

# Austin Energy 2022 Base Rate Review

Options for Consideration



November 29, 2022

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# Austin Energy 2022 Base Rate Review

## Topline Challenges

1. Austin Energy needs an increase of \$35.7 million in revenue requirements
  - Recovers our actual cost to serve our customers
  - Improves financial stability
2. Residential base rate structure must change to reflect actual consumption patterns
  - Remedies the quandary of selling 77% of kWh below the actual cost of service
  - Recalibrates the tiers to reflect our actual customers' consumption patterns
3. Residential and commercial customers need to move closer to their cost of service
  - Provides more uniformity in future rate changes
  - Reduces subsidies between classes of customers



# Austin Energy 2022 Base Rate Review

## Considerations for Adjustments to \$35.7 Revenue Requirement

- Impartial Hearing Examiner recommended \$31.3 million by reducing the Test Year 2021 General Fund Transfer from \$120 million to \$115 million
- Further reductions to the Revenue Requirements will require reductions in programs, transfers, or levels of service
- Since establishing the Test Year 2021 Revenue Requirements, Austin Energy has incurred escalated costs not reflected in the \$35.7 million.
  - Labor costs escalated by 4% in FY 2023, adding \$6.6 million
  - Economic Development transfer has grown by \$0.5 million
  - Debt service requirements have increased by \$3.8 million
  - Electrical and industry material pricing escalations of 84% since 2021 <sup>(1)</sup>
  - CAP expansion estimated at \$4.0 to \$6.0 million



(1) US Bureau of Labor Statistics, Producer Price Index.

# Austin Energy 2022 Base Rate Review

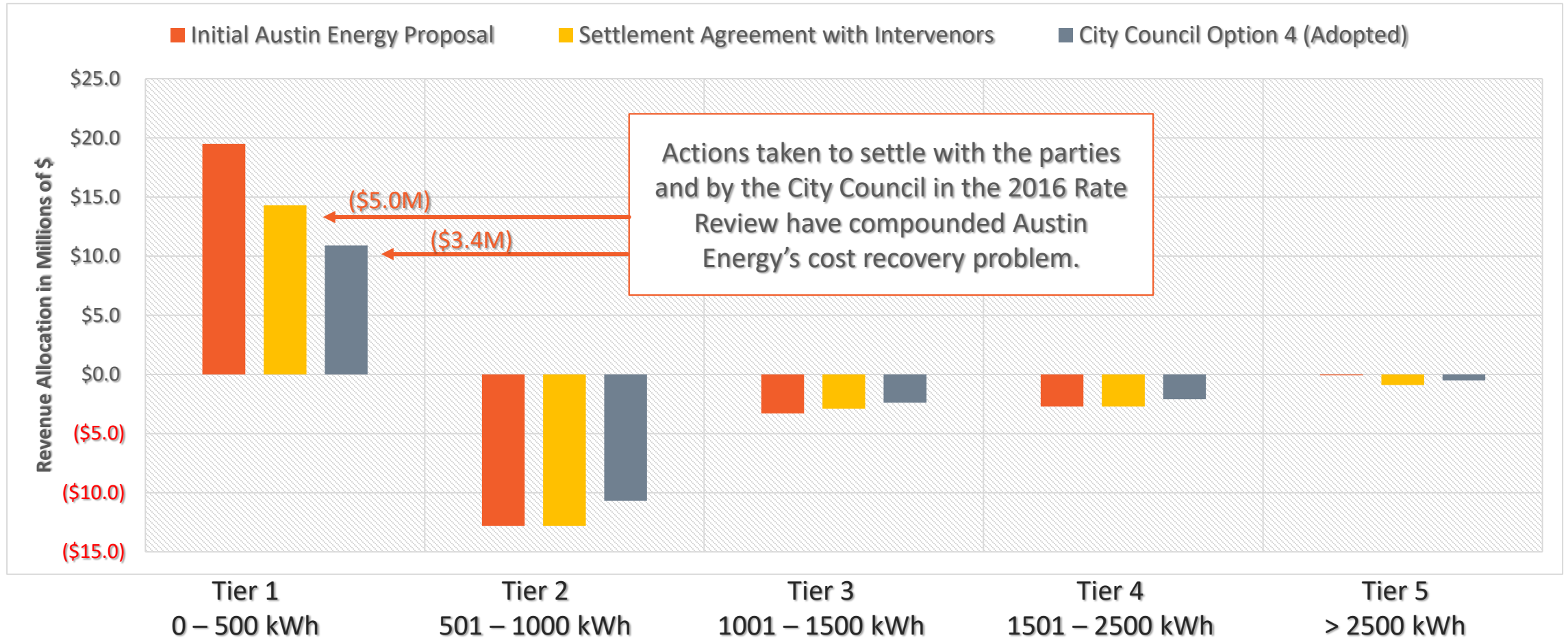
## Considerations for Adjustments to Residential Rate Design

- All customers are sold kWh in Tier 1 at subsidized rates
  - Tiers do not represent the income level of the customers
  - Tiers do not represent customers but rather kWh
- Tiered base rates are not cost-based
  - Base energy rates recover fixed costs (*i.e.*, don't change with the number of kWh consumed)
  - Charging different customers different rates for the same product is not cost-based
- How do customers respond to tiered rates?
  - Austin Energy presented, and no evidence was provided otherwise, that customers do not optimize their usage using tiered rates (*e.g.*, behavior for conservation or investment for efficiency)
  - Customers likely respond to average rates (*i.e.*, a total bill with base rates and pass-throughs)



