ELECTRIC UTILITY COMMISSION RECOMMENDATION 20260720-011

Date: July 20, 2026

Subject: Recommendations on AE Budget and Potential Rate Increases

Motioned By:

Seconded By:

Recommendation
Recommendation to require a separate public meeting on any rate increase proposed for FY 2027 and to initiate a rate case process with FY 2026 as the test year.

Description of Recommendation to Council

The Electric Utility Commission recommends that a separate public meeting to receive input should be required for any proposed residential rate increase. In addition, the Electric Utility Commission recommends that the City should begin a new rate case process in 2027, similar to the process implemented in 2016 and 2022.

In terms of any rate increase that is part of the FY 2027 budget process, a separate public meeting, at a set time in the evening, should take place before consideration of any proposed change in electric rates or tariffs.

In terms of a rate case, Austin City Council should begin the public portion of Austin Energy's rate case process in 2027 to better keep Austin Energy budgets aligned with costs, while ensuring that rates are justified for all customer classes and that rate design aligns with established policy priorities. In preparation, the Austin City Council should ensure that Austin Energy conducts an assessment of its costs and revenues, using 2026 as a test case year. The City Council should direct the City Manager to initiate the process of hiring a consumer advocate to represent residential customers in the rate case and should initiate the hiring of an independent hearing examiner to preside over the rate case in 2027, with the goal of approving new rates in 2027 that are fair for all customers.

Rationale:

Austin Energy has an important mission to serve its customers with affordable, clean and reliable energy. The FY 2027 budget and tariffs should maintain the affordable rates approved by City Council in late 2022 and preserve the basic tenets and structure of the rate design approved. The appropriate amount for the monthly Customer Charge for residential customers and the price

differentiation between the residential rate tires were hotly contested issues in the last Austin Energy rate case, in 2022. Austin Energy proposed increasing the residential Customer Charge from $10 per month to $25 per month and proposed reducing the tiered rates from five to three tiers and flattening the price differentials between them. The Independent Consumer Advocate and nearly all other parties to the rate case opposed this proposed increase on the grounds that it was inequitable and would reduce the incentive to conserve energy. Several Austin City Council members also raised similar concerns. As a result, the final decision approved by the Austin City Council was to phase in an increase to $15 per month over the course of three years. The remaining revenues were to be collected in the volumetric rates, which were spread out across four rate tiers. Despite this rate increase, Austin Energy has continued to raise rates through the annual budget and tariff updates and for residential rates, has disproportionately allocated those increases to the fixed fee and the first tier.

In 2026, as part of the proposed budget, Austin Energy requested and received a 5% increase in base rates in FY 2026 - including the increase in the Customer Charge from $15 to $16.50 with the remainder of the increase all going to the first tier. Both of these changes reduce the value of conserving energy and discourage energy efficiency investments and behavior changes by customers. Austin Energy is now contemplating a similar request in FY 2027. Changes in rate design should be handled through a future rate case, not through the annual budget process, which offers very little transparency or opportunity for meaningful involvement by customers.

Given that Austin Energy has requested increases to base rates as part of the budget process every year since the last rate case, Council should schedule a rate case as soon as possible. The first step in this process is to start the hiring process for an independent hearing examiner and a residential and small commercial consumer advocate, followed by a cost of service study, which typically is conducted the year before the rate case. Thus, we recommend that Austin Energy begin an assessment of the 2026 year as a test year for a rate case, and that the evidentiary rate case process begin no later than the spring of 2027. This process, which was adopted by previous iterations of the Austin City Council, allows customers of all types the power of discovery and opportunity to provide expert testimony in accordance with City of Austin custom. This process also mirrors the process used to evaluate utility rate requests at the Public Utility Commission of Texas, and was established in part to reassure state lawmakers that Austin Energy is operating with sufficient oversight and in the best interests of customers.

In terms of the rate increase being contemplated as part of the proposed budget currently, we recommend that there should be a separate public hearing on any change in electric tariffs.

Vote

For:

Against:

Abstain:

Absent:

Attest: