

Austin Energy Utility Oversight Committee (AEUOC)

Transcript – 11/29/2022

Title: ATXN-1 (24hr)

Channel: 1 - ATXN-1

Recorded On: 11/29/2022 6:00:00 AM

Original Air Date: 11/29/2022

Transcript Generated by SnapStream

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>> Pool: I'm going to convene the Austin energy utility oversight committee meeting, it is 1:00 three P.M., Tuesday, November 29, and we are in boards and commissions room. I'm Leslie pool and I chair this August body, and we have a quorum I think -- the quorum just walked out the door briefly, but she will be right back. Oh, and we have somebody on virtual. Thank you, Mackenzie. So let me pull up my agenda because I was in the middle of some other things. The first item is public communications. You will have three minutes. Bill Remke is remote and Mr. Paul Robbins is here. You have three minutes,

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about oak and you will hear the timer beep when your time is up. >> [Inaudible - no mic]. [Inaudible]. ,.

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>> Pool: Thanks, Mr. Oake. Our next speaker is Mr. Robbins and he is with us here today. Welcome, Mr. Robbins. You will have three minutes. And the time will start when Mr. Robbins begins speaking. >> Council, I have two subjects I wish to discuss. First, there's a profound lack of process in the negotiations between the intervenors and the Austin rate case utility. It is my [indiscernible] That the utility is pretending to negotiate for the sake of appearance. If my presumption is correct it is a waste of everyone's time, and I'm asking for this pretense to stop. Second subject is the proposal to expand customer assistance. I realize that the council has a deep commitment to the underprivileged, but what

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Austin energy has proposed is not what happens and to undeserving people. Second slide, please. Second slide. Great. Since the fall of 2014 I've repeatedly proved that the utility is giving money known the poor to people with high utility assets and helped save millions of dollars that were being sent to the wrong people. So I'm asking you to consider the following things when you vote to expand this program. This is a picture of a home, a block from mount Bonnell. First, reject the proposal to lift income qualifications to customers with \$450,000 in improvement

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value. This home -- due to quirks in the appraisal system the improvement value is \$294,000, but in 2018 it received customer assistance. The home is appraised totally at \$2 million. It is common sense not to give discount like this to customers like this. Second, cap cost money. Make sure it is well spent. In 2022 about 6.6 percent of a residential customer's bill resulted from this program. If you double participation, it will go up to 3.2 percent. Many people who are poor are working poor who do not receive the discount will be paying this fee. I remind you that in the Sacramento municipal utility district they income qualify all discount participants and that utility has a

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percentage of participation twice what Austin's is. Finally, auto enrollment is probably losing its effectiveness. Due to Austin's gentrification, there are simply fewer people on sorry on social service programs. [Buzzer]. If you want to expand participation you should consider asking customers to apply when they get your service. Try something new. >> Pool: Thank you, Mr. Robbins. Appreciate it. All right. Do we have our online council member available so that we can take a vote? To pass the minutes? There we go. I think we have six people. Do I have a motion to approve the minutes of the October 11th, 2022 meeting of the oversight committee and the November 9, 2022 special called meeting of the oversight committee? Mayor pro tem makes that motion and councilmember

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Ellis seconds. All those in favor? That looks like it's unanimous by six of us here with council members kitchen, Kelly, tovo, Renteria and harper-madison off the dais. >> There's seven of us. >> Pool: There's seven of us now. Oh. >> Council member vela. >> Pool: I missed council member vela at the end of the table. Item 2, discussion and possible action, approve the 2023 Austin energy utility oversight committee meeting calendar. This will be very important for those of us who came back next year. You will see the dates listed there. I'll put that up so I can read it out to make it easy. February 14th, April 4, may 9, June 13, September 12, October 24 and December 5. All the meetings will be on Tuesdays beginning at 1:30 with the exception of the

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June and September meetings, which will begin at 10 in the morning because of other meetings that afternoon. So there are no conflicts. Any comments or a motion to approve this agenda? Councilmember Kelly moves with

council member Fuentes seconding. Any comments? All in favor please indicate? Raise your hand. And the seven of us, and that is unanimous. Let's see. The next item is the general manager's report. Manager Sargent good to see you. Our manager will give us a report on upcoming recommendations for council action, innovations. >> This afternoon, chair, vice-chair and committee members.

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I'm Jackie Sargent, Austin energy general manager. In addition to my report today or director of finance, Stephanie kadulka will provide with you the fourth quarter financial update and interim chief operating officer Stewart Weidig will provide you an overview of the fourth quarter operations briefing. And then deputy general manager chief financial officer mark Dombroski and I will return and present on the Austin energy base rate review.

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While they're working to bring that up I'll go ahead attend on. I'm going to talk today about five upcoming requests for council action. The first item -- next slide, please. Perfect, thank you. The first item is to authorize up to \$2.4 million in cost reimbursements to the waller creek owner LLC for service pipe connections of the waller building to the Austin energy downtown district cooling system. The next item is to authorize negotiation and execution of a multi-term contract not to exceed \$8.45 million with grid solutions to upgrade the existing gis software and to provide continuous approximate maintenance and support services. This critical mapping software allows Austin energy system operators to monitor outage locations, field crews and maintain daily electric distribution circuit configuration. The next item is to authorize negotiation and execution of a five-year contract, not to exceed \$125 million among six qualifying companies to

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provide critical electric utility supplies. These contracts will provide electric utility wealth and materials such as single phase transformers, power cables, copper wear, pull line hardware and fuses. The next item is to authorize negotiation and execution of a 2.6-million-dollar contract with General Electric international, inc. For updates to the control system on unit five at the sand hill energy center. The updated system will ensure ongoing safe and reliable operations and improve cybersecurity with the latest versions of firmware and software. The final item is to authorize a 3.4-million-dollar increase to contract with Siemens energy inc. For high voltage circuit breakers for a total amount not to exceed \$9.56 million. Circuit breakers protect high voltage transmission lines and substation equipment. They are essential to maintain the safety and reliability of the electrical system.

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Next slide, please. Now, I'm proud to announce that Austin energy received the American public power association's 2022 excellence in public power communications award for our base rate review video. This past year

the Austin energy corporate communications team created a suite of resources to educate our community on our base rate review. With a large amount of technical information to convey, the team created elements that could appeal to wide audiences. We recognized the need for quick, digestible messaging and determined an original overview video was essential. The video is available in both English and Spanish to make the content more accessible for our community. In addition to sharing the video at our community meetings, we feature it prominently on our utility website, our community engagement website, and our social media channels. The video has had more than 37,700 page views with additional views on social media. Next slide, please. It's hard to believe it's nearly December and the

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holiday season is here. Earlier this month Austin energy crews strung the 309 lights on the iconic moonlight tower in Zilker Park to create the Zilker holiday tree. Just this past Sunday the community came together for the 56th annual Zilker holiday tree lighting ceremony. Thank you to our crew members who safely installed the lights that play such an integral role to our Austin tradition. The Zilker tree will be lit up nightly through January 1st. And I also want to thank the mayor and council members who were able to join us on Sunday evening for the official lighting of the tree. Thank you. Next slide. And with that I will pause and answer any questions you may have. >> Pool: Questions for our general manager? Councilmember Tovo. >> Tovo: I do, thank you. And it kind of bridges into our rate case conversation. I have a question about the regional science fair. So I believe I had heard that the regional science fair, which has been sponsored by Austin energy for many years, is -- that

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Austin energy is going to pull back on its sponsorship of that in the next year or two. Can you let me know what the data is there? What the information -- when that's happening? >> So I can turn this over to our vice-president of communications compliance and regulatory affairs, Tammy Cooper. >> Good afternoon. Yes, we have been working with the Austin science and education foundation which has been the co-partner with Austin energy in the science fest for, gosh, probably a decade now, that we've been working together. And we've been working with them to transfer what we call the sponsor-owner of the science fair. That has been Austin energy for the last 20 years or so. And it's just come to a point where I think the foundation has matured and Austin energy has a lot of different interests that it is looking at. And so we've been working

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with them to transition so that they would be the title sponsor for the science fest. It doesn't mean that Austin energy will not be involved with the science fest or partnering and providing some sponsorship opportunities. It's just they will become what we know as the owner and manager of the science fest, beginning with the 2024 science fest. So if on the year 2023 the science fest is scheduled for February. Austin energy will still conduct the same role that it has in the past, but we've been working on a transition. >> Tovo: So how much does Austin energy contribute toward the science -- it was kind of a signature project of Austin energy and the community. So I was surprised to hear that news and that there was a suggestion about transferring it or that an intend to transfer

it. I assume that part of that is reflected in our rate case. So can you tell me how much Austin energy usually contributes towards the science fair? >> Well, there's two

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different contributions that we give. We give an in-kind and then we give a financial contribution. So typically we have given a financial contribution of around \$80,000, and with the in-kind support that we have with respect to fees that are dedicating to supporting science fair and all of the different resources, we've estimated that to be roughly in the 250,000-dollar range. >> Tovo: And they usually are in the palmer events center, which -- for which there's not a charge. >> Well, that's not the case anymore. Palmer events does charge for use of the facility for science fair and so that is roughly -- I'm estimating here, but I want to say probably \$40,000. >> Tovo: Is that cost typically covered by Austin energy? >> Yes. >> Tovo: So that would be about \$120,000 that the non-profit would have to raise to continue the science fair? >> Well, I think that--

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>> Tovo: In addition to the in-kind, for which there's not. >> Well, I think they're actually looking at maybe another option to palmer so I don't know that that specific cost will continue. We had been doing it in the past because it was obviously a convenient location for our old building as well as having the ability to use it as a city facility. And in terms of -- I'm not sure. So the 80,000 -- you were adding the 80 and the 40 to get 120? >> Tovo: Right. >> Again, we haven't determined how much our financial contribution will be going forward, but the foundation had already been raising certainly money for additional sponsorships and I haven't seen their actual budget specifically of what they're looking at what they need going forward. >> Tovo: Yeah. I think it's fair to say that Austin energy was one of the biggest sponsors of that and I'd love to see it continue. I think it's a really

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important, a super important way to encourage kids to love science. So I hope that the city will continue to have a role in it and, you know, to -- more on that later, but I do think that this is an opportunity potentially at least, manager, if we are moving away from sponsoring it at Austin energy, at least to make it a co-sponsored event so that it can operate free of charge at our palmer events center. I think that's a really important way to help -- I think it's going to be challenging for the non-profit. To recoup all of that, certainly in the next year. Is that -- just bridging to the rate case. Formerly some of the sponsorships, community things, I think the utilities for the long center, for example, there's a contribution from Austin energy, at least there had been in the past to the long center utilities, came out of something called a community fund. >> I can't speak to that specifically.

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I do know that we have certain amount of funds set aside for various memberships and sponsorships. I don't believe we've done a long center sponsorship within the last couple of years since I've been on board with Austin energy, but, you know, for example, we are members of the chamber of commerce and a variety of other organizations, seedling foundation, things like that, where we provide some membership and some financial support. That is specifically within the government relations budget regarding sponsorships. I think there may be -- or in the past have been some other means and maybe the accounting folks can speak to that more. Some other buckets of money, so to speak, that were directed towards other city departments for some specific financial sponsorships in the community, but I believe that might have been reworked in the last few years. >> Tovo: Thank you for that. When we shift to the rate case conversation I would like to pursue that a little

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further because at one point I know there were -- it amounted to a fair -- it had a fair amount of dollars in it and I want to understand whether we still have that fund and if so, whether that's -- whether that's something that we're making decisions about with regard to the rate case. So anyway, thank you for the information about the science fair. >> Pool: Anybody else? Great. Thank you, Ms. Sergeant. We will move now to item 4, fourth quarter financial briefing. >> Good afternoon, I'm Stephanie Kadelka, director of finance for Austin energy, presenting to you an afternoon of our preliminary Austin audited financial -- unaudited financial results for the fourth quarter of 2022.

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>> Pool: Okay. Looks like we're good to go. You can go ahead and start. They've got it. >> Thanks. Next slide, please. This is just our typical disclaimer slide that lets you know that the information is very preliminary for fy2022 and unaudited. We expect our financial at the same times for audit to be audited and released in the March 2023 time frame. Next slide. I'll also just be providing an executive summary for you this afternoon, but your packet does include our standard agenda, which includes policy compliance and kpe's financial reporting, market and industry section that I'll touch a little bit more on in the executive summary. Next slide. So at the end of the fourth quarter for fy22 we are in

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compliance with our potential balances. We have two balances that are not meeting minimums and that's our contingency and capital reserves. In addition during the fy22 budget process we set a minimum for reserves and that minimum is 3,480,000,000. At September we're sitting at 3,444,000,000 total. At the end of September our cash balance was 165 million, which is just coincidentally the same amount that it decreases over the fiscal year. That's primarily due to those increased power supply costs that we saw this summer due to higher natural gas prices as well as congestion costs. We did also return that wholesale overrecovery that we received related to winter storm Uri. The middle two sections here are results for operating revenue and expense. Our operating revenue for the fourth quarter landed at 1.37 billion, which was about 13% more than budget.

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While our operating costs, including transfers, were 1.37 as well. They saw unfavorable results of 10% more than budget. So the reason the increase -- for the increase in both is mostly due to power supply costs and revenues. The reason why our revenue has more favorable results than expense had unfavorable is because of the increased usage due to the record heat that we all saw in fy22. We saw a nine% increase in usage over the year which of course translates to higher bills for our customers. In a normalized weather year we would see material operating losses for the fiscal year. Also I want to note that the numbers in the packet again are very preliminary as we work to finalize our audit we'll likely see increased costs as we continue to accrue costs to the fiscal year. And that will of course contribute to even lower margins than we're presenting in the packet. So just as a baseline our base revenue was \$40 million

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over budget because of that extreme heat. While our fixed costs remained relatively flat over the fiscal year. I'll move on to the bond rating. In August standard and poor's did down grade our bonds from aa to aa minus, following Fitch's action in June of the fiscal year. Some of the factors they mentioned in our downgrade report include weakened financial performance that we've seen in fiscal '20 and '21, as well as some projected lower liquidity and metrics than the utility has seen in historical levels, and that's really base rates driven, given that revenue is short to recover costs. We are seeing higher debt service payments and flat revenues other than increases that we see due to extreme weather. We did move from negative to stable outlook due to our plans to raise those base rates as well as their view of our diverse power portfolio. And then included in the

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packet is our market and industry analysis section. This quarter we focused on our competitiveness metric for calendar year '21, which includes information from the energy information administration. The results there show that Austin energy's average system rate was around 13% below the state average. Just as a comparison for calendar year '20, we were at about three percent below. And for '21 that's mostly driven by uri, which lowered revenues and costs for our customers. So that concludes the executive summary for my presentation. Happy it to take any questions you have now. >> Pool: I have one quick question you have on the last item, the 12 percent below the state average from last year. Can you give me a dollar figure for that? >> Sure. At the back of the packet --

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>> Pool: As you're looking for that, the follow on is do you have a chart that shows how we have performed in this same area over the last five to six yearsish? >> Yeah. So we have in the packet the residential, commercial and industrial compared to the average with kind of a -- I think it's about a 15-year view that you'll see. That is on page -- starts probably on 25. 27 is the C and I. 26 is the residential comparison. >> Pool: Okay. I'm looking at the PDF

and the numbering is different. >> Apologize. >> That's okay. I'll do a little bit of brave math here. And did you get a dollar figure? >> So for -- I'm looking at page 28, I'm not sure if that's exactly the same, but it will show Austin energy's system average rate for

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calendar '21 was 8.56 cents per kilowatt hour and a yellow bar. >> Pool: Am I looking at the right chart where it says 9.38 cents for Texas on average? >> That's right. >> And how many on this list are single tier? Austin energy is kind of unusual in the state of Texas for having the price breaks based on usage. >> Right. I don't have that information at my fingertips. What I can say is that we filter the data down quite a bit of the results of Texas just so that we can benchmark ourselves against similar type utilities. But I don't have the tier structure for each of them at my fingertips. Certainly I can provide that if that is available to me. I will certainly get back to

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you. >> Pool: Okay. That's important because some of the data that people are looking at look at the cost per kilowatt hour of different utilities and they say it's lower than what we are charging, but they also are -- everybody is paying that same rate all the way across the board. >> Right. >> Pool: And we are giving some breaks for the lower amount of usage. >> Absolutely. >> Pool: Mayor pro tem. >> Alter: Were you finished? >> Pool: Sure. I can always jump in another time. You go right ahead. >> Alter: Hi a couple of questions. Slide 12 this compares budget analysis to retail sales. And I don't have a question on this one. I just want to go through it before I move to a different slide. So this is essentially showing that our actual revenue was above budget pretty much every month. It wasn't just the summer months. We had a hotter year all year, but -- >> So this is a consumption dollar, not dollar.

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Even though it says sales that is based on kwh. That is correct, we were above for the year at nine percent total. >> Alter: Right. So if we go to slide 15 our revenues exceed expenses by \$42 million and then later in that same column of the amounts, we are subtracting internal transfer cip from that to get to 21-million-dollar of excess of revenues. Can you first of all clarify the -- what governs the choice of the internal transfers and cip amount? >> Sure. So first for cip, that 40 million that you see in the budget column is lower than it should be on a normal fiscal year. So in 2022 we had anticipated funds coming in for the transfer of our tlc building. So that is artificially low, which is why you're seeing that we actually had to transfer the 62 and the

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actual column. So that is based on our capital spending plan, depending on obviously what we'll spend for capital, how much we will fund with debt and how much we will receive in contributions from our customers. And trying

to stay at that strategy of about 50/50. >> Alter: Okay. So you didn't sell the town hall center and -- town lake center and so you didn't transfer it to cip? >> We didn't receive the funds for the sale of the building in '22 as we anticipated. So budget was set at a little bit lower because we had anticipated those funds coming in to help fund construction. >> Alter: Okay. So we had appropriated the ability to put that money into cip so you took the extra revenue and put that into the cip. >> Well, not necessarily extra revenue. I guess we had to take it from somewhere because it did not come from the sale of the building and we needed to fund our capital plan so we did use operating

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revenue to fund the plan rather than the proceeds from the sale. >> Alter: Okay. So for the moment let's just say I will take that on face value. I will have some questions. We have a 21-million-dollar extra revenue for fiscal year '22. >> So the 21 million represents -- >> Alter: Preaudit. >> Preaudit and also this is budget based. I want to qualify that. Our test year is based on a gap basis. They're similar in nature, but this is more a cash view of arr position. Similar like I said there's an income statement in the packet too that I can compare to if you'd like. But the amount that's favorable to budgets is only favorable because it's better than a 19-million-dollar budgeted deficiency. So if you look at the actual column and see that we had a two-million-dollar amount of excess for the year on an actual basis, that is driven

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by that \$40 million of over budget of base revenue. So 21 million is just better than a budgeted deficiency of 19 million that we had originally expected. >> Alter: So you originally expected a budget deficiency of 19 million and you're saying your revenues above that are two million? >> >> Actual results were a positive of two compared to a deficiency budgets of 19. >> Alter: Okay. But when we were trying to do, and this is jumping to the next issue, but I think it's really relevant here. When we are budgeting for the revenue requirement, you're trying to get -- you've budgeted to get out of that 19 million. >> Budgeted to get out of the 19. The reason why 19 is budgeted lower than the revenue requirement is because of that cip. Typically you would see a cip transfer of 60, \$70 million. It was the sale of the building that didn't come to fruition that really gave us

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a little bit of a better view of what the budget would look like for 22. Without that in a normal year you would transfer 60 to 70, maybe each more to cip to pay for the assets. And the \$40 million of base revenue that we received was from the extraordinary weather this summer. So two million against a 19-million-dollar budgeted deficiency, two million including the weather for the fiscal year. >> Alter: Okay. But in the future you would have budgeted -- in your revenue requirement you've already budgeted the capital expense. >> Correct. >> Alter: So is Ralph -- I'm trying to -- the revenue -- I'm trying to understand the excess revenue what that could mean for the revenue requirement moving forward? Either about the assumption, recognizing its weather or

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recognizing where we are at now and whether that extra revenue can be, you know, curated, for lack of a better word, for the next five years? >> So the excess revenue very preliminary budget base is just the two, not the 20. And considering that the base revenue was budgeted 40 million less than that, the results are on a typical normal weather year would be about a negative 38 million because of that 40-million-dollar overage. And the budget is on a normalized weather year so that contributed to the two million, which is a net two to the utility for the fiscal year. >> Alter: Okay. I hear what you're saying. I'm going to have to think through those calculations and what they mean for what we assume from the revenue requirement. I know it was a hot year, but I'm not exactly sure that I'm willing to suggest it's going to get a whole lot cooler here.

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So I want to think about that. Let me see if I have other questions in this section. That's it for now if someone has questions. >> Pool: Anybody else? Vice-chair tovo another question. >> Tovo: Yeah, thanks. I think what I want to highlight about the questions that you just asked, mayor pro tem, is that we've had a few intervenors, including two wr cooper, who asked us to look at the '22 revenues in this point, that it's coming in for higher than anticipated. So as I weigh and balance all the different considerations before us, one is an interest in really mitigating the rate shock. So I am really glad to sigh these numbers because it shows that contrary to what

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the case rate could suggest, we are meeting our expenses and in fact we are a little bit ahead. So I appreciate that it was a hot year and that those revenues were higher than normal, but I do see enough in here to suggest that we could be a little bit -- we could take that into account as we're looking at our rate case in light of our recent revenue. I understand we had to use the test year, but if we decided to go a bit beyond, if we decided to do less than what Austin energy is requesting, we do have this to help support, bolster potentially that choice. You had mentioned an income statement that we could look at in addition. Could you point us to which one that is, please? >> Sure. It's 21. >> Tovo: Sorry, which page? 21?

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>> Yes. So this is -- what we call a gap based income statement, which is the audited results. Unaudited at this point in the fiscal year, but this is the type of income statement we'll use for a test year. So as you can see, at 9-30-22 we landed at a net loss and that's preliminary. We're still accruing costs to the fiscal year and likely to see a more material loss for 2022. It's comparable to '21 other than the weather weather. Without the weather we would be at about 40 million again for 2022. >> Tovo: I'm sorry, I'm not -- the other one was on page 15, isn't that right. >> Alter: Can I ask a question on that, 21. So there's a loss of three million, but we have just done a rate increase for the psa that makes up for the losses that are coming from

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the power supply. So how should we be reading this? >> So similar to the budget base fund summary that we looked at in the earlier slide, pass-throughs have no impact to income on the income statement and the fund summary. So in the pass-through rates world we match revenues to cost. And depending if you're over or underrecovered you would defer that cash that you have to either receive or pay back to the customer. So pass-throughs do not impact net income or loss on either statement. >> Alter: So why is there a three-million-dollar loss on this one? >> Because they're different basis of accounting. So the budget base is more of a cash look that includes encumbrances. This is a true income statement. >> Tovo: I'm sorry, I'm still -- can I continue to ask a question about this? I'm still not following why the revenues are so vastly different on these two different slides? >> Because they're different basis of accounting.

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And so on this slide 21 we have operating revenues split from power supply revenues and then on slide -- the 1039 plus the 635 is total operating revenue. We just split it out to demonstrate the difference. At the end of the day the difference is that it's two different basis of accounting. One is based on the budget. The other is a true income statement that gets audited by a third-party. And that's the basis for the test year, the income statement slide. >> Tovo: Okay. All right, thanks. >> Pool: I think council member vela had a question. >> Vela: Going back to slide 21, I want to clarify if it wasn't for the extraordinary heat,

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extraordinary sales and revenue that we got, you're saying that the net loss would have been closer to \$40 million. >> The net loss would have been closer to 40. I don't have an exact figure because we're still closing the books, bow the 40 million embedded in that negative three you would be more like a negative 43. >> Okay. And then in terms of the dropping reserves, is that linked to the undercharging of the psa reserves as well? >> No. It's not linked, but it is linked to just base rates and rates overall given our cash position being pretty vulnerable right now in the position that it's in. It's all rates driven, but not particular to the psa. >> And going to slide -- honestly, the 28-29 series of slides where we're comparing Austin energy to other Texas providers. Is this a bill, average bill versus average bill comparison or is it --

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that's kind of a -- it's been very hard for me to compare apples to apples because everybody has a different rate structure and the private market has a totally different rate structure. But in terms of your thousand kilowatt hour user in Texas, how much am I paying in Houston versus how much am I paying in Austin? That's the comparison that I'm looking for. Which chart is that comparison? >> So the information presented is total retail revenue in those utilities divided by total kilowatt hours so it's a weighted average rate to get the state. I'm not sure if that's answering your question. Vessels I guess so. So the system average rate and the residential average rate should

adjust for your monthly, you know, fee versus your higher kilowatt per hour fee. It should be factoring in all those items. >> Yes. >> Vela: Okay. So on an apples to apples