# Austin Energy 2022 Base Rate Review

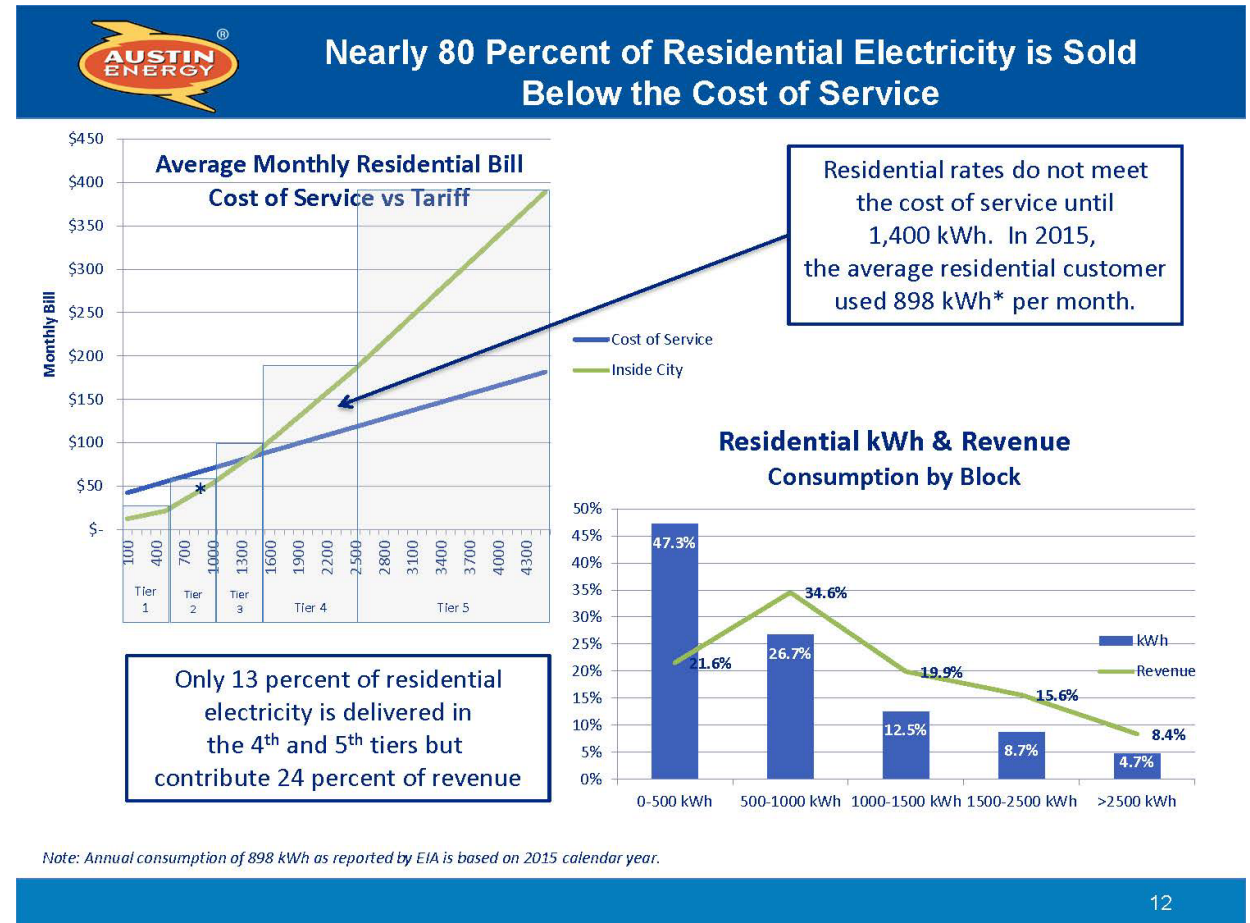
## Actions Taken in 2016 Rate Review Compounded Cost Recovery Problem



# Austin Energy 2022 Base Rate Review

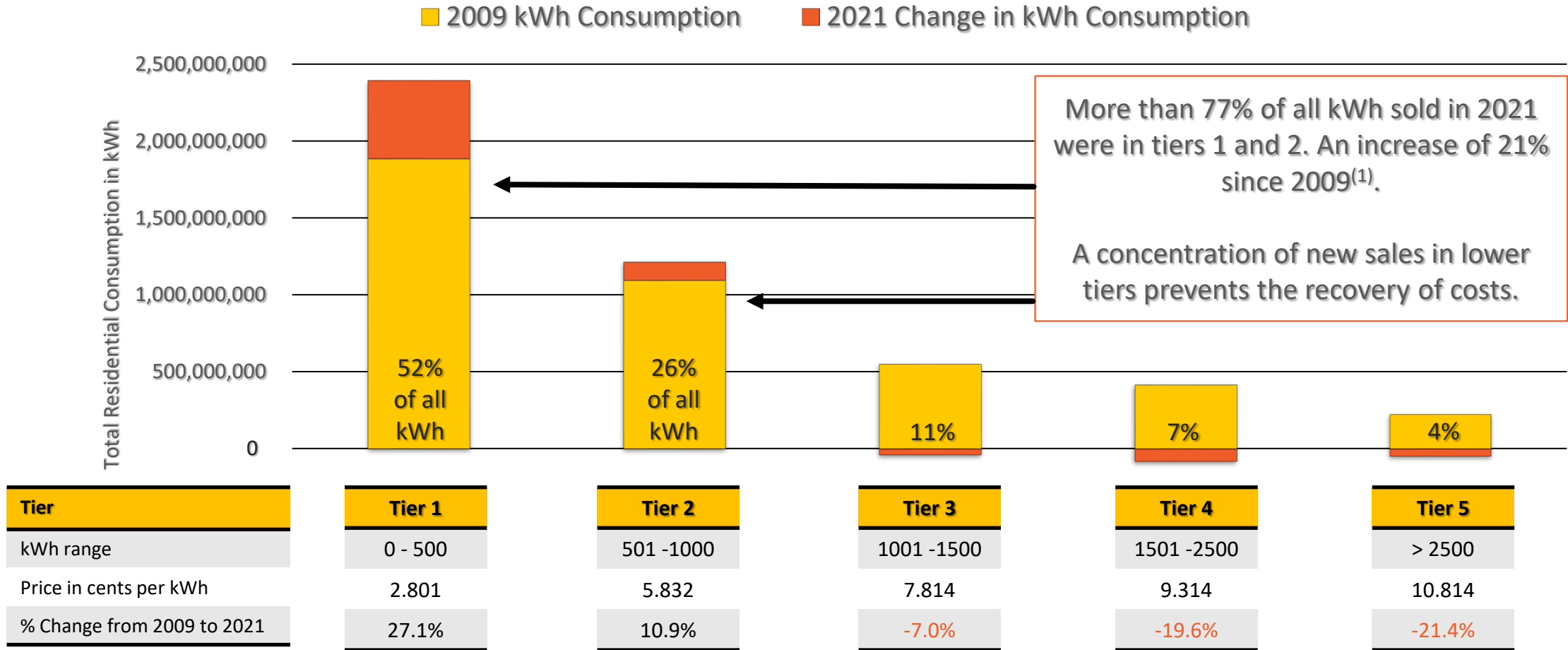
## City Council Recognized the Cost Recovery Problem in 2016

- City Council members understood that “trade-offs” were made in adopting their rate option but understood that in the future, “we will have to be really mindful and analyze our revenue and ensure it wants to be sustainable over the long-term. And I don't think any of us are saying that we will shirk that responsibility. And I think we knew at the time that that was going to be something we would have to pay close attention to in the future.” [CM Pool] <sup>(1)</sup>



