



# MOU Rate Appeal - City of Austin Electric Rate Review

Public Utility Law Seminar  
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# Need for a rate increase

- Prior to this rate increase, Austin Energy (AE) had gone over 17 years since its last change to non-fuel base electric rates in 1994.
- Although AE recognized the need to increase rates initially in 2006, a combination of cost controls, drawing down utility reserves, and better than expected market sales and revenues from abnormally hot weather delayed the action.
- The Austin area population has grown from a little over 1 million in 1995 to about 1.8 million in 2010. Since that time, Austin Energy added about 115,000 customers, a 38% increase.
- However, the growth in AE's electric sales has trended downward from an average growth of 6% a year between 1994 and 2000 to 1.8% from 2001 to 2009.
- Costs for commodities and personnel rose. Austin made significant financial investments in infrastructure to ensure adequate power supply and reliability.

# Rate Review

- AE's review of its rates was guided by policy objectives derived from AE's council approved strategic plan:
  - Ensure long-term financial strength by setting rates that meet Austin Energy's revenue requirement and achieve sustained revenue stability;
  - Improve fixed cost recovery to maintain sufficient revenues into the future;
  - Align rates with AE's Strategic Plan by designing rates that encourage efficient energy use and meet changing customer needs by supporting technologies like solar electricity generation and electric vehicles; and
  - Update rates and rate structures to distribute costs fairly among customer classes.
- After evaluating an extensive amount of customer data, including billing data and load research, AE redesigned customer classes based upon industry best practices, consolidating customer classes from 24 to 12.

# Public Process

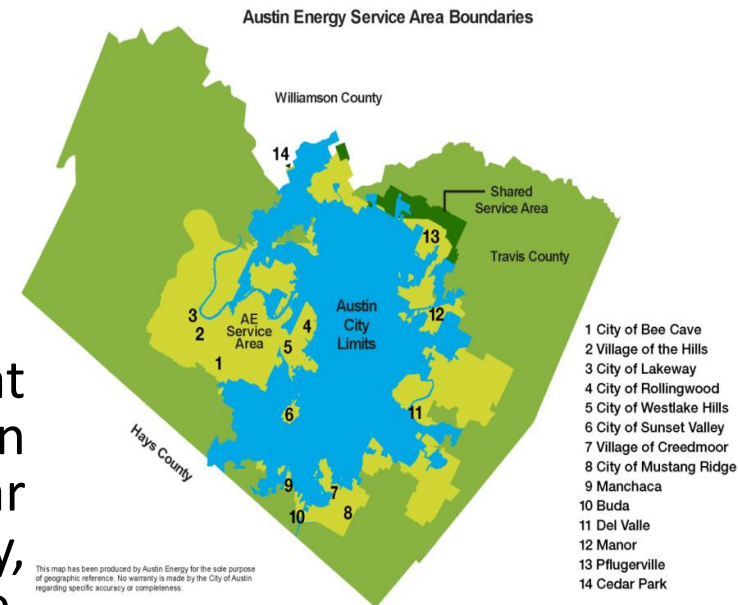
- After conducting the cost of service study, AE's rate review underwent three public processes:
  - Public Involvement Committee ("PIC")
  - Electric Utility Commission ("EUC")
  - Austin City Council
- During this time, AE created and updated a rate review website with information being produced to keep the public informed.

# Rate Ordinance

- The Council approved rates were effective on all bills rendered on or after October 1, 2012.
- Some of the key issues addressed by Council:
  - Council adopted a revenue requirement increase of approximately \$106M (\$71M on Oct. 1 / \$25M in May, 2015 (Long Term Contracts Customers)/ \$10M not collected).
    - The City Council determined that the 2009 test year data, adjusted for known and measureable changes, supports an annual utility revenue requirement of \$1,123,477,268.
    - To mitigate the magnitude of the rate increase required to achieve this revenue requirement, the Council adopted rate schedules to achieve annual revenues of \$1,089,529,780.
  - Council adopted A&E 4CP to allocate production demand costs.
  - Council adopted a policy of targeting a debt-to-equity ratio of 60/40 for financing electrical utility capital projects until October 1, 2014, and reaffirms the current long-term policy of maintaining a 50/50 ratio.
  - Council adopted a discount for Independent School Districts.
  - Council adopted a rate cap for group worship facilities.
  - Council established the Customer Assistance Program (“CAP”).