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comparison looking at Austin energy versus most every other electric provider, we are well toward the bottom in terms of average residential rates. Is that a true and correct statement? >> That is. So for 2021 that represents the lower costs that our customers saw mostly due to uri. And so I would expect and I don't obviously have those results yet, but in calendar year '21, most of these will move higher given some of the higher prices we've seen in the market that we're seeing statewide. >> Vela: Okay. And again on the average monthly consumption on page 30, we are well under the consumption of just about every other provider. And I would despite -- I'm just eyeballing some of these, but, you know,

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despite our heat. I'm trying to kind of put it by geography. Obviously it's a little cooler in the north, hotter in the south, but that's -- I wanted to get that clarification. Last question, actually. 31 I guess would be the best -- again, accounting for 2021 being a very strange year from an electric pricing perspective, but I guess that residential average monthly bill, that slide page 31 slide, that would be probably the best apples to apples comparison if I want to see if I'm just a residential consumer? >> Absolutely. >> Vela: Thank you very much. >> Pool: Yes, mayor pro tem. >> Alter: On slide 21 it has the prices by revenue exceeding the expenses. And on slide 16 which looks at the power supply it's reversed. So why on the income statement is that reversed? So the reason why those

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don't match exactly, and I guess I'll just take 22 as an example is that power supply revenues are recovering more than just the power supply cost given that we've got the nacogdoches P and I spied of the rate as -- inside of the rate as well, which is seeing a different section of the income statement. As a whole power supply costs do equal what it recovers and the income statement. And you said in '21 you saw -- sorry, I missed the second question. >> Alter: So I'm not sure I followed you. We have been saying that we had psa costs that exceeded our revenues for psa. And that's what it shows on chart 16 and the income statement. It is reversed. We have more revenue than expenses. And so I want to understand why in the income statement it's that way. And you said something about nacogdoches, but we have switched in nacogdoches which makes that -- I thought we were switching where we were accounting for it, which may not have

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happened yet, but I'm not understanding why this is not reflecting that imbalance for the power supply. >> The revenues and the income statement are based on costs for power supply so the best way to look at power supply

expense is to see in '21 they were very low and we know it's because of uri so it was around 275 million. The expenses don't match exactly because the recovery are paying costs that aren't in that power expense line. At the end of the day it doesn't match dollar for dollar in income statement. And then the reason why the expense is up in 2022 is because of all the factors that you well know about and reason why we needed to raise the psa in '22. >> Alter: Okay. I understand the difference across '21 and '22, but I don't understand the difference between for '22 why is it 3635 for revenues and 578 for the expenses? >> Yes, excuse me, sorry. That net difference of 60 million if I have that math right is because there

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are additional costs in the income statement that are not picked up in that power supply expense line. So things like o&m and P and I are covered by the psa and they're not listed in the power supply expense line because they're other o&m and debt service cost. >> Alter: Okay. So where do they appear if they don't appear in the income statement? >> Sorry. The nacogdoches o&m is in the non-power supply expense line. And then depreciation is the gap basis for principal and interest. So they're embedded in those two -- >> Alter: So there are additional psa expenses that are not captured in the power supply expense line in the statement that are captured in the next two expenses. >> Correct. Yes. >> Alter: Okay. Thank you. >> Alter: Any other questions on finance?

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The financial part? Thank you so much. Our next briefing is the fourth quarter operations. >> Good afternoon, chair, vice-chair, committee members. I'm Stewart Riley, interim deputy general manager and chief operating officer for Austin energy. On this fourth quarter operations update I will cover the months of July, August and September. You have the full presentation available for your reference, but I'll just hit the highlights and answer any questions you have. All right. Once you get that up could you do to slide #, the summary page -- slide 3, the summary page. I'll follow this summary followed by a couple of quick slides to summarize these points. In the top left quadrant you will see our generator availability was on target or exceeded our targets. I'll show a chart that speaks to this in a.

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Moving to the top right we don't have any change to support in terms of our system averages for interruptions. We're still consistent with top quartile industry benchmarks. I would like to point out that our system performed very well through our hottest July ever and our second hottest summer ever in Austin. We set a new Austin energy peak demand record on July 12th when temperatures were 108 degrees and I'd like to recognize the Austin energy teams, particularly our energy control center staff and field operations teams who got customers through the heat. In the bottom left I've highlighted the fact that even in that hottest July on record we remained at a high level of carbon-free energy at 69% carbon-free as a percent of load and our rolling 12 month average is 78% carbon-free. And then lastly moving to the bottom right, I'm pleased to report that Austin energy's final update showing follow-up actions identified in our

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February 2021 winter storm's after action review has been released. As a reminder our after action review detailed 116 specific follow-up actions for all 10016 follow-up actions we have completed every action or operationalized those actions that are ongoing in nature. An explanation for each of those 116 items is available in the report. This is on our website and there's a link in the PDF. It's the culmination of a great deal of work from Austin energy team members to make sure we're better prepared to serve our customers in these types of events going forward. I'll hit a couple of quick slides. Could you go to slide seven. This slide shows commercial availability of our units when MC. This goes back earlier than the fourth quarter. But during the power supply adjustment conversations we're having some of our customers were worried that our generating units weren't available or weren't managed properly to be available as a fiscal hedge against ERCOT market prices. I wanted to point out in

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that chart that July, August, September you can see nearly 100% availability across the board for our generating units. And our power production teams did a great job to support the ERCOT grid in a summer in which ERCOT load exceeded previously hourly record, 163 times and even exceeded the ERCOT seasonal assessment 53 times. And I wanted to show slide 12 really quickly. I mentioned these numbers in the summary, but I just wanted to share this graph very quickly. This displays our carbon-free energy as a percent of load on a month-to-month basis. You can see that trend line going up that shows that we are at 78% carbon-free as a percent of load based on that rolling 12-month average. And then, can we go to slide 15? This is just the closing slide.

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I don't have this as a graphic, but I would like to mention for your awareness, the supply chain challenges that are impacting electric utilities nationwide. There's currently a shortage in the production of distribution transformers and other distribution equipment. Our need for transformers really comes in three varieties, ongoing maintenance, emergent work for storms, and then new development. We were fortunate for some time not to have this impact felt kind of as severely as a lot of other electric utilities, but we are seeing delays now, long lead times for transformers. Very little information from our suppliers in terms of when those lead times are going to improve. And this was exacerbated by hurricane Ian this summer. The Biden administration has authorized the department of energy to explore using the defense production act to make this situation a little bit better, and so while they're working out the details there, Austin energy is doing everything that we have within our control to make the situation better, that includes more refurbishment of old

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transformers, a repair in place contract, amending our standards to align with the most generic specs that might be easier to procure, and we're also allowing developers to pursue procurement of their own transformers if they're able to do so, and then those transformers become part of our system. So that's just something that I

wanted to mention for your awareness that's a nationwide challenge. It doesn't really have any end in sight, but we're managing it the best we can. But it is impacting the timelines that we're seeing for our developers. So I wanted to mention that. And that's all I've got for you. Any questions? >> Pool: What questions do we have? Yes, mayor pro tem. >> Alter: Thank you. On slide 6, you list the generator commercial availability and start success, and the fayette units, we're at 79%. Is that a function of being down? Is that a function of our reach program? I'm not saying that I want them, just want to understand the number. >> That number is for the third

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quarter of fiscal year 22, and I reported that last time. That was a seasonal outage. Just a planned maintenance outage. It was getting the plant ready to operate in the summer, just to be available if needed during the summer months. >> Alter: And so that doesn't mean it was used that percentage, it was just available, availability of that. >> Correct. >> Alter: Do we have the percentage of, like -- I mean, we're not really being presented with the usage at fayette and when it was used, was that in one of the slides? >> Yes. Could we go to slide 8? What this slide shows is -- this is our standard quarterly graphic showing generation and consumption, and so on slide 8, you can see sort of our generation stack that shows based on the different fuel types how much generation was produced relative to our customers' consumption. So, there you'll see coal there in the black and the amount relative to the other forms of generation. And then you'll see the Orange

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is the renewable, and the yellow is nuclear. On the top-right. >> Alter: Can we at some point get something that tells us, like over time whether that consumption -- >> Sure, yeah. >> Alter: How that is trending? >> Okay. >> Alter: That would be great. And then on the reliability slide, slide 9, so it looks like the average time to restore service, the caddie is going down, or staying at average. The top quartile benchmark. And then the other ones, though, however, are going up for the system averages related to the interruption duration and the frequency. Do we have a sense why by those two measures we're not doing as well? >> You know, yeah, we have talked about this, and how to kind of display this information in a way that's a little bit more useful for you going forward, so what I think we'll try to do is provide a little bit more context around outage

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causes, just giving you an example, you know, it's just about every other day, there's a car that runs into a pole that takes a circuit down. You know, we see a lot of that in terms of car accidents. Animals, vegetation, those kinds of things. So, perhaps it would be a little bit more useful, a little bit more actionable if I come back with a little more context about what's the source of these numbers, rather than just the duration numbers. >> Alter: Yeah, that would be helpful, because I've been looking at the reliability issues, particularly with respect to the vegetation management, and I will say that we're hearing a whole lot less complaints about reliability issues in my district since you've had the vegetation management happen. So I was a little surprised to see these numbers and wanted to understand what was causing it. So if you can figure out a way to help us understand that better, I'd appreciate that. I don't have an answer of what's underlying them, so I can't tell

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you what I need. But that's the context that I'm trying to understand, is okay, so maybe we are addressing a lot of the vegetation management. Now what's the next thing we have to do for reliability and think differently about it. >> Part of what makes it a little bit even more challenging than that is that these numbers take out what are termed as major vent days, and winter storm uri really raised the threshold. So what might have been excluded from these numbers would now be counted in these. So that's why we're trying to kind of better provide some metric that might be a little bit more accurate glimpse into what's really going out there. >> Alter: Okay. So I think that would be helpful. And then my last question, on slide 14, for improving the distribution system reliability, the initiative of addressing the top feeders in both performance and wildfire criticality. Obviously, when you finish some circuits, then there's new ones coming up. >> Correct. >> Alter: But can you provide

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some status update for that? >> Right. And the status update on -- I know off the top of my head that, you know, the wildfire criticality circuits that you've been very focused on, we have not gotten through that full list of ten circuits this year. So once we do make it through that list, then we will pick up a new batch. But we have had difficulty, as I mentioned last time, with our -- with contractors having enough labor. So we're exploring having a standalone contract with another contractor to add to that mix that would solely address these wildfire criticality circuits, because quite frankly, we're not seeing enough ability for the existing contractors to do enough of the work on a rapid enough basis. >> Alter: Okay. Maybe we can have a follow-up conversation about it. >> Okay. >> Alter: About that issue and the circuits in my district. >> Sounds good. >> Pool: Any more questions?

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Yes, council member vela. >> Vela: Just a simple, basic question. But are we still generating hydropower from the Lakes anymore? >> No. >> Vela: No. Okay. You hear so much about that, just in terms of the region and its history and the construction of the dams. >> I believe lcra does, but we do not. >> Vela: But not Austin energy itself. Got it. Thank you very much. >> Pool: Anything else? Yes, council member Fuentes. >> Fuentes: Not a question, but a comment. I just wanted to thank Mr. Riley for highlighting the supply chain issues and how that's impacting housing. I have housing that is built and ready to go, but is waiting to get powered up. You've been working with the developer, but this is a national issue that communities are facing and it's having a real impact here in Austin as well. >> Thank you. >> Pool: Anything else? Great. Thank you, Mr. Riley. We'll go to item 6, which is the briefing from staff on proposed

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revisions to Austin energy's base electric rates. That looks like we have Mr. Dombrowski and Ms. Sargent. Welcome. >> Thank you

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rate design. Specifically, we need to address the problem that 77% of residential customers' base rate revenue are below cost of service. Additionally, our proposal moves both residential and commercial customers closer to their cost of service. This is important because it reduces the amount of interclass subsidies and better positions our ability to provide more uniformity in future rate changes. Next slide, please. As you know, the impartial hearing examiner recommended that we reduce our \$35.7 million revenue requirement to \$31.3 million by decreasing the test year general fund transfer from 120 million to 115 million. To reduce the revenue requirement any further means that we need matching reductions in expenses, such as program costs, transfers, or service levels. Since the fiscal year 2021 test year revenue requirement of

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\$35.7 million was determined, we continue to experience increasing costs as noted on this slide. I would like to highlight that deputy general manager Riley talked about, and inflation, our industry has seen an 84% increase in the cost of equipment and materials. Also, with the forthcoming ifc to expand our customer assistance program, we will incur increased administrative and contractual costs. Before I turn the presentation over to Mr. Dombrowski to discuss considerations for residential rate design, I would like to point out that residential rate design is not the only item that needs to be addressed in this rate review. Additional items are outlined on the decision point list that was provided to you, and posted on the city clerk's website, and includes such things as the total revenue requirement, cost

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allocation, present revenues and billing determinants, value of solar, primary substation rate, primary high load factor tariff, transmission service, and line loss study. And with that, I'll turn it over to Mr. Dombrowski. >> Alter: I'm sorry, when did you send this one? >> It was re-sent today. >> Pool: It looks like 12/24. >> Good afternoon. Mark Dombrowski, chief financial officer for Austin energy. We have a couple of options to discuss with you based upon what we heard from council members, as well as some of the interveners and the impartial hearing examiner. But before that, I wanted to talk a little bit about residential rate design. First, I wanted to clarify that

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the notion of customers being in tiers, and that is that all customers are sold energy in tier 1. We often talk about which customers are in tier 1 or who's in tier 1. It's all customers, regardless of income level, regardless of the amount of energy they use. So, all customers receive subsidized first tier rates. And it really represents kwh rather than customers. The next is that tiered base rates are not cost-based. And so, these base rates, although we call them energy rates, and it's based upon kwh, it's really recovering fixed costs. They don't vary with the amount of kwh. The next thing is that charging different customers different rates for the same product. It's not cost-based.

That's really a policy call. So how steep of a price curve we put in and where we break the tiers, that's all policy. It's not cost-based. It cost us for the same for the first kwu that the customer uses. The same for the 1,000th kwh

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that the customer uses. The next is how customers respond to these tiered rates. We did three analysis to see how our customers responded. What we found out was the customers don't respond to those tiered rates to optimize their usage. Not changing behavior for conservation. They're not making investments for efficiency. Howeverer we do believe customers respond to average rates, and so when you get higher power bills for several months, you do something about it. You change your habits or you put in insulation, change your windows, or next time you install air-conditioning. But we think they're doing average rates in bills rather than these tiered rates. So that's important. We're talking about sending signals. What are customers responding to. So with that, you've heard us talk a lot about the residential rate design and the changes we're making, and some of the rn

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cans about that. So I want to talk a little bit about back in -- so these rates were designed in 2012. I believe council member tovo was the only council member at the time. Those rates were developed there. So we've had them in place for about a decade. Prior to that, I believe it was two tiers for some time before then. But in '12, we adopted to five tiers for outside the city. When we looked at changing rates in 2016, it was actually a rate reduction. That was driven by, we had in 2012 accumulated cash for reserves. We were really low on cash. So there's a component built into the base rates to collect cash to put in reserves. We had adequate reserves in '16 and we stopped that, we haven't done it since then. We also had some of the lowest debt service at that point.

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So we were able to give a decrease. But at that time, we recognized that that first tier was priced below the cost of service and we saw a lot of growth in sales below that first tier, so we moved to increase the cost on that first tier and lower the outer tiers, and that was our original proposal as highlighted here in the Orange bar. As we work through -- as many of you know, we reached a settlement with the interveners in the 2016 rate case. We agreed to take \$5 million and apply that to the first tier customer only, so we bought down that tier. That was the settlement offer that we brought to city council. At that time, there were a handful of customers that are still showing a built increase. Very low, 460 kwh bill impact table. And council instructed us to

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make sure that that customer received no increase. And so in order to do that, we had to apply another 3.4 million to the first tier. So again, that brought down that first tier. While we made some progress getting that tier 1 rate more in line with its costs, we didn't make as much progress as we had hoped in that maneuver. We did not

attempt to change where the tiers break in the 2006 case. That was not one of the issues. Later on, we had a long discussion that the oversight committee on November 30th, 2016. And council really recognized the terms as tradeoffs at that time, that we knew for various reasons why it was important for us to settle with those interveners at that time, and that we were giving a rate decrease. And so, we all knew that we have to come back at some point in time and address this issue.

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I bring your attention to the chart on the lower right. You'll see in that first tier, we had about 47% of the sales in that tier 1, and had about 8.7 in tier 4, about 4.7 in tier 5. I'm just calling it out because I'm about to show you the chart of where we are now and how that's changed. So back in '16, we recognized that we would have to address this issue. And that was one of our main efforts in this rate review, was to realign those residential rate structures. And so this is where we stand today, in terms of our tiers. So, right now, for actual sales in 2021, about 52% of all the kwh we saw were priced in tier 1, which is about 2.8 cents. And you can see that Orange bar. That's how much growth we've had between 2009 and '21 in tier 1. Tier 2 is also seeing some growth, a little bit smaller. And that represents about 26%. So combined, those first two

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tiers are about 77% of our sales in actual '21 sales. I bring your attention to tiers 3, 4, and 5. You can see that we've actually seen reduced sales in those tiers. And so, we're selling fewer kwh at those higher rates over the years. And I pointed out tier 4, I believe it was 8.7, and here it's 7%. Tier 4 is at 4%. So we're seeing a concentration of sales in those lower priced tiers at a cost much below the cost of service, and that's our quandary of what we're trying to address, which is how do we collect enough money to pay the bills based upon the energy we sales, and that's really from new customers coming online that are taking sales mostly in that first year. And this is a graph I want to spend a little time explaining to you, because I'm going to use the same format in the options I described. This is our current situation, and this is our test year 2021,

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and the Orange bar there represents the kilowatt hours in the test year that are sold. So you can see it's a little bit higher than '21. It's almost 57%. And then the yellow bar represents the amount of revenue that we generate in that tier. So it's simply the kwh times the triangle there. So it's 2.81 cents and that generates the gold bar. And you can see as you move through the tiers, how the consumption gets lower. Because some customers will take sales in tier 1, and then some of those will go into tier 2. Few will go into 3, 4, and 5. And of course, since those tiers are priced higher, you start to see this shifting of kwh in revenue in each tier, and that's by design, because rates go from 2.8 cents up to about 10.8 cents. So those are the five tiers for

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inside city. With our current passthroughs that we adopted on November 1st, bill at 80060 catches, we use sort of a benchmark or typical. That's \$99.86.kwhs, we use sort of a benchmark or typical. That's \$99.86. So that's our benchmark. That's where we're starting from. I'll show you what we go through so you sort of compare that. The first option I want to go through is what we call the rebuttal case. This is what we presented to the impartial hearing examiner. And it's based upon the report that we drafted on April 18th. And it has increased revenue requirements of \$35.7 million. Removing customers' classes to 50% of unity. What that means is how farther from the cost of service, so we're moving halfway. Really what that is, residential

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customers are significantly below their cost of service, and secondary 2 and secondary 3 residential customers are above their cost of service. We developed the single rate structure for all residential customers, so rather than having inside and outside rates, we combined them into a single rate class. We proposed three tiers and a \$25 customer charge. This is a table that shows on the top in the Orange box the existing inside city customers, the five tiers, the amount of kwh in each tier, and the price of the tier. And as a percent, you can see what percentage of sales are in each of those tiers. And again, 56.9 that I showed you on that graph earlier. And you can see as you get higher into tiers, fewer and

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fewer kwh there. And then where we would move them to, which is the blue box. So we go from a \$10 charge to a \$25 customer charge. Three tiers with half a penny in between each tier. That's 3.6, 4.1, and 4.6. Rather than breaking up 500, it would break at 300, and then at 1,200, and everything over 1,200 kwh. And you can see that is a little bit more proportional, where you have about half of your sales in that middle tier, which is about cost of service and about 37% in that first tier, and about 11% in the higher tier. So it's more proportional, more balanced than the five-tier structure, where you're having about 57% of the sales in the first tier, significantly below cost of service. And the next chart is the outside city of Austin. So as I mentioned, they have three tiers now.

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And then their first tier is at 3.7. That would go to 3.. The second tier would go to 4.1 cents. The third tier to 4. 6 cents. And unlike inside city customers, the you look at the outside city existing rates and where they are in the tiers, it's fairly proportional. You've got about 35% first tier, about 25% in the second tier, and just under 40% in the fourth tier, or excuse me, the third tier. When you're designing rates, and you'll see the structure here. It's more proportional so that the number of sales and the amount of revenue you get in each of those tiers is more sustainable. So you don't have to change rates as frequently. This is a repeat of that chart I showed you earlier.

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The 37.5 million revenue requirement, 25 customer charge, and all residential customers on a single rate structure. You can see the three tiers there, you can see how the Orange bar and the yellow bar are much more equal, proportional. So what that tells you is that customer growth increases and you get more sales in tier 1. That rate should keep up and wouldn't have to change them as often. You still have a block, albeit as a much more gradual slope than what we currently have. And this produces a 860 bill at \$114.36. And if you're a cap customer, it's \$78.81. One reason why it's so much lower is because under the cap program, we waive the customer charge, so before we're waiving a \$10 customer charge, in this scenario we're waiving a \$25

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customer charge. And then those customers are also given a 10% discount on the remainder of the bill, and they don't pay the cap portion of the bill. So that's why that benefit increases so much under this scenario. And we found that to be an attribute of this scenario. The next option, option 2, based upon some discussions with some of the council members, and I think at our last meeting, council member pool asked whether we could use some sort of graduated approach to changing the customer charge. And so, we did that here. So we increased the revenue here at 31.3. And the way we did that is reducing the general fund transfer from 120 million to 115 million in the test year. And this was a recommendation of the impartial hearing examiner. So that decreases the revenue requirement. We're still moving the customers to the 50% unity, or closer to the cost of service.

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We still have a single rate structure for inside and outside, but we adopted four tiers. We picked four. And then we did a three-step increase where the customer charge is set at \$14 and then \$15, and then \$16 over a three-year period with an equal offset in the energy rate decreasing over time. Here's a table that shows inside city, the before and after of that approach. And you still see that we're breaking the tiers at 0 to 3, then 3 to 15, 15 to 3,000, and then over 3,000. Still recognizing that first

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tier at a cost below the cost of service there. And then the outside city would go from three tiers to four tiers for them. And again, the -- it's fairly proportional with about 53% of the sales at the approximate cost of service, in a lower cost in that first year there. Tiers breaking in the same place. >> Pool: Can I just ask real quick there, I'm flipping between this slide and the one before it. It looks like the price per kilowatt hour is the same, whether you're inside or outside. >> That's correct. So we're proposing the same breaks in the tiers and the same price per tier for inside and outside, since they're a single class of customer, they're all residential. Here is that graph with the

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earlier options. Again, I note how it's proportional. In that first tier, you have slightly more sales than revenue by design, because we lowered that price. We've increased the steepness of the price curve, so it goes from 4.3, then up a penny rather than half a penny. Then it goes up two cents in that third tier. And then up three cents into the fourth tier. So it gives you what people refer to as the price signal, the steepness of the price curve. And again, it's proportional. And so, what this means is as customers come onto the system regardless of where they take their energy, that these rates should be able to sustain that without getting out of balance as we are now. And I won't spend too much on time -- so the next one, which would be step two, which is going to a \$15 customer charge, so from 14 to 15, we'd also see a reduction in the energy rate,

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because we're collecting the same amount of revenue. The energy rate can come down. So that's true, both inside and outside. And here is the price structure there. The bars look nearly identical. You can see that the energy charge is up 4.2. We've kept the same steepness of the curve. The only thing that's changed is the customer charge and the energy rate. This produces a bill of about \$111.54 for non-cap customer. And \$85.72, and that's because we've reduced the customer charge, so that reduction to the cap customer is reduced. The third step would be to move to the \$16 customer charge. In year 3. And it produces a very similar

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result here, now that energy rate is just over four cents, five cents in tier 2, seven in tier 3, and just over ten cents in tier 4. And this produces a bill, \$111.63, and a cap customer would be \$84.82. We were also asked to consider other options in which we could reduce the -- further reduce bills to residential customers. So this is built on what I just briefed you. So this just has that same requirement of 31.3, taking that reduction in the general fund transfer. But rather than moving customers to 50% unity, we're only going 40%. So that means the commercial

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customers won't get quite the reduction they get and residential customers won't get quite the increase that they had under other scenarios. So that helps out residential and reduces that cost. It still has a single rate structure with four tiers, and this one has a \$15 customer charge. Oh. I can't get it to move. And so under that scenario here, we have inside city, the five tiers that has not changed in all the scenarios you've seen. But you can see that slightly less price per kwh, and slightly less customer charge than where we ended on with national, \$16. It's very proportional. We left a break in the tiers at 0 to 300, 300 to 1,500, 1,500 to 3,000, and over 3,000.

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And outside city customer, going on that same structure. Again, very proportional. It the looks very proportional. Your sales are slightly higher than your revenues by design, because you had slightly below cost of service. Tier 2 is

a very wide tier with about 55% of the sales at cost of service. Tiers 3 and 4 with a much steeper price curve going up to 9.8 cents. So this produces a bill of \$110.67, for a cap customer, it would be \$84.90. There's been a lot of talk about pricing the tiers and the steepness of the price curve. So we've put together a diagram that shows the various price curves. The current tiers, that long

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Orange line goes into five tiers. That's what we currently have inside city. It's got a 50% slope. Outside city, it's the yellow line there. And it has three tiers, given the distance between the first and the third tier. It's got 100% slope. And option 1, which was our rebuttal case has a \$25 customer charge in three tiers. It has a 25% slope. The criticism was that was not steep enough. And so we move to -- kind of between outside and inside, the 67% slope. For option 2, this is the one with the three-year gradual increase in customer charge, or option 3, which was the 40% movement of unity, with four tiers and \$15 customer charge. You can see the steepness of those price curves is maintained on those two options.

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>> Thank you, mark. As I mentioned in my opening remarks, Austin energy has been working on this base rate review now for over a year. And I would remind you that I specifically instructed the team to not overstate the requested leads. In other words, there's no fluff in the revenue requirement. We appreciate that it's not easy to raise rates. We don't take asking for every increase lightly because we understand it affects our customers, who like the utility itself, are dealing with inflationary pressures at almost every turn. We, in fact, have not raised base rates in more than ten years, and actually reduced base rates over five years ago. The reality is that almost everything has increased in price over the past decade. Unfortunately, we've reached that point now where we can no longer delay adjusting our base rates and base rate structure. Moving customers closer to their cost of service is important because it follows sound,

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rate-making principles of cost causation, reduces interand intraclass subsidies, and is less discriminatory, more fair, and equitable. Throughout this open and transparent process, we have heard loud and clear the need to protect customers from rate shock while improving utility's financial position to continue to meet community priorities for the long term. With that in mind, we requested only a revenue increase that the cost of service study showed was necessary. The options for residential rates presented today reduce the customer charge, increase the number of tiers, and steepen the rates for higher consuming tiers from what we initially proposed. With these options, residential customers would continue to see some of the lowest bills in the state while paying closer to the cost of service. We believe this is a balanced and fair approach to help both our customers and our utilities'

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long-term financial health. And with that, we're prepared to answer questions you may have. >> Pool: Thank you, Ms. Sargent. I can understand why Austin energy first came to us with the fixed rate, the flat rate for the customer charge, an additional 25, because that provided Austin energy and the city and our rate payers with more certainty on the income. And then the cost of the energy per kilowatt hour could be lower, significantly lower. Shifting more of the burden to the fixed cost. I do think that that has caused real consternation in the city, and certainly around the dais. So I really appreciate you moving off of the \$25 additional and looking at new scenarios with a 14 -- you know, that would be a \$4 increase over the

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ten. I appreciate that. And then also looking at just a flat \$5 increase at \$15 with various breaks in the tiers. I think we have made real progress in trying to understand what's in front of us, and I feel like very close to being able to achieve some resolution pretty soon. And thank you for this. Do you want to tell us where maybe the negotiations are before we open up to a good conversation and the questions around the dais? Anything that you would like to -- I see Mr. Brocado here. >> My apologies. The parties have continued to have discussions in hopes of

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resolving the case. We met yesterday afternoon, and may meet tomorrow as well, although nothing is firm on the calendar at this time. We've been able to bridge the gap, and so I don't have any settlement to announce to you today, unfortunately. We continue to visit on these issues, and my hope is still that we are able to bridge the gap. >> Pool: You have some agreement on some pieces of the negotiations, right? Not on the big items, but on some of the contingent. >> I should probably not speak to that at this point. >> Pool: Okay. >> There have been discussions about resolving some issues, even if we're not able to reach a comprehensive settlement. But I don't know if parties are willing to do that. It would seem that if there are some issues that are of less import than the actual rates and the dollars, it would be great if we could get some agreement

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there. Mayor? >> Mayor Adler: Thank you. I think these options reflect movement in the right direction in terms of both the policy you're trying to get to and the political realities of where the council is. I think it is important that we get to the place where the different tiers, rate structures more reflect what the cost of service is. Because if we don't get there, there's always going to be anomalies depending on what's happening with the weather, and we're always going to be going through the same drill over and over again. If at some point, you can get to the place where it's more equalized, then the adjustments happen across the board, and we get to a place where we're not doing this anymore. But I also believe that we may not be able to get there as quickly in terms of the policy stuff. I think that goes to the rate

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shock issue. I like the option 2 of the ones you presented, because they still take the tier 1 and tier 2 rates closer to the actual cost of service, but do it in a way that does not have the same increase. Looking at a \$15 increase in the fixed rate charge, it's a 150% increase on the fixed rate charge, causes everybody to recoil. And an option which has that \$15 being brought down to \$4, I think is being very responsive to what you've heard from the council as well as some of the advocates, so I appreciate that consideration, that movement. Of course, when you do that, something has to give. Which means you have to look at the rate. I hear the arguments that the additional tiers don't provide a price signal that people use. I'm not sure I'm convinced of that. I'm not sure I've seen data that

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shows us really one way or another on that. So coming up with an increased tier structure makes sense to me. And having a steeper angle makes sense to me, in order to be able to take into account both your policy as well as the interveners' interest as well as the political realities that we have as a council for doing something. And when you look at each one of these options having revenue that you say that you need, you know, nothing would please me further than to find that that \$40 million last year wasn't an anomaly. Obviously, it's an anomaly if you look back over the last 20 years. I don't think you can plan on that year being anything less than an anomaly, because historically speaking, it was. But if we see that same kind of revenue increase in the next year or two, then probably you need to come back and say we have a different world, because

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this is no longer an anomaly, it's real. But then you would have been generating more revenue than you need. So, we've got to be doing something at that point anyhow. But I think we probably do that in the future, and not assume that it wasn't an anomaly when the data would show us at this point that it was. I'm comfortable -- the basis that you use with respect to the years, using that year, which we had the winter storm, because I dive into those numbers. It looks like if it was an anomaly situation, it lasted for 100 hours, that of 8,000, 9,000 hours over the course of a year. So it's just not enough to throw things off. So it's still not an appropriate year to use it, as you've been using it. But we have to get to that place. I would like for us -- and there's going to be a resolution

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that we're going to be bringing to focus attention on the cap program. Because I really think the biggest thing that we can be doing in terms of equity in our city is increasing the number of people participating in the cap program. That's what we need to do. I also recognize that the current technologies that we use use proxies to identify those people and when you use proxies to identify those people, there will always be some you can find, where people are getting the deduction -- they shouldn't be getting the deduction. I don't know how you handle that. But I wouldn't let that stop us from driving to get -- doubling the number and the percentage of people, even if it doubled the number of people who are unfairly getting it, I would still do that, if that was the necessary cost of getting it to double the number of people that actually need it. I would like us to find the

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answer, so that we don't necessarily have that same thing happening. When I look at the numbers that you've provided, it looks like -- that's what a 2.5, \$6 million increase expense that is not reflected in the proposal that you're giving us. We're not considering it on Tuesday. We're just setting the goal on Tuesday. But if there's a way for us to set this rate structure that actually increases the revenue need, by that 2 to 6 million dollars, so that we can actually fund the cap program administration, so that we could really do that, I think that would be real significant. And then our message to the community would be rather than doing a \$15 increase, we're doing a \$4 increase. We're still maintaining tiers, still maintaining price signals, but we're also investing in the number of people participating in the cap program, which is the most equitable thing we can do.

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I have some thoughts or suggestions on how that might be achieved. I don't know if you want me to give you those in this public setting. If you want to, I will. If not, I'd like to talk to you outside of this setting, in terms of ways that that might happen as you do your conversations. But I appreciate the responsiveness to the concerns that we've heard. >> Pool: Thanks, mayor. Vice chair tovo. >> Mayor Adler: By the way, U.S. Men's soccer team won the game. >> Tovo: Oh, wow. That's great news. I have a couple small questions, but I wanted to ask a couple big ones first. First of all, thank you for showing us the options. I know that several of us asked you to run other scenarios and I would ask if you could make those available, and I'm not sure what the best forum is for doing that. But I'd asked for a couple scenarios to be run, at lower

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revenue requirement numbers based on some of the intervenor's suggestions and also at a \$12 and \$13 customer charge, and thank you, I got those this afternoon and I appreciate those and I'm working through them and have some questions for you. But I think those would be useful to show to the whole council, and perhaps we can talk about them. And I believe mayor pro tem asked for some different scenarios, too. And so if we could all be looking at all of those. A couple smaller questions. There is a reference to an uncollectible expense that was adjusted for in the test year from a single non-residential customer. Could you tell us more about that and what the amount is? >> I believe what you're referring to is poll attachments in which -- I don't have the exact dollar amount.

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My accountant does. So we attach infrastructure to each other's poles, and normally we have a contract in place. And for an electric utility, what those attachments are governed by a formula, FCC governance. Whereas if you're a private entity, there isn't that requirement. So when we did a reconciliation of how much we have attached to AT&T's poles and what AT&T had on our poles, that is that adjustment, because we don't have a contract with AT&T. And so it's not something we can collect on. So the accountants booked it as receivable, and then wrote that

off. >> Tovo: What was the amount? >> I have the amount. It's \$1,836,826. >> Tovo: Was that an actual expense that Austin energy incurred? I guess it doesn't matter,

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because it was adjusted out of the base rate. >> It's not an expense. It's revenue that we would have otherwise received had we had a contract in place and charged them to attach to our poles. >> Tovo: Okay, thank you. I guess it was eliminated anyway. I had asked a question that I'm not sure I've gotten an answer from. Did you make adjustments in the test year for -- well, let me back up and say, I also read the back and forth about the winter storm adjustments and the short number, and agree mostly with what you're saying, mayor, about the short number of days, not reducing the revenue considerably. We had some major industrial customers who were offline. And I wondered if you had made an adjustment for their impact. For that lost revenue. And if so, did you quantify what

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the lost revenue impact was of those mid-year industrials being offline for that period of time? Did you quantify it and did it get adjusted from the test year? Because that may not be inconsiderable. That may be an amount that we want to think about. You can get back to me. >> Yeah, I'm sure we did an analysis. I just don't recall it right offhand. I know when we set rates, we use a weather normalized year, so those things are adjusted out where we use the set rates. I can get back to you. >> Tovo: There's a line that instead of looking to the past and future to reconcile the test year, the ihe simply prefers that ae better explain how the storm had no impact on test year energy sales and base revenues. And so, I'm not asking you to explain it. I'm just saying that's the substance of my question, that even the impartial hearing examiner seems to be saying there needs to be some explanation. I agree with you about the

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residential piece but I'm not convinced necessarily about the commercial piece until we get that quantification of the industrial -- what the gap was for industrial customers and whether that was factored into the test year. >> We did do analysis, and that's one of our documents that we can provide for you with a thorough analysis that shows that we're confident in our in our numbers. >> Tovo: Sure. But does it have that piece that I just requested about the industrial? >> I will check, and if it's not, I will get it for you. >> Tovo: Thanks. And I hope that we'll have an opportunity to talk a little bit to see if we have agreement on some of the revenue requirement adjustments. I don't know if that's today or if that's something on Thursday. But I want to -- I wasn't sure whether I was quantifying properly the amortization of the winter storm expenses. On page 20 of the impartial hearing examiners, it talks

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about -- the consumer advocate proposed a revenue adjustment based on some of the storm costs, the costs associated with the winter storm. The impartial hearing examiner didn't agree. But the impartial hearing examiner said that if council does make an adjustment, it would suggest just doing it based on overtime and labor. 1.2 million related to overtime. 1.3 million related to contract. If we -- if the council does decide to make those adjustments, should we consider those to be 2.5 -- would we want to make a revenue requirement adjustment of 2.5? Or is that 2.5 spread over five years? I think when I suggested those different revenue requirements, I was not -- I think I factored it in at like 300,000, but I think it -- Mr. Brocado, do you have -- I think you may

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understand. >> I understand what you're saying. >> Tovo: I'm not articulating my question. >> Let us chat about it. >> Tovo: In other words, I think the figure I provided was too low. >> Yeah. So the ica didn't disallow any of the overtime or contract level, he just said it should be amortized over five years rather than including the full amount in the annual revenue requirement. >> Tovo: And so if we agree, how much should we reduce the revenue requirement by? And you can get back to me. But I think I calculated it wrong in the scenarios that I requested you to run. >> Sure, you divide it by three or four or five. >> Tovo: Anyway, I don't want to get in the weeds. Okay, we can touch base on that later. I probably have some other questions. I'll be quiet for the moment.