# Austin Energy 2022 Base Rate Review

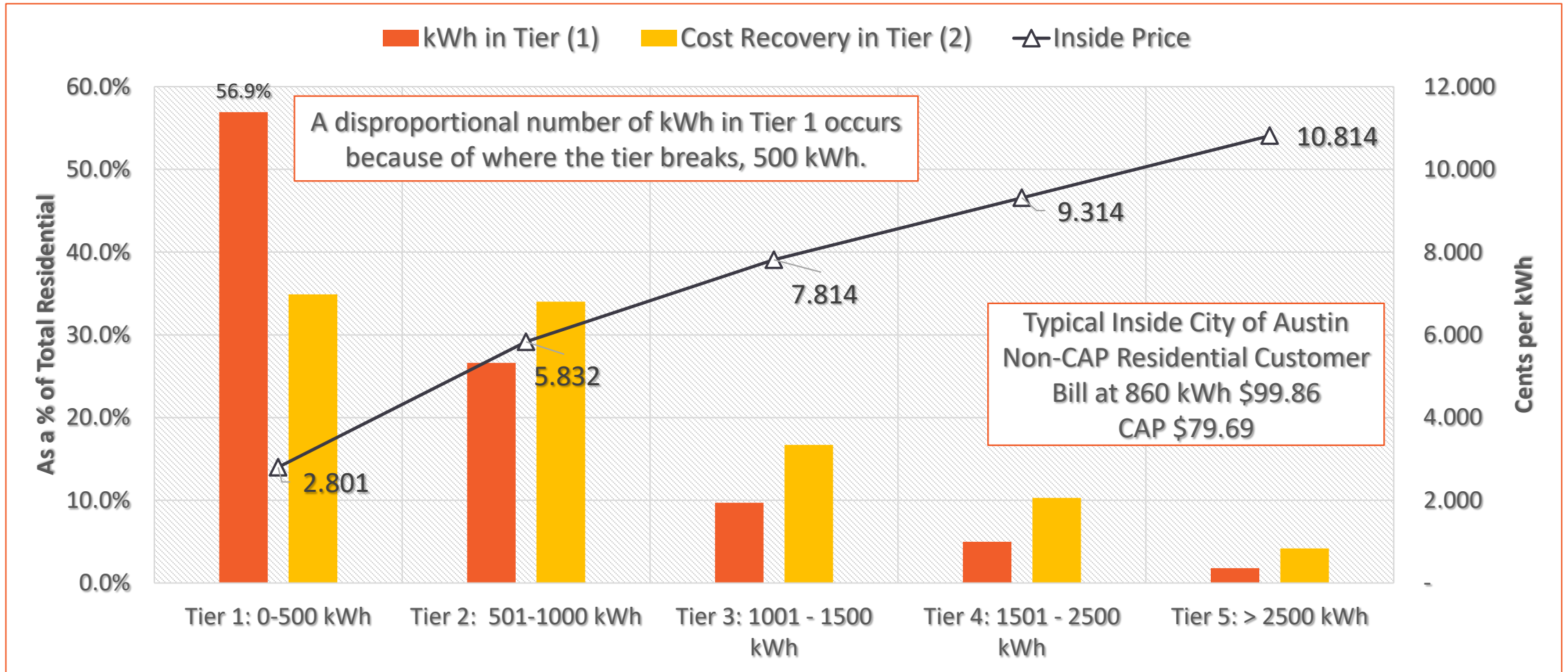
52% of kWh Consumed is Now Priced at 48% of the Cost to Provide



(1) Actual sales (not weather normalized) from Customer Care & Billing System data for FY 2009 and FY 2021.

# Austin Energy 2022 Base Rate Review

Inside City Represents 78% of All Residential Consumption: Driving the Need For Tier Restructuring



- (1) kWh represents Test Year 2021 weather normalized sales as used in the Austin Energy Base Rate Proposal. Differences due to rounding.
- (2) Reflects only costs recovered in Energy Charge revenue.



# Austin Energy 2022 Base Rate Review

## Options for Residential Rate Design

### Option 1

- Increase revenue requirements by \$35.7 million
- Move customer classes to 50% unity
- Single rate structure for all residential customers
- 3 tiers
- \$25 customer charge



# Austin Energy 2022 Base Rate Review

## Option 1: \$35.7M, 50% to Unity, \$25 CC, Inside, Austin Energy Rebuttal

\$10.00 Customer Charge	Price per kWh	Current	kWh <sup>(1)</sup>	As a %
Below Cost of Service	2.801	Tier 1: 0-500 kWh	2,193,948,158	56.9%
Below Cost of Service	5.832	Tier 2: 501-1000 kWh	1,024,259,393	26.6%
Approximately Cost of Service	7.814	Tier 3: 1001 – 1500 kWh	374,842,802	9.7%
Above Cost of Service	9.314	Tier 4: 1501 – 2500 kWh	193,880,427	5.0%
Above Cost of Service	10.814	Tier 5: > 2500 kWh	68,248,112	1.8%
		Total	3,855,178,893	

\$25.00 Customer Charge	Price per kWh	Proposed	kWh <sup>(1)</sup>	As a %
Below Cost of Service	3.633	Tier 1: 0-300 kWh	1,443,616,801	37.5%
Approximately Cost of Service	4.133	Tier 2: 301-1200 kWh	1,970,938,514	51.1%
Above Cost of Service	4.633	Tier 3: > 1200 kWh	440,623,577	11.4%
		Total	3,855,178,893	



(1) kWh represents Test Year 2021 weather normalized sales as used in the Austin Energy Base Rate Proposal. Differences due to rounding.

# Austin Energy 2022 Base Rate Review

## Option 1: \$35.7M, 50% to Unity, \$25 CC, Outside, Austin Energy Rebuttal

\$10.00 Customer Charge	Price per kWh	Current	kWh <sup>(1)</sup>	As a %
Below Cost of Service	3.700	Tier 1: 0-500 kWh	396,559,232	35.6%
Approximately Cost of Service	5.600	Tier 2: 501-1000 kWh	274,078,361	24.6%
Above Cost of Service	7.868	Tier 3: > 1000 kWh	442,456,852	39.8%
		Total	1,113,094,445	