# Outside City Customers

- Austin Energy's service area currently encompasses approximately 206 square miles within the City of Austin and 231 square miles of surrounding Travis and Williamson Counties.
- Approximately 13% of Austin Energy's customers reside outside Austin's city limits.
- There are 14 other municipalities with at least some customers served by Austin Energy, including: Bee Cave, Buda, Cedar Park, Creedmoor, Del Valle, Lakeway, Manchaca, Manor, Mustang Ridge, Pflugerville, Rollingwood, Sunset Valley, Village of the Hills, and Westlake Hills.



# Appeal Timeline

- June 7, 2012: Council final decision on rate review.
- June 21, 2012: City's "14 Day Report" (14 days after rate ordinance).
- August 3, 2012: Appeal filed (45 days of the 14 day report).
- Nov. 1, 2012: Rate Application filed at PUC (90 days after petition filed).
- Nov.-Dec., 2012: Discovery.
- Feb. 22, 2013: Rebuttal Testimony.

# Overview of Filing

- Based on test year ending September 30, 2009.
- New rates effective October 1, 2012.
- Filing used the Non-IOU TCOS RFP, supplemented by the Investor-Owned Utility Transmission and Distribution Cost of Service RFP.
- Application included testimony from 24 witnesses.

Witness	Subject of Testimony
Mark Dreyfus	Case Overview, Austin Energy Organization and Function; Regulatory and Government Affairs
Elaine Hart	City Financial Policies, Transfers, Shared Services and Other Payments to the City.
Bill Newman	Financial Risk
Karl Nalepa	General Fund Transfer
Cheryl Mele	Generation, Environmental Services, and Related Functions
Pat Sweeney	Purchase Power Agreements, Fuel, Power Supply Adjustment, Market Operations
David Wood	Electric Service Delivery, Distribution Operations, Service Quality
Fred Yebra	Distributed Energy Services: Energy Efficiency Programs, Austin Energy Green Building, Solar
Andy Perny	Legal Services
Jawana Gutierrez	Customer Care: Call Center, Billing Services, Revenue Measurement
Alan Claypool	Information Technology
Pat Alba	Workforce Development and Risk Management: Human Resources, Facilities Management, Workforce Planning
Ann Little	Revenue requirement/Accounting, Cost of Service, Known and Measureable Changes
Rusty Maenius	Transmission
Beverly Bonevac	Year End Customer Adjustments, Weather Normalization Adjustments, and Power Factor Adjustment
Keith Mullen	Line Losses
Joe Mancinelli	Cost Allocation and Rate Design
Nicole Conley-Abram	School Discount
Suzii Paynter	Houses of Worship Discount
Dan Pruett	Low Income Discount
Bob Dailey	Tariffs
Grant Rabon	Revenue Requirement, Rate Filing Package
Matt Henry	Rate case expenses - Legal
Lane Kollen	Rate case expenses - Consultants



# Customer Impact

The City Council approved a total immediate increase of \$91,634,419—though \$20,345,009 was deferred—equal to an immediate system-wide increase of **7%**.

\$44,383,091 allocated to the residential class resulting in an **11.7%** increase to the residential class revenue requirement.

# Cost/Allocation Rate Design

- Allocation of production costs by Average and Excess Demand 4 Coincident Peak (“AED-4CP”) methodology.
- Council determined that each customer class should be brought to within plus or minus 5% of cost of service.
- Class consolidation (Reduced number of classes from 24 to 12).
- Five-tier inclining block rate structure for residential class:

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0-500 kWh

501-1,000 kWh

1,001-1,500 kWh

1,501-2,500 kWh

> 2,500 kWh

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# Unique Issues

- First MOU rate case appeal since deregulation.
- Revenue Requirement calculated by cash-flow method.
- Test Year.

# Intervenors

- **Homeowners United for Rate Fairness**
- **PUC Staff**
- **Office of Public Utility Council**
- **Data Foundry**
- **Citizens for Fair Affordable and Innovative Rates (FAIR)**
- **Texas Legal Services / Texas ROSE**
- **Westlake United Methodist Church**

# Settlement

- Decrease of \$4.6 M for outside ratepayers.
  - \$442,000 additional reduction in CAP collections from Community Benefit Charge (program funding not affected).
  - Allocated as follows:
    - \$4.3M to residential (+\$442K CBC reduction)
    - \$162,500 to primary <3 MW
    - \$162,500 to primary 3 MW < 20 MW

# Other Elements

- Public hearing for PSA / FAC adjustment.
- Three tier rate structure (outside).
- Street lighting made a separate class.
  - bills paid by other cities as was past practice.
- Community Benefit Charge reduced for outside ratepayers.
  - street lighting removed and CAPS reduced.
- Protects important Council priorities:
  - Church and school discounts remain intact.
    - City required to fully fund discounts.
  - Allows CAP program to fully perform outside the city.