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I do want to look at the scenarios that are 12 and \$13 and see what those look like. The ones that I asked to be run were at \$12 and \$13. So thanks for sharing those with my colleagues. >> Pool: Council member Fuentes. >> Fuentes: Thank you. And thank you for this presentation that shows us additional options. I think for me, my main priority was to ensure that our residents didn't feel like they were getting squeezed. And so avoiding an all at once rate shock was important. And so having these new options come before us that changed from a \$15 increase on the customer charge to a \$4-5 increase I think is much more reasonable, given the situation that we're in. You know, both options 2 and options 3 assume a revenue requirement of 31 million, and I think as council member tovo just alluded to, there are some

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adjustments that we would like to consider to see if there's any flexibility there on that revenue requirement based on some revenue adjustments. So I think that there's even potential for us to have those conversations to reduce the revenue requirement. But just based on what is presented today, I would be leaning towards option 2 with that three-year phased approach. The question I have for now is around the differences between the city customers vats the outside the city customers. I think one of the previous work sessions you mentioned that are outside the city customers do use more energy, but the rates that you have for the tiers are the same as inside the city customers. So how are we going about to encourage conservation for outside the city customers?

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Shouldn't we be considering a different price structure for their tiers? >> What we see is customers react to bills, their average rate. And so, as you use more energy, your bill gets larger. And that's truly either inside or outside the city. And so we do have, with option 2, as you mentioned, a much steeper price curve. It's -- and then when you add in the passthroughs, that's also based upon the kwh. So as you start getting above 1,200 kwh, 1,500, your bill starts getting quite large. And so we think that's what customers react to as opposed to -- because very few customers know when they're crossing over. When they get their bill at the end of the month, like we all do, we're shocked and we adjust the thermostat or we do something about it.

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So we think that we will continue to see conservation from customers with the way it's structured now. But one of the big reasons why we're seeing so many sales now in that first tier, is not so much customers migrating from tiers 3 and 4 down to 1. It's because of all the new construction that's going in. It's mostly multi-family, high efficiency type units. So those never get out of tier 1. That's the growth we're seeing in tier 1. So we think our structure meets both those challenges, both the price signal for customers to use less, because it would have higher bills, as well as recovering the cost from those custom customers, the pace for growth concept. >> Fuentes: I guess I'm just not -- you're saying that the behaviors are based on the average of their consumption, but yet the tiers that you're proposing in option 2 for outside of the city customers who we know use the same energy,

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there's not -- there doesn't seem to be any consideration in trying to adjust the price point there, because if they're going to end up in tier 2 or tier 3 when we want that to be at a higher price point. I'm looking at page 15 on this slide deck. If under the current customer charge majority, the below costs, there's 35% of outside of the city customers are currently at below cost. At a 3.7 price point. If we did do option 2, then you would still have 52% at 5.3 cent per kilowatt. That's still lower than the cost of service that you had at the \$10 charge of 5.6.

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>> That's correct, because as you increase the customer charge, your cost of service, on the energy rate, moves down. So these tiers are not exact cost of service. They're approximate. But as you change -- like I said, there's a relationship, a linear relationship between the customer charge and the energy rate, so as you increase your customer charge, your energy rate decreases. >> Fuentes: Okay. No further comments. Thanks. >> Pool: Mayor pro tem. >> Alter: Thank you. So I just want to point out that there's really not that much difference on the customer's bill from any of these scenarios. We're talking about a \$3 or \$4 difference across the whole year, which I'm not sure they're going to send a notice when they're looking at the 110-plus difference coming for their bill. As we look at the scenarios, we may have to decide if this is going to be functionally better

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for solving the problems we're trying to solve. That's not where I want to land, but just looking at the reality of these numbers, that's reality, and the facts. So we have to keep that in mind. I have been trying to get some scenarios, and I'm for some reason having trouble communicating what I'm trying to get at. In the material that you gave me, you have a breakdown by the number of bills that fall in different categories, from like 1 to 250, 251 to 500, 501 to 750. And in most of the scenarios where you're breaking things, between the tiers, you have a really large gap between the end of tier 1 and tier 3. And at the same time, we can see from all the data that you've given us that our average is at 860. So it's kind of somewhere in the middle of that tier 2. These other cities have average uses that are much higher. The out-of-city has a much

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higher usage. And I guess what I've been trying to get at is, what if we broke at narrower tiers and started charging more with each tier so that we are incentivizing -- I'm not sure that any of these really incentivize a change when you have such a wide tier. You're essentially saying that people are coming in online in these new houses at 600 kilowatts, and there's nothing in this structure that's incentivizing somebody who's at 900 to get down there because they're still at the same price as somebody who's at 600, other than the additional usage. And so, can we do a mock-up that has it breaking? Like your first -- you know, takes you, I don't know, 300 Watts just to be on the system, okay? And so we have one tier that's that. And then we go from 300 to 500. And then 500 on. And it seems like you'd be

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getting a larger portion closer to cost of service, if you broke up the tiers and you were able to go up, and you'd be able to do the tier increases. But every time I've asked for this scenario, I'm getting these giant tier breaks, and I don't -- I want to charge more as I go up, but I don't want to go from 300 to 1,200 and have all of that be one price. Because then I have nothing in there that's going to move the needle on any of these people. If you believe as I think many of us do that the tiers matter, there's no point in the tiers at that point. So can we get a scenario that does that? Doesn't have to be at our current base of 2.8. We can start higher. I'm okay with thinking about that. But can we think about what happens if we can press that second tier some? And then we're -- I just think

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we would get -- I need go through that scenario before I can throw up my hands on the rest of it. >> Sure. Like I said, where tiers break, the customer charge and the price curve are all related. And so we can break them at different places. And we'll have to make adjustments on that price curve to reflect that. But we can break them at different places. I did see your request, but I did not review the results. So I don't recall what you're speaking. But we'd be glad to follow up with you. >> Alter: Yeah, I just keep still getting results that are at the existing tier numbers, just different break points. And then we have other ones that have -- the other scenarios that people are running is different price points at those breaks. And it's not addressing my concern, which is, if you take as true -- and I understand that you don't, that we want to have this tiered structure to encourage the energy

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conservation, having that large second tier is not going to achieve that. And I think we can say yes, we want a tier structure, and it doesn't have to look exactly -- and we're at a different point. We need to be using our tiers to encourage people to get lower. And we have to do the cost of service. Then it has a different look, if you're taking that. And for some reason, you're not doing that in this scenario. So, hopefully that makes more sense, and we can run them. >> It does. I think perhaps if we have an offline conversation. A lot of times, the model is quite complex. If we do not have a specific structure, we default to something. I think that's maybe what's happening. If we do a little q&a with you, I think we can probably develop a scenario that is more in line with your expectations. >> Alter: Thank you. And I would just submit also that the difference between these options comes from changing the revenue requirement, not the design of the rate. And that, you know, all of the changes that we've made to the design have made the cost for the cap customers go up, which

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is I think what ae has been trying to tell us all along with their approach. And so I think it's really important that we settle on revenue requirement and then we can figure out the design pieces. We don't know if we can move any of the revenue things. We're not going to move the needle and we have to get to a point where we've exhausted that. Otherwise, we're just throwing darts. >> Pool: Vice chair. >> Tovo: I know we've talked a little bit about different revenue requirement adjustments. I didn't know if anybody wanted to air any of their suggested ones at the moment. I went through and the scenarios that I had forwarded asked for

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staff to run them at a revenue requirement of 27.4 million. Though I think it should be lower. I think I did something wrong. And then also a revenue requirement of 22 million. And I can talk about what those reductions were, but I'd welcome other folks talking about if there were revenue requirement adjustments that they had in mind. >> Pool: I guess what I'd like to know is whether Austin energy had already run traps on those adjustments and had any sense of which ones might be able to work and which ones they would recommend adopting and which ones could not. >> Tovo: I assume Austin energy's response hasn't changed. They made reductions from the original revenue requirement down to 30 and beyond that, I thought they had issued a rebuttal to the other suggestions from interveners.

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Some of those, though, I think are just policy conversations for us. >> Pool: So if you want to bring some additional adjustments, I would like to hear and just -- especially for the public to hear again what the reasons might have been why Austin energy would not have adopted them. >> Alter: Maybe they can rebut those specific ones, because I think it is very much true that they were as lean as possible. There's probably a 10 million amount of

money that we could even have a conversation about, so we could be focused on that. >> Pool: Yeah, I think that's definitely a way to go. >> Tovo: I'm happy to do that, but I was interested in hearing other folks if they had any that they had suggested. I can tell you which ones I had

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put forward and have had an opportunity to talk with several of you about this, assuming a general fund transfer. But assuming a general fund transfer of \$115 million, which was more in line with the average of the historical data leading up to the test year, late payment revenue of 2.2 million, and that was a source of conversation, because we had a moratorium. The revenue for that test year was low. I think that's a revenue point. As I mentioned before, the winter storm over time in contract labor costs amortized over five years rather than three. And for that, that was a reduction of 300,000, which I may have underestimated that reduction. And bad debt calculated on three-year averages rather than an ease method of reduction. I need clarification on what -- rather than -- some of our interveners suggested that the bad debt be calculated on

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three-year average, rather than the way in which ae calculated it. But it wasn't clear to me from the materials how ae clotteded -- calculated it. But I thought basing it on three-year averages was also a reasonable point, and that resulted in 1.4 million. So the gft historical was a reduction of about 4.4. The late payment revenue was 2.2. The winter storm again was 300. But I think I underestimated that. And then bad debt was 1.4. And so that brought me to 27.4, a revenue requirement of 27.4 million. And then I was persuaded that it's worth considering at least the point that I mentioned earlier which Lynetta cooper, as part of the two wr interveners made, that the revenue for 2022 has exceeded expectations and is coming in higher. So I also asked them to do a revenue requirement, run a scenario of 22 million. In looking back at the 2013 rate

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proposal, and thank you, Mr. Brocado, for answering some of my questions about this, I think it would be -- there was a line -- there were some -- the council at that time passed -- and we did like 12 works, really in-depth, multi-half day work sessions. And we ended upcoming up with a much reduced revenue requirement, but there was also a category of just rate mitigation, which went beyond -- it really wasn't tied to any particular revenue requirements. It was just really an attempt to mitigate the rate shock. Moving to 22 million, maybe even 20 million, is an attempt to mitigate rate shock with an understanding that we would come back and look at it again in a year, we being y'all who are staying on, would come back and look at it in a year. >> Pool: So I think to answer your question, right off the top of that general fund transfer, that 5 million, I agree with that, and that is why that -

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and so does Austin energy. They've got that in their options 2 and 3. And the other 3.9 million that you mentioned, the late payment, 300,000 on the uri over time, that's about another 10% decrease in the revenue required. At this point, if we raise just shy of 6 million for every dollar that we add to the fixed rate, is that correct, about 5.7 million? >> That's correct. We have about 5.7 million bills. That's about right. >> Pool: Okay. And if we raise the fixed rate by the \$5 -- well, the \$4, which is in option 2, then that brings us about 23 million; is that

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right? My quick math isn't too great. So if I round it to 6 times 4 is 24. We're still lagging a little bit, unless we agree that we're really looking for 27.4. Then there's still a \$5 million gap there. The next year, we bring in an additional dollar on the gradual approach, which is another 5 million -- 5.7 million, so that starts to reduce that gap. And then the third year gets us to the 31.3 million, which is why that gradual proposal was offered. Am I presenting that properly? >> Not quite. >> Pool: Correct it, please. >> So increasing the customer charge each year, we're also decreasing energy rate. And so all three of those years as rate designs -- >> Pool: Would impact then on the 5.7 million.

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>> So you would have to -- you could add a dollar. It's the same amount of revenue every year. Eds >> Pool: But the revenue is at 33.1 million? >> Additional. It's about \$344 million roughly. 332 million. >> Pool: And we need? >> 342. That's designed to collect that amount of revenue. >> Pool: Gotcha. And that's the larger calculation with the overarching piece. Which some of that we missed, when we drill down to these individual components. >> That's correct. It's kind of a -- we call it a Frankenstein. We take a little bit of this rate design, a little bit of there rate design, but you come up and it doesn't achieve what you need. The bills always come out the

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same, because we make the math work to earn \$342 million. >> Pool: So what I would say to vice chair tovo, why I -- the 5 million I think feels right, speaking just about myself. Not so sure about the late payment piece, the overtime amortization, and the bad debt, although I'm willing to hear more about that. What is clear to me is that we're going to have to look -- and there is going to be some direction that I bring no matter, you know, when we vote this. I want us to review these rates during budget every year going forward. So we don't have such a long runway between setting the base rates and coming back and having to review them again. So I'm kind of looking at the next half year, give or take, kind of as a pilot to see how the decisions we make in December play out by the time we

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get our final financials, which I think won't be until March when we get all the final numbers. >> That's approximately correct, yes. >> Pool: But it will still give us some good runway before we get to budget next year, and we can see where we're at and true up at that point. I think that we will need to do that anyway, no matter where these numbers fall. I'm telling you where I stand and what I think I would like to see. I like the four tiers. I like the graduated approach. It gives us room to maneuver and accommodate and reconfigure things if we need to. But the key piece for me will be our commitment to look at it again during budget next year, and ongoing so that we don't have this recur. So we don't find ourselves in a hole like this going into the future. >> Tovo: I think that makes sense. Can I just say one thing? I understood that the \$5 million reduction in general fund actually just factors into the revenue requirement at 4.4.