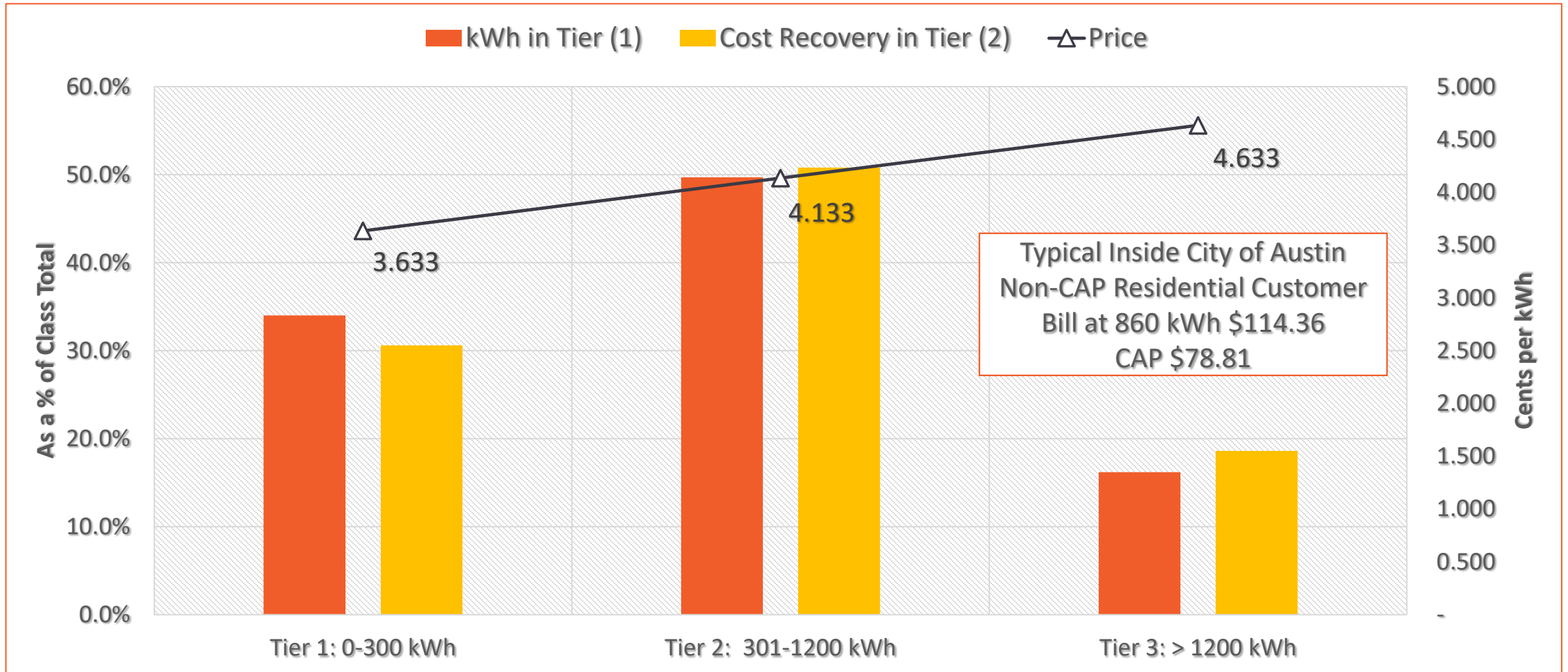
\$25.00 Customer Charge	Price per kWh	Proposed	kWh <sup>(1)</sup>	As a %
Below Cost of Service	3.633	Tier 1: 0-300 kWh	246,288,704	22.1%
Approximately Cost of Service	4.133	Tier 2: 301-1200 kWh	500,644,914	45.0%
Above Cost of Service	4.633	Tier 3: > 1200 kWh	366,160,827	32.9%
		Total	1,113,094,445	



(1) kWh represents Test Year 2021 weather normalized sales as used in the Austin Energy Base Rate Proposal. Differences due to rounding.

# Austin Energy 2022 Base Rate Review

Option 1: \$35.7M, 50% to Unity, Outside, \$25 CC, All Residential, Austin Energy Rebuttal



- (1) kWh represents Test Year 2021 weather normalized sales as used in the Austin Energy Base Rate Proposal. Differences due to rounding.  
(2) Reflects only costs recovered in Energy Charge revenue.

# Austin Energy 2022 Base Rate Review

## Options for Residential Rate Design

### Option 2

- Increase revenue requirements by \$31.3 million and reduce GFT from \$120 to \$115 million
- Move customer classes to 50% unity
- Single rate structure for all residential customers
- 4 tiers
- 3-Step increase in the customer charge \$14/\$15/\$16



# Austin Energy 2022 Base Rate Review

## Option 2 Step 1: \$31.3M, 4 Tiers, 50% to Unity, \$14 CC, Inside

\$10.00 Customer Charge	Price per kWh	Current	kWh <sup>(1)</sup>	As a %
Below Cost of Service	2.801	Tier 1: 0-500 kWh	2,193,948,158	56.9%
Below Cost of Service	5.832	Tier 2: 501-1000 kWh	1,024,259,393	26.6%
Approximately Cost of Service	7.814	Tier 3: 1001 – 1500 kWh	374,842,802	9.7%
Above Cost of Service	9.314	Tier 4: 1501 – 2500 kWh	193,880,427	5.0%
Above Cost of Service	10.814	Tier 5: > 2500 kWh	68,248,112	1.8%
		Total	3,855,178,893	

\$14.00 Customer Charge	Price per kWh	Proposed	kWh <sup>(1)</sup>	As a %
Below Cost of Service	4.315	Tier 1: 0-300 kWh	1,443,616,801	37.4%
Approximately Cost of Service	5.315	Tier 2: 301-1500 kWh	2,149,483,552	55.8%
Above Cost of Service	7.315	Tier 3: 1501 - 3000kWh	219,483,419	5.7%
Above Cost of Service	10.315	Tier 4: > 3000 kWh	42,645,120	1.1%
		Total	3,855,178,893	



(1) kWh represents Test Year 2021 weather normalized sales as used in the Austin Energy Base Rate Proposal. Differences due to rounding.

# Austin Energy 2022 Base Rate Review

## Option 2 Step 1: \$31.3M, 4 Tiers, 50% to Unity, \$14 CC, Outside

\$10.00 Customer Charge	Price per kWh	Current	kWh <sup>(1)</sup>	As a %
Below Cost of Service	3.700	Tier 1: 0-500 kWh	396,559,232	35.6%
Approximately Cost of Service	5.600	Tier 2: 501-1000 kWh	274,078,361	24.6%
Above Cost of Service	7.868	Tier 3: > 1000 kWh	442,456,852	39.8%
		Total	1,113,094,445	

