers; (3) rate differentials; F(1) weather volatility)AE also argues that the steeply inverted five tier rate poses rate instability due to weather and that reducing the rate differentials and tiers would better promote revenue stability. Weather variability is a fact of nature that AE has dealt with since it sold its first kWh of electricity. As mentioned above, regardless of weather variability AE has been able to maintain revenue stability as shown in Fig. 7-23, excluding anomalies[75] When AE experiences a hot summer as this one, the excess revenues realized can be reserved in whole or part to cover mild weather. This is probably what AE is already doing. AE does address weather volatility by normalizing TY revenues for weather and its Figure 7-35[76] graph depicts a weather variability pattern that shows extreme weather FY brings in more excess revenues than 2 FY mild weather years. Thus, over a planning horizon of five years, AE will probably have an over-all beneficial effect on revenues for FY where extreme

[71] 2WR Ex. No.5, p. 16

[72] The debt service coverage calculations followed the instructions provided by AE. Since the TY2021 calculation used FY2022 bonded debt, the calculation for FY2021 debt service coverage ratio replaced the FY2022 bonded debt with the FY2021 bonded debt. The relevant input numbers can be found at RFP, Sched. A, Ls 4,11,17,and 34, Column B. The amount set out above represents 1.5 of the non-utility's debt service to reflect the minimum 1.5 level required by the bond covenants. See 2WR Ex. 2, pp. 2 and 3.

[73] See TIEC Ex. 3, La Conte testimony at p. 9 where she calculated that the non-utility business subsidy caused a .18 reduction in AE's debt service coverage ratio. The FY 2021 non-utility business subsidy is higher than for TY 2022 which would indicate an even greater effect of AE's FY2021 debt service coverage ratio.

[74] RFP, p. 101

[75] See discussion above.

[76] RFP, p. 117, Figure 7-35; Forecasted revenues under normal, extreme and mild weather.

events are occurring. AE's weather volatility concerns cannot overcome the sufficiency of base revenues as well as the stability that is done over the long term.

AE also argues that the lower usage tiers are below cost. AE is utilizing average cost to view the rate design by the usage tiers. But the usage of electricity does not have the same per unit cost as usage increases. AE witness Burnhan explained that as usage increase, more capacity is required causing increased costs as more expensive capacity comes into the ERCOT market[77]. An inverted block rate design reflects that increased usage causes increased costs as more expensive capacity is brought onto the ERCOT market. Rate differentials reflect how much higher a rate is in a usage block than the usage block at the next highest rate and on down to the initial block of usage. Differentials should reflect the higher costs incurred as usage increases. AE's use of 12CP to allocate plant costs recognizes that costs increase because increased usage throughout the year. A five-tiered rate is a transparent method to recognize this fact. 2WR would note that other utilities recognize that increased usage causes increased costs.[78] A five tier inverted block rate is reasonable and does provide stable revenues. However, 2WR would not oppose ICA witness Johnson's recommendation to reduce the number of tiers to four so long as the rate differentials are set to send price signals that increased usage causes increased costs. AE's flattening of the differentials substantially represses any price signals and could very well be setting rates at the higher tiers that are not cost based.

AE's discussion of load factor and load growth are red herrings because none of their hypotheticals opining that big residential electric users have better load factors than small users.[79]They provided no evidence to prove their hypotheticals. In fact, ICA witness Johnson recommended a load research analysis be done for the outside city residential customers, noting that thy use 86% more electricity than inside city customers.[80] Hypotheticals unsupported with proof have no evidentiary value and should be given no weight in this proceeding

AE is recommending a $25 customer charge, a 150% increase over the current customer charge. AE claims that the increase represent fixed costs that vary with the addition or subtraction of customers. AE further defines customer costs as "[C]ustomer-related costs are

[77] See AE Ex. 8, Burnham Rebuttal at pp. 8-15; Transcript, Day Three, pp. 55, ls 22-53,p, 53, L 14, 2WR cross of Burnham.
[78] Transcript, Day Three, p. 54, Ls 14-22, 2WR cross of Murphy.
[79] RFP, pp. 120-123
[80] ICA Ex. 3, p. 69. ICA witness Johnson testimony.

expenses that reflect the minimum amount of fixed costs that the utility needs to supply for customers to access the utility system."[81] However, ICA witness Johnson pointed out that AE has included indirect expenses in its customer cost calculation. These indirect costs drive the direct costs of a customer charge component for customer accounting of $5.6 million to $58.5 million and are contrary to AE's definition of a customer cost.[82] AE witness Rabon explains that indirect costs such as general administrative costs get assigned on some casual basis but are not tied directly to an individual function.[83] AE defended its customer charge rate hike contending that the $25 is consistent with other MOUs. But that did not prove the case. Not only did AE admit many other MOUs had customer charges at AE's current customer charge but that generally REPS, retail resellers in the de-regulated market don't charge their customers a customer charge. 2WR recommends that no change be made to the customer charge amount; or at least be increased no higher than the rate increase.

Prayer

Wherefore, Premises Considered. 2WR requests that its recommendations be adopted by Your Honor.

Respectfully Submitted,

/S/ Lanetta M. Cooper Date: July 28, 2022

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Certificate of Service

The undersigned certifies that a copy of this document has been delivered on all parties of record on 28th day of July 2022 by email, fax, and/or U.S. mail.

/S/ Lanetta M. Cooer

[81] RFP, p. 57

[82] ICA Ex. 3, ICA Johnson Test. At p.59.; RFP, p. 57 definition at the hearing.

[83] Transcript, Day 3 p. 48, Ls. 12-15.