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For reasons I can't explain. But I understand when you explain it to me. So, anyway, it's a 4.4, because there's general fund transfer on general fund transfer, or something like that. >> Pool: Mayor pro tem. >> Alter: I mean, again, there's no movement forward until we figure out what this revenue requirement is. So, can we -- whether it's today or on Thursday, if you're prepared. You know, I've heard -- sounds like the general fund decided, we're going down 4.4. I haven't heard anybody on council object to that reduction in the revenue requirement. As I understand that, that's in the assumption for the revenue requirement, but not in the calculation of the transfer. So for the late revenue, do you want to make your argument, and then maybe we can make their

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argument, and then we can see what other information we need? >> Tovo: Sure. I'm happy to do that. I don't want to run out of time. Well, if I could shift for just a second, mayor. If we run out of time for the public land presentation, maybe law can tell us whether or not that fits in closely enough to the resolution that I brought related to the economic development corporation where we could have that presentation as part of that conversation on Thursday? I just don't want to run out of time for the presentation that council member kitchen and I requested related to those four properties, because it relates to the edc resolution that's on for Thursday. Perhaps it relates so closely that we could do the presentation on Thursday. Anyway, there we go. [Off mic] >> Tovo: Okay. Then I can certainly talk us through these things super quickly. But perhaps if there are other ideas, I'll get to the

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pages on that. But if there are other revenue requirement adjustments that other folks had, maybe they could air those too and we could very quickly go point by point. >> Mayor Adler: Sounds good. Council member Fuentes. >> Fuentes: Thank you. We had asked for the late payment fees to be based on the year 2022, and I think that information that was shared to us from staff show that there was a savings there, that staff wants to speak to it. It looks like 1.1 million. Staff can speak to it. There was information shared with my office. >> Alter: Can you just clarify when we look at the late payment fees, is that a net positive or a net negative? Are those fees that we're

collecting or fees that we're waiting to be paid? Because I think there's a little difference. >> We're going to record late

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payment fees on accrual basis. So when we send a bill to a customer, we're going to record that revenue until a customer is no longer a customer, then we may write off as bad debt. >> Alter: Okay, so if there's additional revenue -- if there's additional late payment fees in fiscal year 22, that is additional revenue that is accrued in fiscal year 22. >> Tovo: Right, and the -->> Alter: And the net difference between those -- >> Tovo: And the interveners suggested that that number for the test year was low as it was factored into the revenue requirement. I know we disagreed. The amount that the interveners was suggesting be adjusted for was 2.2, and then council member Fuentes asked for some recent information about that that I think supports the point that the interveners were making, that the amount -- >> Fuentes: Yes, and let me clarify. It looks like what was accounted for -- so the numbers that were -- that we are using is based on

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a budgeted amount of 4.5 million. And when we adjusted those numbers based on the data from 2022, it would be 5.2 million instead. >> Sure. And just a measure of caution. The way utilities set rates, it's actually verified and audited. Then we make note of measurables. And those noted measurables are to account for things that we know are going to happen, good or bad, and that we can measure and change the revenue requirements up or down. Since that time, we've had quite a few different events that have occurred. So some things might move the revenue requirement down. Some might move it up. That's called a rolling test year, and it's generally frowned upon. So I just caution us to sort of find all those things that might reduce the revenue requirement and not look at everything. If we're going to look at everything, that's a whole new test year, and that takes about a year to do. But the notion of using a test year and noted measurables is

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pretty solid and it's rate-making. So I just caution about picking certain items that we will look at and adjust just for that. >> Fuentes: I understand. I guess my concern here is that I want to underscore what the mayor pro tem shared, was that option 2, and what you presented, still has our cap customers paying \$7 more than what they are currently. And so that to me is deeply concerning. It's part of the reason I signed on to the mayor's ifc to look at ways to get more people participating in the program. So I'm trying to figure out what other pathways do we have to adjust the revenue requirement, and if that means that we are adjusting the rate just for one year so that we come back a year from now and we consider another adjustment, if we wait -- you know, when we sell the town lake property, perhaps that -- even that gives us a different situation to consider. I mean, there are a lot of variables. I think at this point, us talking about ways to reduce our

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revenue requirement is warranted. >> I don't disagree. We try very hard to reduce our revenue requirements, and limit it. As my boss told me, "Nothing extra." I just caution us, because as we highlighted on page 3, we also have a number of expenses that have increased. Our labor costs in order to pay our employees went up 6.6 million. That's not accounted for in revenue requirements. Debt service has increased 3.8 million. And in prior years, if we did not have enough current revenue and current expenses, we used our cash that we had on hand. And that cash is down several hundred million dollars now. And so I'm just -- I'm cautious as the chief financial officer is to give my boss and you advice, is that we don't have much room for margin of error here. If we want to change cap program, we should change the program structure as opposed to revenue requirements, and I think that's some of the things that we have in the ifc coming at us, which is make sure that

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energy is affordable for all our customers. But getting at the regular requirements, it's a very blunt tool and it could have consequences that are difficult to change in the future. >> Pool: I think the point that you're making, Mr. Dombrowski, about if we're looking for ways to reduce the revenue requirement, we have to balance that out by also introducing those items that were not in the test year that have increased our costs, because otherwise, we end up with another tortured profile for what our rates are going to look like, and it doesn't really fix the issue that we're facing. So if we're going to look at ways to reduce, I would like to see the concomitant increases, which is essentially like looking at another test year, and I -- that wasn't the hill that I thought we were going to climb, frankly.

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>> Yeah. Council member pool, if I may add. >> Pool: Mr. Brocado. >> I mean, what you're doing -- he referred to it as a rolling test year, which it is, in fact. What's referred to in a regulatory setting is piecemeal rate making. You're looking at individual items of the utility's finances and you're focusing on those. And it's not illegal over at the PUC. It's generally frowned upon, and that's why the statute -- the public utility regulatory act generally requires you to do a comprehensive review of the utility's finances instead of piecemeal rate-making, because you do run the risk that by focusing on only specific items, that you're not taking into account the entire financial situation of the utility when they set rates. As to late fees, I don't know if the revenues have been higher in 2022 than they were during the test year or not. And they may be. But generally, when you do rate-making, you would want to do a more comprehensive

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evaluation and look at what are the other circumstances for the utility before you move forward. Because, you know, rate-making is not an exact science. You don't true up the revenue requirement. Generally, you use the historical test year, in the recent past, you make measurable adjustments and you set rates going forward, and you basically see how the utility does, and if they need more money, they come in. If they're making too much money, you go get 'em. >> Pool: Yeah. And we have policies along those lines that if we collect too much, we do rebate it

back. I do think that as uncomfortable as some of this may leave us feeling, we are going to have to find our footing in this year within the parameters that have been drawn here, and recognizing that we will have the option of the budget next year to true things up. Mayor? >> Mayor Adler: And to the degree that you're asking what are the issues associated with

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revenues, I've said it before, I'll just touch on it again. I'd like us to have revenues sufficient to be able to actually operate a cap program that could get us up from 23% participation. And that's a revenue move in the other direction. >> Tovo: Vice chair? >> Pool: Yes. >> Tovo: Before we move on from late payment, I just want to say I didn't hear council member Fuentes's suggesting we use a different year. You know, the interveners were saying that they didn't feel the test year was an accurate assessment of what our late payment revenue was, right? So they said the independent consumer advocate in one of the other interveners said, hey, usually, you know, if you don't look at 2020 and 2021, which were pandemic years, but you look instead at 2018 and 2019, that average is 5.55 million. Ae is using an average of the

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test year -- or not an average. They're using the test year at 3.34. And so the interveners I think are raising a good point. They're saying, hey, you're looking at pandemic years where accounts were -- you know, there was a moratorium. And there weren't late payments being collected. And so they felt -- and I think it's reasonable -- that a more -- that it makes more sense to look at 5.55 million. And so I think that is -- I think that's a pretty reasonable point. And I think the information that council member Fuentes was mentioning about what those revenues look like in a regular year, this one, kind of supports the intervener's point. So I just want to make sure we're talking about it accurately. You know, the interveners were saying we don't think -- we think you're going to get based on looking at 2018 and 2019. And I think our 2022 late payment suggests that's probably true. That the test year was

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lower. Councilmember Fuentes, does that kind of match what you were saying? >> Fuentes: That's basically what I was trying to share in making that adjustment. Chair pool, I guess I'm a little confused how to approach this. We need some consensus if there is consensus on the dais on whether or not to adjust to -- for us to consider a different revenue requirement. What was shared momentarily ago was like when we consider a base rate, it's never in the -- it's hard to shore up every single dollar, but we do it in what is in the best way, in the best method forward to get us to ensure the financial stability of our utility. So if the intent, as you've mentioned, for us to come back during budget cycle next year, should we not be approaching this from a one-year outlook instead.

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I wouldn't be comfortable that has a gradual rate increase. >> Pool: I see what you're saying there, but we are able to adjust the rates at any time. We don't have to wait for five years. We can do it during budget. There aren't any bars to that, is my understanding. >> Alter: Mr. Brocado, can you help us understand it? I think the logic we're using is that we've gone through the revenue requirement and, you know, councilmember tovo, councilmember Fuentes and I have been looking at this together and we've identified these four areas where we want to have that conversation. So we talked about the general fund, we're in agreement there. That leaves three more. With the late revenue, the argument, as councilmember tovo just laid it out, is the test year was covid year. We have 2018, 2019 and 2022 that are higher by roughly

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2.2 million in terms of that revenue. Is that a reasonable thing -- basis to reduce the revenue requirement based on that? I understand that you want to be conservative and that there are other things, but there's also, you know, the whole swing of if it's warmer as well, which was a 40 million-dollar change which, you know, also, you know, we could say we need to keep in mind as well. But we have to work with the revenue requirement. We are trying to do that with the numbers that you've given us and look at those pieces that were included as opposed to bringing up things that are outside of calculation. So, you know, we've been trying to look very carefully and have arguments and not arbitrarily do it. It does not feel arbitrary to us, so can you give us your thoughts on it? >> My thoughts are

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reasonable minds can differ in regards to the amount of revenue requirement. Indeed that's what's happened here. Looking at the 2022 numbers, which I've not seen and I'm not aware of what those are, but that could be a check in some way as to the reasonableness of the test year number, perhaps. I think Mr. Dombroski ought to speak to that because he may know more information about it than I do. You know, as we talked about the ica proposed a \$2.2 million upward adjustment, meaning he expects more late fee revenue to come in which pushes the overall revenue insufficiency down, meaning a lower revenue requirement. He based it on 2018 and 2019. Of course, ae's arguments are that the test year is a better indicator what future revenues will be. >> Alter: But it seems

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like that's undermined by the fiscal year '22 number which we now have, which we didn't have when ica was debating it. >> That's correct. And I don't know the specifics as to the 2022 numbers. I don't know if there's a need to normalize those in some way. I don't know what the 2017 or 2020 years look like. Of course, 2020 would be impacted perhaps by covid. Again, these are the sort of things that you do in a rate case and decision-makers have to come up with the best guess as to what the right number is. But that would be my reaction to it. >> Alter: I've heard nothing from you or ae that changes my mind on this. Can we do a [inaudible] Where we're at so we can start moving through things here? I don't know how else to do this. If you are comfortable reducing the revenue requirement by the -- >> If you have additional -- >> Alter: If you have

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additional information, go ahead. Reasonable minds can differ and I'm not saying you're wrong, we have to make a policy decision. >> I understand that. I think that's the reason why we went to the effort of retaining an impartial hearing examiner who is an administrative law judge from PUC to help render opinions out an outsider in his professional opinion. That's the best advice I can give you. I -- we've laid out our case. We've given our best evidence for all the issues on why we decided on that. >> Alter: So then I'm going to ask for a fifth of five whether you are comfortable reducing the revenue requirement by the 2.2. >> Tovo: I think even the impartial hearing examiner at several points acknowledges some of these are just policy conversations. >> He punted on a few, I agree. >> Alter: Let's keep in mind we're talking about a

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\$5 million adjustment max if we did all of these things. This is being fairly conservative, but we're trying to be true to the process here. And we can't set any rates unless we agree on the revenue requirements. If we're going to move forward, we've got to get an agreement. I saw at least five of us that were above a three. Who is is a two or one on that? >> So my view on this, I appreciate you identifying these four because there's a lot of different revenue number of now that you've focused on these four, I will move forward to vet these four. But as I sit here, I'm not in a position to say whether I agree to this accident. As you identified, that's -- extent. But I will say if we found some additional revenue, I would want that to go to actually ensuring that we can get cap payments to people that need it because I think that's the most important thing we could do. So I'm not sure that for me

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if we found revenue -- >> Alter: The cap is covered by the customer benefit charge. So wind -- >> I might ask that you all hold on for a moment. There may be a difference in the numbers. >> Just to respond to the customer assistance program, so all of our staff, the contracts that we have and the administrative costs that we have to administer those programs are in base rates. And so if we are going to increase the program and we're going to have to increase the use of -- you know, add staff, increase our contractuals and things like that, we're going to need more additional money to administer the program and expand it to be able to assist more customers. And then if we need more money to provide the discounts and the customer charge waiver, then we would adjust the customer assistance program portion of the community benefits charge during the budget cycle.