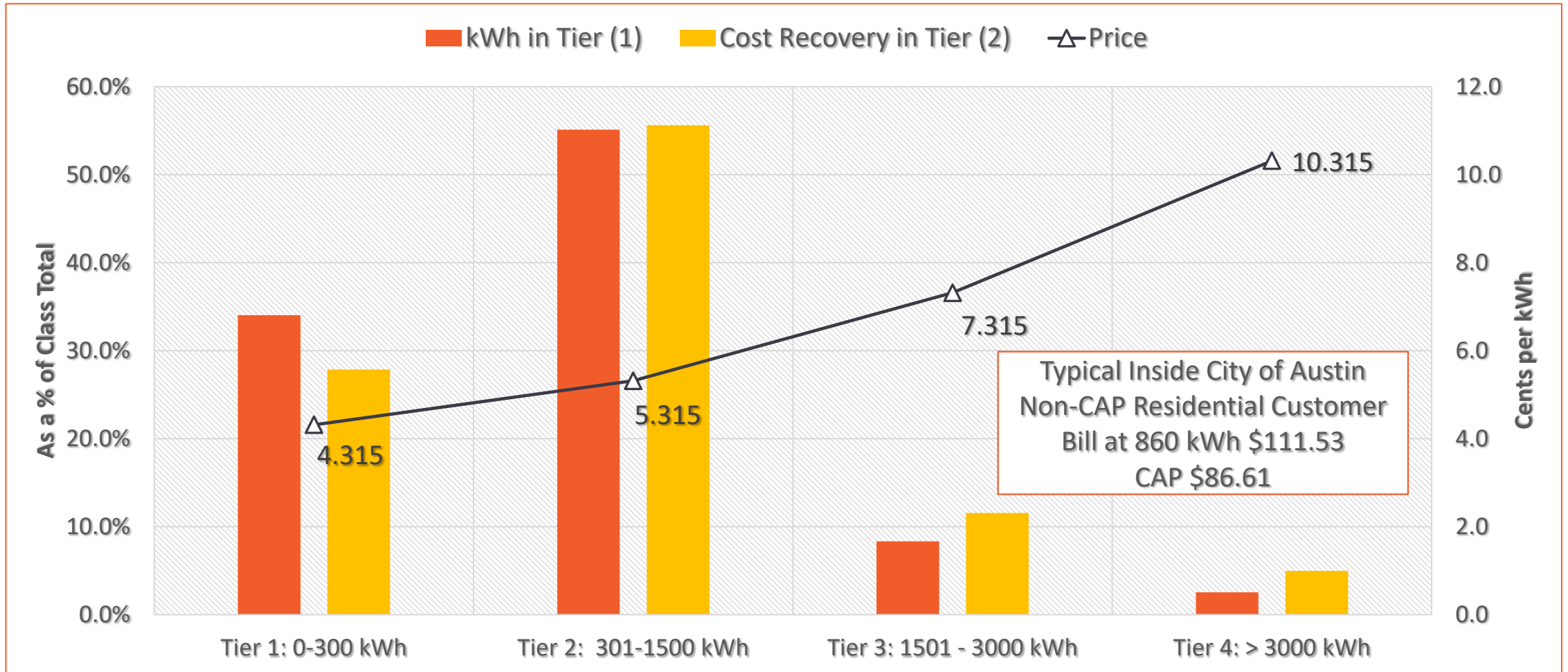
\$14.00 Customer Charge	Price per kWh	Proposed	kWh <sup>(1)</sup>	As a %
Below Cost of Service	4.315	Tier 1: 0-300 kWh	246,288,704	22.1%
Approximately Cost of Service	5.315	Tier 2: 301-1500 kWh	588,880,900	52.9%
Above Cost of Service	7.315	Tier 3: 1501 - 3000kWh	193,915,669	17.4%
Above Cost of Service	10.315	Tier 4: > 3000 kWh	84,009,172	7.5%
		Total	1,113,094,445	



(1) kWh represents Test Year 2021 weather normalized sales as used in the Austin Energy Base Rate Proposal. Differences due to rounding.

# Austin Energy 2022 Base Rate Review

Option 2 Step 1: \$31.3M, 4 Tiers, 50% to Unity, \$14 CC, All Residential



- (1) kWh represents Test Year 2021 weather normalized sales as used in the Austin Energy Base Rate Proposal. Differences due to rounding.
- (2) Reflects only costs recovered in Energy Charge revenue.



# Austin Energy 2022 Base Rate Review

## Option 2 Step 2: \$31.3M, 4 Tiers, 50% to Unity, \$15 CC, Inside

\$10.00 Customer Charge	Price per kWh	Current	kWh <sup>(1)</sup>	As a %
Below Cost of Service	2.801	Tier 1: 0-500 kWh	2,193,948,158	56.9%
Below Cost of Service	5.832	Tier 2: 501-1000 kWh	1,024,259,393	26.6%
Approximately Cost of Service	7.814	Tier 3: 1001 – 1500 kWh	374,842,802	9.7%
Above Cost of Service	9.314	Tier 4: 1501 – 2500 kWh	193,880,427	5.0%
Above Cost of Service	10.814	Tier 5: > 2500 kWh	68,248,112	1.8%
		Total	3,855,178,893	

\$15.00 Customer Charge	Price per kWh	Proposed	kWh <sup>(1)</sup>	As a %
Below Cost of Service	4.200	Tier 1: 0-300 kWh	1,443,616,801	37.4%
Approximately Cost of Service	5.200	Tier 2: 301-1500 kWh	2,149,483,552	55.8%
Above Cost of Service	7.200	Tier 3: 1501 - 3000kWh	219,483,419	5.7%
Above Cost of Service	10.200	Tier 4: > 3000 kWh	42,645,120	1.1%
		Total	3,855,178,893	



(1) kWh represents Test Year 2021 weather normalized sales as used in the Austin Energy Base Rate Proposal. Differences due to rounding.

# Austin Energy 2022 Base Rate Review

## Option 2 Step 2: \$31.3M, 4 Tiers, 50% to Unity, \$15 CC, Outside

\$10.00 Customer Charge	Price per kWh	Current	kWh <sup>(1)</sup>	As a %
Below Cost of Service	3.700	Tier 1: 0-500 kWh	396,559,232	35.6%
Approximately Cost of Service	5.600	Tier 2: 501-1000 kWh	274,078,361	24.6%
Above Cost of Service	7.868	Tier 3: > 1000 kWh	442,456,852	39.8%
		Total	1,113,094,445	

