November 30, 2022

The Honorable Steve Adler, Mayor
City Council Members
City of Austin
301 W 2nd St.,
Austin, TX 78701

Re: Austin Energy 2022 Base Rate Review

Dear Mayor Adler and Council Members,

The Independent Consumer Advocate; the Sierra Club, Public Citizen and Solar United Neighbors; 2WR; CCARE; NXP Semiconductor, and TIEC watched the Austin Energy Oversight Committee meeting on Monday, November 29, 2022, and submit this letter to clarify certain issues. There appeared to be some confusion regarding the dollar value of certain revenue requirement adjustments raised by the Independent Consumer Advocate (ICA) and discussed at the work session.

The main purpose of this letter is to correct the record on the actual value of these issues as follows:

1. Late Payment Revenue – The abnormal test period chosen by Austin Energy unreasonably impacts consumers in the rate setting process. Late payment fee revenues are a reduction to customer costs in the cost-of-service study. Due to the COVID pandemic, late payment fees were suspended for most of 2020 and part of 2021. The ICA recommends "normalizing"[1] this expense using the average annual late payment fee revenue for 2018 and 2019 to set a revenue amount for the cost of service, because the late payment fee revenue in those years should be more representative of future revenues.[2] AE's rebuttal testimony made an adjustment for this issue, but it continues to use only the 2021 late fee amounts. ICA contends that the 2021 revenue amount continued to reflect the unusual conditions in that year. Thusly, the ICA recommends a further decrease in AE's desired revenue requirement of **$1,050,000**, on an annual basis.[3] This represents the difference between the ICA normalized late fee revenue and the AE rebuttal testimony position.

2. Winter Storm Uri and COVID-19 Expenses – AE provided an estimate of $6.8 million for labor and benefits, overtime pay, and contract labor for Winter Storm Uri restoration, which AE said was recorded in March 2021. ICA expert witness Mr.

[1] Normalization is a commonly accepted practice at the Texas PUC for adjusting abnormal factors of the test period.

[2] Exhibit ICA-3, pp. 16-17.

[3] See Response of the Independent Consumer Advocate (Exceptions), p. 14.

Clarence Johnson recommends amortizing this expense over five years.[4] Because some normal level of storm restoration costs is likely to occur in the future, a five-year period is a reasonable balance. As a result, the ICA proposed that only $1.36 million of the $6.8 million test year amount be included in cost of service. The difference is **$5,440,000**, which represents the reduction to the annual revenue requirement of the utility.[5]

For purposes of further compromise, and as suggested by the Impartial Hearing Examiner,[6] the ICA urges the City Council to amend the recommended revenue requirement by an amount that at least recognizes the abnormal amount of overtime and contract labor costs, which would result in a lesser reduction of **$3,050,000**.[7] This is based on amortizing an amount based on the difference between the five year average of overtime and contract labor and the 2021 level of expense. The data for the five year average is shown in AE's rebuttal testimony on this issue.

3. <u>Uncollectible (Bad Debt) Expenses</u> – The actual test year (2021) amount of uncollectible expense claimed by AE is abnormally high at $13.9 million, almost three times the uncollectible expense for the previous fiscal year (2020).[8] The COVID pandemic began in March 2020 and continued through the end of 2020 and into 2021.[9]

   The ICA continues to believe that a more reasonable approach would be to apply AE's three-year average uncollectible amount, FY2018 - FY2020, as the appropriate level of uncollectible expense. This period is recent and excludes the conditions that affected FY2021. The three-year average uncollectible amount is $4,574,000.[10] Thus the ICA recommends reducing uncollectible expense in the revenue requirement accordingly by **$1,400,000**.[11]

We also note that Council Member Tovo stated that she requested that AE run a scenario at a revenue requirement of $22 Million, and with a rate design that includes a $12 customer charge and 4 tiers of inclining blocks. Apparently, AE has not yet run this scenario. Attachment 1 is a chart showing the allocation of revenues to customer classes at a $22 million revenue requirement increase that uses allocation percentages derived from the agreed allocation in the Joint Consumer Alternative. And Attachment 2 to this letter is a number run showing the scenario Council Member Tovo requested from a Residential rate design perspective.

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[4] Regulatory authorities frequently amortize costs caused by extraordinary storms and hurricanes.

[5] Exhibit ICA-3, pp. 16-17.

[6] IHE Report, pp. 42-43.

[7] Exhibit ICA-3, p. 17; Response of the Independent Consumer Advocate (Exceptions), pp. 11-13.

[8] Exhibit ICA-3, p. 15.

[9] See AE's Memorandum sent by General Manager Jackie Sargent to the City Council, dated August 21, 2020 (attached to end of this document), which raised concerns about the abnormal impact that the pandemic was having on the utility's finances at that time. https://www.austintexas.gov/edims/pio/document.cfm?id=345962

[10] Exhibit ICA-3, p. 16.

[11] Exhibit ICA-3, p. 16; Response of the Independent Consumer Advocate (Exceptions), pp. 6-7.

In closing, we request that the Council adopt the Joint Consumer Alternative[12] to resolve this case. If the Council decides to depart from that framework, we request that it adhere to it as closely as possible given its decisions on the issues, including by adopting the agreed revenue allocation percentages to classes, adhering to the residential rate design principles expressed in the Joint Consumer Alternative, and implementing the other provisions of that proposal.