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So that's how the payments flow, but the actual cost to administer, maintain, qa, qc and the contracts to assist with us auto enroll and all the data agreements are covered in base rates. >> Alter: But that's nine months out at best given the schedule you have given, which could be adjusted. >> Pool: Mr. Dombroski -- >> Alter: I understand, but if we're going to raise it. >> Tovo: We've always handled that in the future. >> Pool: If we can come back over

here. >> Mayor Adler: The cost in the future, but we haven't handled administrative costs separately. If we're going to ask them to do that, they need the costs to be able to do that. >> Kitchen: But I think that the chair -- >> Pool: I'd like staff to respond to this point in time issue here. >> Kitchen: Could I ask about the cap thing? >> Pool: Yes, next, but not right now. >> For clarification, I

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asked Stephanie to explain that it's not 1.4 million on the late payment fee. >> The test year we started with the 3.4 million which was our actual late fees in our general ledger. Cost of service adjustment and it became 4.5 million. That 1.1 was a known and measurable and the revenue requirement includes 4.5. So if you take an additional 2.2, you would be at 7.7. We're already at a base of 1.1. >> [Inaudible - no mic on] >> Pool: So -- >> Basically Austin energy made an upward adjustment of 1.15 million to late fees so that the adjustment -- the adjustment proposed by the ica did not take that into account. And -- but the ihe did recognize that and on page 42 of his report, he notes it as ae seeks adjustment to late fee pays of

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1.45 million. >> Pool: What is the total in the late fees? >> Would be the 3.34 plus the 1.154 to get you to about 4.5. >> 4.5 is in the revenue requirement. >> Pool: So the 2.2 million that vice chair tovo mentioned is actually 4.5. >> Tovo: I think it's really one or something like that. >> 2.2 would make it more like 7 million. Cost of service is already at four and a half. >> Pool: In addition. >> So actuals are 5.2 million. We're already at 4.5. That would only be 700k if that was a decided adjustment. >> Pool: When are we going to get the true-up for program year 2022? >> As soon as audit results are ready. It's a decent estimate at this point. >> Pool: We won't know what the trued up numbers are until next year. Is there anything else -- let's see. Councilmember kitchen.

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On the cap. >> Kitchen: I just wanted to circle back on the cap conversation we had just a minute ago. I mean, I think that that's something that can be brought back to us later, but I just would caution us not to assume enrolling more people automatically means more costs. Because what we want to be doing is a very cost effective way of enrolling people when you auto-enroll. I understand there's more involved administratively, but it's not a one to one. And so at some point we will need to understand what additional costs there might be, but I would also -- the other thing I would caution about this program is that yes, we have to do some checking and stuff, but I fall where the mayor does, and you mentioned a while back in our conversation, which is it's -- you know, I'd rather err on the side of including more people than -- than put a whole lot of expensive controls in place to keep out the small number of people who may not

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actually qualify. So all of that needs to be taken into account when we think about the cost of administering a program like that. So, you know, more analysis would need to be done. I just want to caution to solve that -- caution us all that more people doesn't equal more costs, necessarily. >> Pool: I think if I could speak for what I understand the general manager talking about, the additional staff that would be necessary, especially if you are doing auto-enrollment would be to go back and do the audits to make sure we are, you know, including appropriate -- >> Kitchen: Which is my point. That you can audit these programs to death, I know you're not saying that, but you can spend a lot of time auditing and it's not worth the money. So all I'm saying is that until we have, you know, some kind of analysis of the costs, I just don't want us to make assumptions. >> Pool: Sure. Sure. Leaving room for the actual implementation of the program should there need to

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be additional staff. I think that point is well taken and your point is well taken as well that with new forms of online-type analytics and assessments and stuff, it could reduce the amount -- the number of people who shouldn't be in the program. But it doesn't eliminate it entirely and we want to make sure that we're not including people that we shouldn't. >> Kitchen: I would just suggest -- I don't know if this is -- I can't remember if it's in the resolution or not. At some point the staff would need to come back and explain the administration and the cost. So because I would suggest that's also part of the cap program is making sure it's being done the most cost effective way. And using the best technology that's available and all of those things that save costs. >> Mayor Adler: I agree from where I sit on that, I think the range for administrative costs is two and a half to \$6 million. At some point at \$6 million, you look and go I'm not sure that's providing -- take

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\$6 million and send out the \$6 million, I don't know how. But putting in something to do that that the \$2.5 million, which is what makes most sense to me because there's going to be some administrative costs associated with changing the program that way. But the resolution in the ifc I think allows for the fine tuning of that. If not, let's take a look at the wording and make sure that it does. >> Pool: Is there anything else that we want to kick around with regard to this item? Mayor pro tem? >> Alter: Yes, I mentioned earlier that I would like to be added as a co-sponsor for your ifc. >> Mayor Adler: Thank you. >> Alter: It sounds like we could potentially reduce it by 7 million by the calculations that I've heard, if we wanted to. And then the winter storm amortization, did you want to speak to that, councilmember tovo, and there's the -- >> Mayor Adler: What was the 5.7 that you had?

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Because I thought we had -- they had changed some of those numbers. >> Alter: I said it would be .7, 700,000. >> Mayor Adler: 700,000. >> Alter: Yes. >> Mayor Adler: Okay. >> Alter: You had said if we Amore tied -- >> Tovo: So this -- >> Pool: What I would suggest at this point because we still want to do the other item is could -- can we move this over to the message board and then staff will have time to respond? And then we can all think about -- >> Tovo: I'll do my best. I'm totally under water for Thursday, but I will do my best to -- >> Mayor Adler: I think it would be helpful if staff responded to those four things. >> Pool: Yes. >> Mayor Adler: Let us know what are the

discretionary decisions, as to reasons why it could differ, put in your defense if you want, but the four items councilmember tovo --

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>> General fund transfer 4.4 million we're in agreement on that and doing the adjustment. >> Mayor Adler: The late payment issue. >> And then the late payment we'll look at. >> Mayor Adler: Right. >> And winter storm uri -- [multiple voices] Five years rather than three. The bad debt three year averages we'll look at those four things. >> Mayor Adler: And give us something in writing. >> Pool: Sounds good. >> Tovo: The last one, the bad debt, tell us how ae calculated it. >> Pool: Does anybody else -- >> Mayor Adler: And the question with respect for administrative costs for cap and whether that's appropriate to put in the base rate now. And if we're serious about it, if it makes sense to do that a year from now. But is there an advantage of doing it now as part of this process at least at the # .5 level, the lower end of the range -- 2.5 level. >> Pool: Study call on

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vice chair? The mayor pro tem also had her hand up. >> Tovo: If I could, I want to also just note that one of the other issues I'm looking at with regard to the revenue requirement is the issue Paul Robbins and some others did about the construction costs. I totally haven't delved -- I've been working through other adjustments and that's one I still haven't finished with. That's something I'm looking at -- >> Could you clarify that? >> Tovo: That is the cia issue. Noted on page 26 of the impartial hearing examiner. >> Those are considerations in construction or line extension policy. >> Tovo: Thank you. >> Mayor Adler: What's the issue you want them to look at? >> Tovo: I just haven't fully decided where I stand on that suggested revenue requirement adjustment. So I'm just noting that because you said you were going to look at the ones people are looking at and that's one I'm looking at. >> Mayor Adler: Do you understand what the revenue requirement adjustment is?

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Do you know what to respond to? >> I believe I do. So contribution and contribution is on our -- contribution and construction is on our books. I believe there's a misunderstanding by Mr. Robbins that's intended to pay for system growth, which is like substations and conductors and poles. And somehow that's how growth pays for growth. It's a misunderstanding of that policy, but we're 100% compliant with -- >> Mayor Adler: If you can respond as part of that memo. >> Tovo: Sounded like there might need policy direction on that and that may be part of what happens that I might bring forward. Then the last one I just want to mention, mayor, one of the things I'm still you go center he willing with the customer assistance program, in the past when we've had that conversation and done that in the context of Austin energy meetings, at various petitions ae

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staff have said if there needs to be an increase, you will come back and suggest an inies. That's one of the things I'm struck he willing with is -- struggling with is how much to take to councilmember kitchen's point, I'm not sure necessarily that increasing our enrollment is going to cost a substantial amount more. >> Mayor Adler: So like them to address that. >> Tovo: And when we should account for those costs. It would seem like after the enrollment exceeds what we have currently budgeted. >> Mayor Adler: Which is why I've asked those two questions. Those are the two questions identified. I just want to be serious about it. >> Tovo: I agree with the intent. >> Mayor Adler: That's the number in a jumps out is 23% people in need are getting which means 77% of the people in need are not. >> Alter: Chair, if I could surface three things, I won't take long, so we can have the discussion. One of the other things I'm going to want to understand when we -- once we land on the revenue requirement and what we think are the

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appropriate tiers is what would happen if we only tried to go for 33% to cost for residential. So the cost allocation methods is another way you can change what the residential fees are. And there was a clear assumption for. >> 50%, I understand that, but there's a policy that we could go one-third there and instead what I will probably want to see around with that. I want to point out to my colleagues who are focused on the cap that the choices we make about the dollars for the customer charge which is what ae was trying to sell us all along have an impact on what our cap customers pay. The choice to take things away from the customer charge and reduce that from the \$15, every time you do that you are charging more to cap customers. If that's your priority, we need to think about the right balance and whether thinking about the -- people are paying the increase no

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matter what, but the cap customers are not. There's a certain number of customers even if paying under 300 kilowatts, they are paying that extra amount. Maybe not up to the \$15, but even if you cut it off at \$3, they are going to be paying another \$5 in some way. I just want you to keep that in mind as we're making the decisions, if that is the priority for you. And then I have asked some questions in the Q and a about how the capital recovery impact fee, I don't know what they call it, for ae works. I want to understand the difference between what Austin water is doing which has put us in a very good financial position and what ae is doing with respect to the capital recovery and how those differ and that's the fees paid when you come online. I'm concerned about the discrepancy in that impact on our utilities and I don't understand the difference. I've asked some questions under an Austin water issue

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hopefully that ae is chiming in on that can help us understand because that can be another area where we can adjust the revenue by adjusting those fees if appropriate. But I think there's a design difference between those two that I think we need to get into. >> Pool: Anything else? Jackie and mark, is there anything that you want to say to close out item 6? >> Just thank you for your engagement. >> Mayor Adler: Okay. >> Pool: Thanks, Mr.

Brocado for being here as well. So item 7, future items, identify anything to discuss at future meetings. Anybody have anything? I did, but I've changed my mind. All right. >> Kitchen: I have a suggestion. >> Pool: It being --

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councilmember kitchen. >> Kitchen: I think it would just be maybe not the next one, but I think it would be useful if you are not already planning on doing this, but just keep updating on the progress on the cap program. I think that that would be something that would be important to see on a regular basis. >> Pool: I think everything related to Austin energy continues to be really important and updates throughout, yeah. And so I'm sure cap will be on that list. >> Alter: I'm not sure if that -- but in light of Houston's water boil, we probably want to have an update on the power connections to our water utility. Whether that's a memo or whether that's in the Austin water committee meeting. We've made a lot of progress on that and we'll be getting the Austin water evaluation in January. But I think the public would probably like to know the steps that we've taken to avoid the same problem.

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>> Pool: Okay. All right. It is 4:24 and I adjourn this meeting of the oversight committee. Thank you.