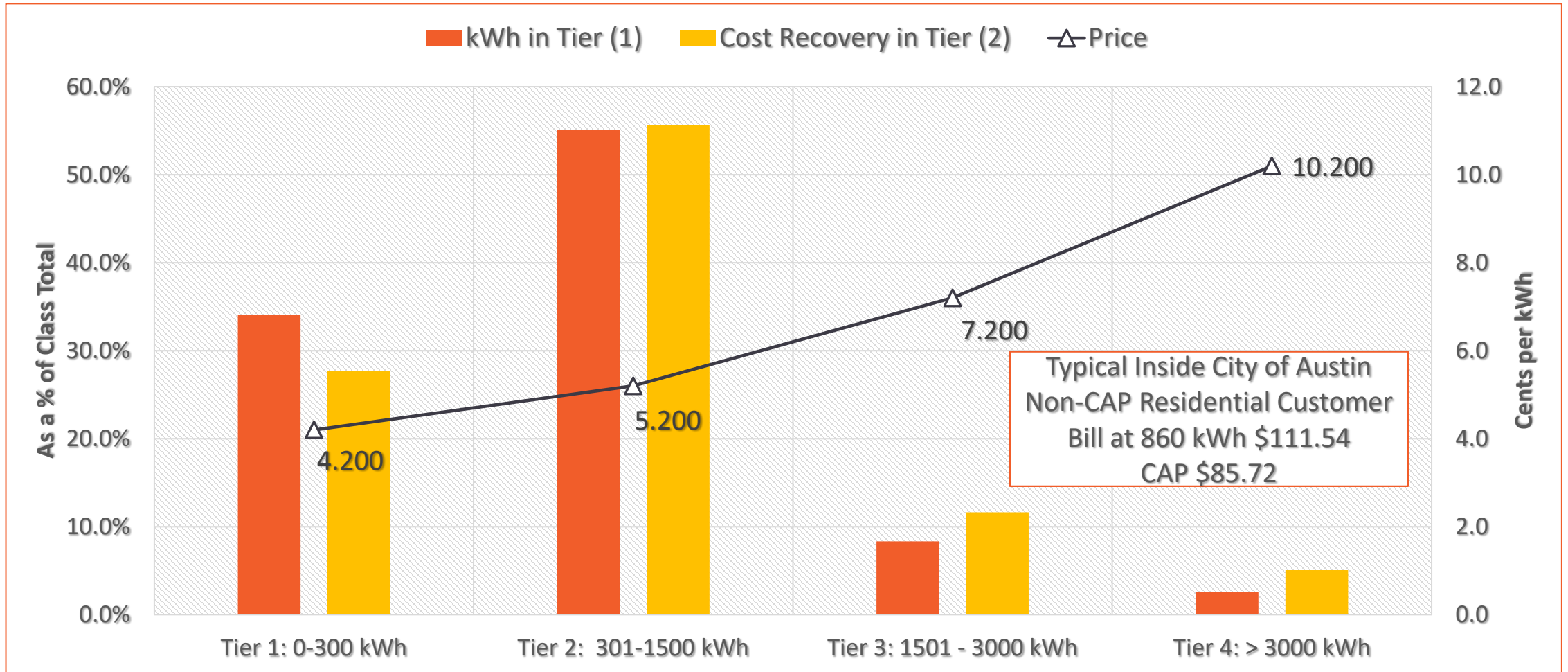
\$15.00 Customer Charge	Price per kWh	Proposed	kWh <sup>(1)</sup>	As a %
Below Cost of Service	4.200	Tier 1: 0-300 kWh	246,288,704	22.1%
Approximately Cost of Service	5.200	Tier 2: 301-1500 kWh	588,880,900	52.9%
Above Cost of Service	7.200	Tier 3: 1501 - 3000kWh	193,915,669	17.4%
Above Cost of Service	10.200	Tier 4: > 3000 kWh	84,009,172	7.5%
		Total	1,113,094,445	



(1) kWh represents Test Year 2021 weather normalized sales as used in the Austin Energy Base Rate Proposal. Differences due to rounding.

# Austin Energy 2022 Base Rate Review

Option 2 Step 2: \$31.3M, 4 Tiers, 50% to Unity, \$15 CC, All Residential



- (1) kWh represents Test Year 2021 weather normalized sales as used in the Austin Energy Base Rate Proposal. Differences due to rounding.
- (2) Reflects only costs recovered in Energy Charge revenue.

# Austin Energy 2022 Base Rate Review

## Option 2 Step 3: \$31.3M, 4 Tiers, 50% to Unity, \$16 CC, Inside

\$10.00 Customer Charge	Price per kWh	Current	kWh <sup>(1)</sup>	As a %
Below Cost of Service	2.801	Tier 1: 0-500 kWh	2,193,948,158	56.9%
Below Cost of Service	5.832	Tier 2: 501-1000 kWh	1,024,259,393	26.6%
Approximately Cost of Service	7.814	Tier 3: 1001 – 1500 kWh	374,842,802	9.7%
Above Cost of Service	9.314	Tier 4: 1501 – 2500 kWh	193,880,427	5.0%
Above Cost of Service	10.814	Tier 5: > 2500 kWh	68,248,112	1.8%
		Total	3,855,178,893	

\$16.00 Customer Charge	Price per kWh	Proposed	kWh <sup>(1)</sup>	As a %
Below Cost of Service	4.084	Tier 1: 0-300 kWh	1,443,616,801	37.4%
Approximately Cost of Service	5.084	Tier 2: 301-1500 kWh	2,149,483,552	55.8%
Above Cost of Service	7.084	Tier 3: 1501 - 3000kWh	219,483,419	5.7%
Above Cost of Service	10.084	Tier 4: > 3000 kWh	42,645,120	1.1%
		Total	3,855,178,893	



(1) kWh represents Test Year 2021 weather normalized sales as used in the Austin Energy Base Rate Proposal. Differences due to rounding.

# Austin Energy 2022 Base Rate Review

## Option 2 Step 3: \$31.3M, 4 Tiers, 50% to Unity, \$16 CC, Outside

\$10.00 Customer Charge	Price per kWh	Current	kWh <sup>(1)</sup>	As a %
Below Cost of Service	3.700	Tier 1: 0-500 kWh	396,559,232	35.6%
Approximately Cost of Service	5.600	Tier 2: 501-1000 kWh	274,078,361	24.6%
Above Cost of Service	7.868	Tier 3: > 1000 kWh	442,456,852	39.8%
		Total	1,113,094,445	