Respectfully submitted,

Independent Consumer Advocate

/s/ Joshua Smith
Sierra Club, Public Citizen, and
Solar United Neighbors (SC-PC-SUN)

/s/ Lanetta M. Cooper
2WR

/s/ Trey Salinas
Coalition for Clean Affordable
and Reliable Energy (CCARE)

/s/ J. Christopher Hughes
NXP Semiconductors

/s/ Benjamin B. Hallmark
Texas Industrial Energy Consumers

cc: All Parties of Record

[12] The Joint Consumer Alternative was filed on November 8, 2022 (see https://services.austintexas.gov/edims/document.cfm?id=396742).

Illustrative Revenue Allocation for $22 million Revenue Requirement Increase

The following allocation factors were derived from the agreed Joint Consumer Alternative and should be used to allocate the revenue requirement that Council ultimately adopts to customer classes.

Customer Class	Revenue Share
Residential	49.4679%
Secondary Voltage < 10 kW	3.5821%
Secondary Voltage ≥ 10 < 300 kW	21.5072%
Secondary Voltage ≥ 300 kW	14.3154%
Primary Voltage < 3 MW	1.2594%
Primary Voltage ≥ 3 < 20 MW	3.6130%
Primary Voltage ≥ 20 MW @ 85% aLF	4.9817%
Transmission	0.1177%
Transmission Voltage ≥ 20 MW @ 85% aLF	0.6224%
City-Owned Private Outdoor Lighting	0.4627%
Customer-Owned Non-Metered Lighting	0.0081%
Customer-Owned Metered Lighting	0.0622%
Grand Total	**100.0000%**

At a $22 million revenue requirement increase, the allocation to customer classes would be as follows:

Customer Class	Revenue Share	Target Base Revenues	Current Base Revenues	Increase	Percent Increase
Residential	49.4679%	$326,797,221	$298,139,951	$28,657,270	9.6%
Secondary Voltage < 10 kW	3.5821%	$23,664,203	$22,062,516	$1,601,687	7.3%
Secondary Voltage ≥ 10 < 300 kW	21.5072%	$142,081,934	$146,379,682	($4,297,748)	-2.9%
Secondary Voltage ≥ 300 kW	14.3154%	$94,571,196	$97,431,981	($2,860,786)	-2.9%
Primary Voltage < 3 MW	1.2594%	$8,319,895	$8,571,888	($251,993)	-2.9%
Primary Voltage ≥ 3 < 20 MW	3.6130%	$23,868,336	$24,590,380	($722,044)	-2.9%
Primary Voltage ≥ 20 MW @ 85% aLF	4.9817%	$32,910,557	$33,906,126	($995,568)	-2.9%
Transmission	0.1177%	$777,554	$801,058	($23,504)	-2.9%
Transmission Voltage ≥ 20 MW @ 85% aLF	0.6224%	$4,111,722	$4,236,381	($124,659)	-2.9%
City-Owned Private Outdoor Lighting	0.4627%	$3,056,706	$2,141,558	$915,148	42.7%
Customer-Owned Non-Metered Lighting	0.0081%	$53,511	$45,878	$7,633	16.6%
Customer-Owned Metered Lighting	0.0622%	$410,908	$316,344	$94,564	29.9%
Grand Total	**100.0000%**	**$660,623,744**	**$638,623,744**	**$22,000,000**	**3.4%**

Requested Residential Rate Structure at $22 M System increase
Estimates Rate (ICA Structure): $12 Customer Charge, 4 Tiers

Inter Class Revenue Percentages from Consumer Joint Proposal
$22 M Revenue Increase results in $28.657 M increase to Residential Class
Outside City Residential Rates Do Not Change
Inside City Includes CAP

Four Tiers

ICA Rate Structure $12.00 Cust Charge and $22 M rev increase

Energy Charges			
Residential Inside City	**Rate**	**Rev Increase**	**Percent Incr.***
0-500 kWh	$ 0.03106	$ 6,701,555	10.91%
500-1300 kWh	$ 0.06745	$ 6,710,169	11.23%
1300-2500 kWh	$ 0.10057	$ 4,299,504	14.68%
>2500 kWh	$ 0.12337	$ 1,039,466	14.08%
Subtotal Energy Revs		$ 18,750,694	
Customer Charge Rev Increase		$ 9,906,576	20.00%
Residential Revenue Increase		**$ 28,657,270**	**12.7%**

** Percent Change based on current revenues*

Total Bill Impact on Annual Basis

Annual kWh per month	**Avg. Bill**	**Increase**	**Percent Change**
0	$ 12.00	$ 2.00	20.00%
125	$ 21.70	$ 2.45	12.73%
375	$ 41.10	$ 3.35	8.87%
625	$ 65.05	$ 5.01	8.34%
875	$ 93.55	$ 7.43	8.63%
1,125	$ 122.04	$ 7.37	6.43%
1,375	$ 153.03	$ 7.33	5.03%
1,625	$ 189.80	$ 11.19	6.27%
1,875	$ 226.58	$ 13.19	6.18%
2,250	$ 281.75	$ 16.18	6.09%
2,750	$ 360.29	$ 21.41	6.32%
3,250	$ 443.83	$ 27.88	6.70%
3,750	$ 527.37	$ 34.36	6.97%
4,000	$ 569.14	$ 37.59	7.07%