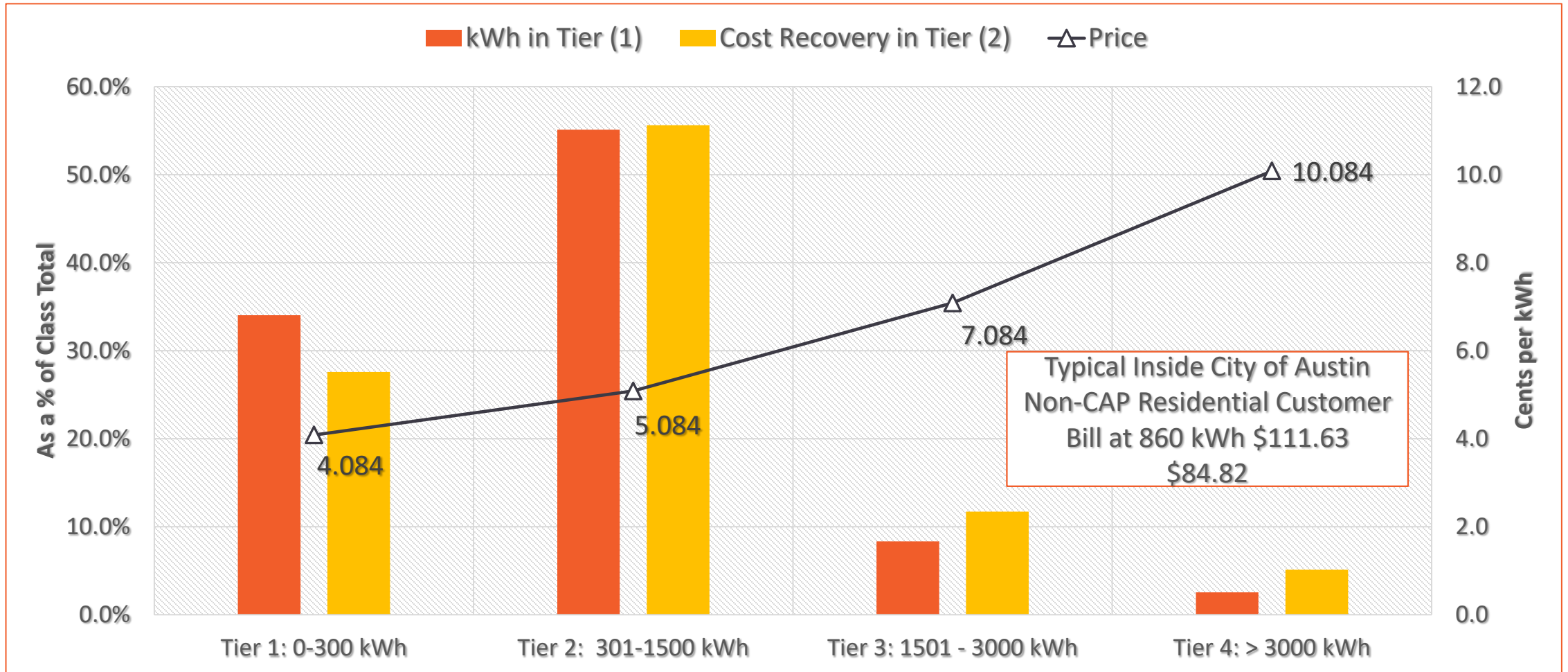
\$16.00 Customer Charge	Price per kWh	Proposed	kWh <sup>(1)</sup>	As a %
Below Cost of Service	4.084	Tier 1: 0-300 kWh	246,288,704	22.1%
Approximately Cost of Service	5.084	Tier 2: 301-1500 kWh	588,880,900	52.9%
Above Cost of Service	7.084	Tier 3: 1501 - 3000kWh	193,915,669	17.4%
Above Cost of Service	10.084	Tier 4: > 3000 kWh	84,009,172	7.5%
		Total	1,113,094,445	



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# Austin Energy 2022 Base Rate Review

Option 2 Step 3: \$31.3M, 4 Tiers, 50% to Unity, \$16 CC, All Residential



- (1) kWh represents Test Year 2021 weather normalized sales as used in the Austin Energy Base Rate Proposal. Differences due to rounding.
- (2) Reflects only costs recovered in Energy Charge revenue.

# Austin Energy 2022 Base Rate Review

## Options for Residential Rate Design

### Option 3

- Increase revenue requirements by \$31.3 million and reduce GFT from \$120 to \$115 million
- Move customer classes to 40% unity
- Single rate structure for all residential customers
- 4 tiers
- \$15 customer charge



# Austin Energy 2022 Base Rate Review

## Option 3: \$31.3M, 4 Tiers, 40% to Unity, \$15 CC, Inside

\$10.00 Customer Charge	Price per kWh	Current	kWh <sup>(1)</sup>	As a %
Below Cost of Service	2.801	Tier 1: 0-500 kWh	2,193,948,158	56.9%
Below Cost of Service	5.832	Tier 2: 501-1000 kWh	1,024,259,393	26.6%
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\$15.00 Customer Charge	Price per kWh	Proposed	kWh <sup>(1)</sup>	As a %
Below Cost of Service	4.094	Tier 1: 0-300 kWh	1,443,616,801	37.4%
Approximately Cost of Service	5.094	Tier 2: 301-1500 kWh	2,149,483,552	55.8%
Above Cost of Service	7.094	Tier 3: 1501 - 3000kWh	219,483,419	5.7%
Above Cost of Service	10.094	Tier 4: > 3000 kWh	42,645,120	1.1%
		Total	3,855,178,893	



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# Austin Energy 2022 Base Rate Review

## Option 3: \$31.3M, 4 Tiers, 40% to Unity, \$15 CC, Outside

\$10.00 Customer Charge	Price per kWh	Current	kWh <sup>(1)</sup>	As a %
Below Cost of Service	3.700	Tier 1: 0-500 kWh	396,559,232	35.6%
Approximately Cost of Service	5.600	Tier 2: 501-1000 kWh	274,078,361	24.6%
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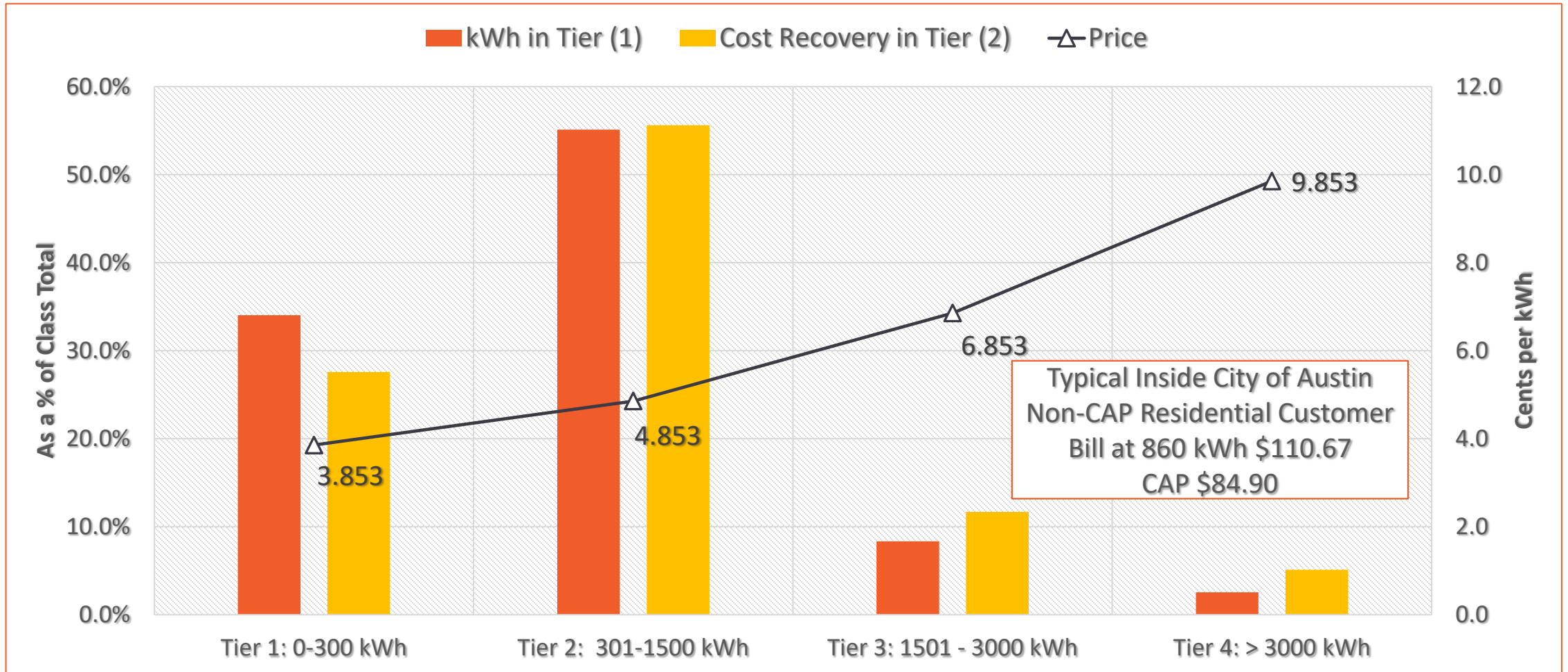
\$15.00 Customer Charge	Price per kWh	Proposed	kWh <sup>(1)</sup>	As a %
Below Cost of Service	4.094	Tier 1: 0-300 kWh	246,288,704	22.1%
Approximately Cost of Service	5.094	Tier 2: 301-1500 kWh	588,880,900	52.9%
Above Cost of Service	7.094	Tier 3: 1501 - 3000kWh	193,915,669	17.4%
Above Cost of Service	10.094	Tier 4: > 3000 kWh	84,009,172	7.5%
		Total	1,113,094,445	



(1) kWh represents Test Year 2021 weather normalized sales as used in the Austin Energy Base Rate Proposal. Differences due to rounding.

# Austin Energy 2022 Base Rate Review

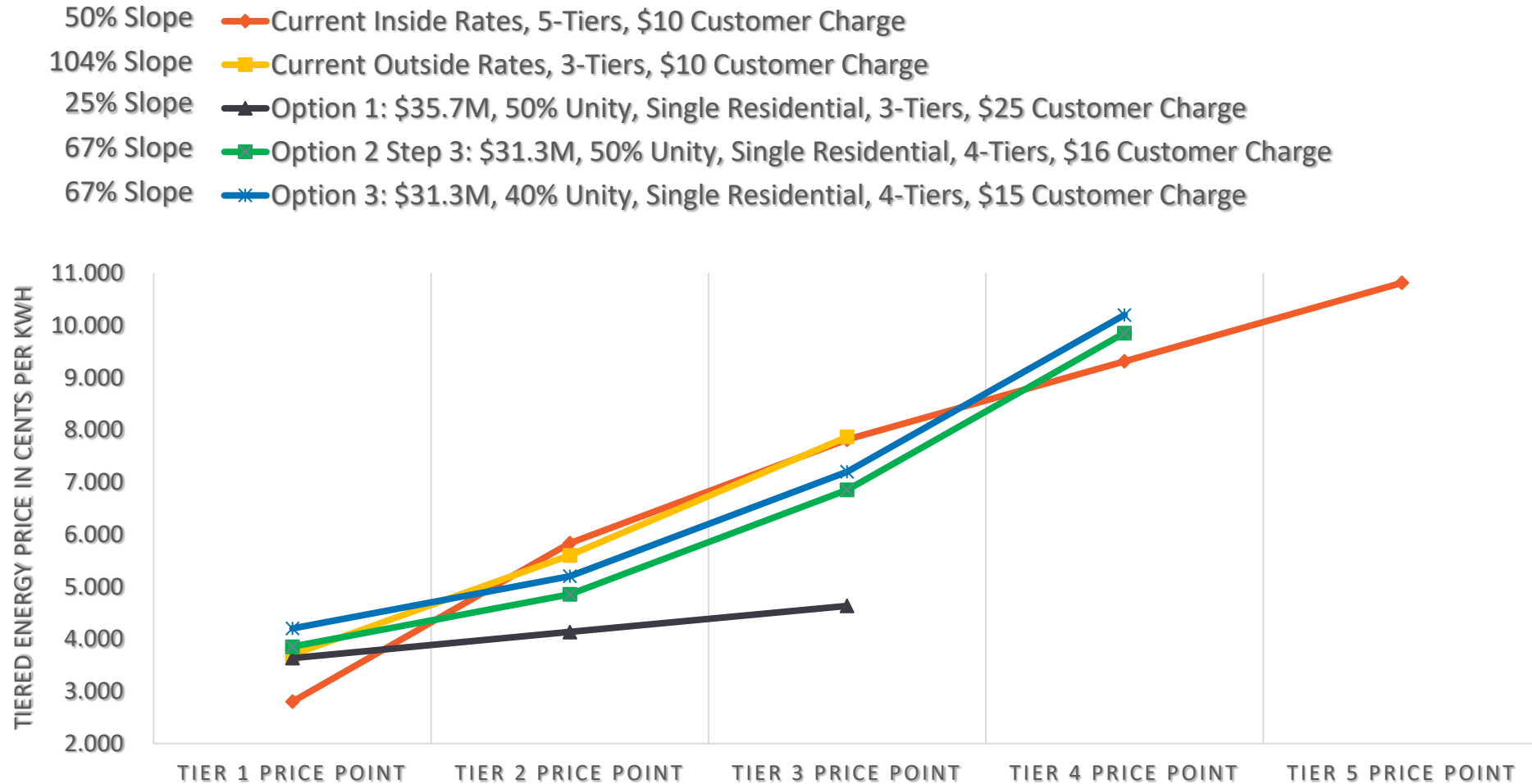
Scenario 2 Step 3: \$31.3M, 4 Tiers, 40% to Unity, \$15 CC, All Residential



- (1) kWh represents Test Year 2021 weather normalized sales as used in the Austin Energy Base Rate Proposal. Differences due to rounding.
- (2) Reflects only costs recovered in Energy Charge revenue.

# Austin Energy 2022 Base Rate Review

## Comparison of Tiered Energy Rates Between Options Presented



# Austin Energy 2022 Base Rate Review

## City Council Options for Base Rates

- All options provide greater financial stability for Austin Energy and improved bill stability for customers
- All options have tier structures that address the changing consumption patterns of the customers and move customers closer to their respective cost of service
- Option 2 provides a gradual increase to the Customer Charge over 3-years
- Options 2 and 3 include feedback from City Council, Intervenor, and IHE
  - Reduces GFT from \$120 to \$115 million in the test year, which lowers all customer bills
  - Reduces the Customer Charge from Austin Energy's proposal of \$25
  - Uses 4-tiers rather than the 3-tiers proposed by Austin Energy
  - Uses steeper price curves between tiers
- Option 3 lowers residential rates by reducing their movement to unity from 50% to 40%





**Customer Driven.  
Community Focused.<sup>SM</sup>**

