



Austin City Council MINUTES

For SPECIAL COUNCIL MEETING - SEPTEMBER 15, 1982 - 5:30 P.M.

Council Chambers, 301 West Second Street, Austin, Texas

City Council

Carole Keeton McClellan
Mayor

John Treviño, Jr.
Mayor Pro Tem

Council Members
Larry Deuser
Roger Duncan
Richard Goodman
Ron Mullen
Charles E. Urdy

Nicholas M. Meiszer
City Manager

Grace Monroe
City Clerk

Memorandum To:

Mayor McClellan called to order the Special Meeting of the Council scheduled for 5:30 p.m. for a public hearing on proposed electric rate changes. She noted the absence of Councilmember Duncan, who arrived at 5:46; Councilmember Deuser, who arrived at 5:46; and Councilmembers Mullen and Goodman who were absent for the day.

Mr. Peterson, Acting Director, Electric Utility, outlined where we are to this point. "The Electric Department, based on the request of Mr. Butler to the City Council, outlined a need for holding a public hearing and possible Council action before October 1 on restructuring of electric rates. By memo dated September the 8th we outlined those dates and Council set this public hearing. By memo dated September 15th the Electric Department submitted to the Manager's office a copy of Dr. Powers' proposed rates. There are four different proposals: Dr. Powers revised rate, Dr. Powers revised alternative rate, and flat rate requested by Don Butler and the modified flat rate requested by Don Butler. Those are attached to the memo.

"In a meeting last September 13 the Electric Utility Commission met with Mr. Butler and Dr. Powers and after much discussion the Electric Utility Commission by a 4-2 vote recommended adoption of the Revised Alternative Rate developed by Dr. Tom Powers with two exceptions. One, that the street lighting traffic signal rate be returned to the rate in effect as of 10-1-81 and updated to reflect a more current cost of service; and two, that the night watchman be taken completely out of the rate structure and developed as a separate rate under separate ordinance. Dr. Powers recommended rate as recommended by the Utility Commission is attached to that memo. By memo dated September 14, the Electric Department submitted to the Manager's office a memo on the night watchman rate and we left off inadvertently the charge per pole and that needs to be added to that memo and that would be \$2.00 per month per pole.

"The reason for having four categories of lighting, we want to phase out the mercury-vapor lighting and go to the high pressure sodium lighting.

Councilmember Deuser then asked questions concerning the memo's. CITY CLERK DID NOT HAVE COPY.

Mr. Don Butler reported as follows: "You have had for two weeks or more the reports of the various consultants who have been engaged by you to determine what an appropriate rate level and rate structure for the City of Austin Electric Utility should be. As you will recall our discussions in the past this consisted of several steps. First of all there was a determination of the overall revenue requirements done by Touche-Ross. The determination they reached was that the present revenue levels are appropriate so there was no need for any increase or decrease in the overall level of revenues collected by the utility. The next step of the process was performed by Dr. Eugene Coyle who allocated the revenue requirements among the various customer classes. His conclusion was that there should be an increase in certain classes, primarily in the residential class in order to bring them more closely to a targeted rate of return. The amount would vary from \$1.5 to \$2 million depending upon the calculations one wished to perform and the method one would wish to follow in going about that. There would be a corresponding decrease in certain other categories which would take up the slack created by the \$2 million dollars. After that was the necessity to design rates for each customer class which would be consistent with proper rate making principles and performing that function was Dr. Tom Power. Dr. Power has provided a lengthy and comprehensive report which spells out his recommendations for recovery of the rates from each particular customer class in a manner that would be consistent with the proper rate making principles and consistent with Council's policy." Mr. Butler then discussed pending lawsuits.

Dr. Powers then discussed his report. CITY CLERK DID NOT HAVE COPY. He told Council, "I will outline the general principles that have guided my proposals and try to explain the possibly confusing language that has revised proposals and revised alternatives. If you look over the rates I proposed for the non-demand meter customers, namely the residential and small general service customers you will see that the rates do not differ very much from the existing rates. In particular, the inverted block form that involves charging a lower rate for the first block of 500 kwh and a higher rate for excess of that has been retained. About half of the testimony that I prepared attempts to show that type of rate structure is tied to cost almost no matter how you define the type of cost you are looking for. But the inverted rate structure has a cost basis and accomplishes several other objectives at the same time including some conservation and equity policy objectives. The way in which my proposed rates differ from the Proposal 7 rate is that with my professional judgement that the procedure of letting no demand changes during the winter was inappropriate. If you recall the way in which Proposal 7 rates were designed and a base energy charge was calculated and then a demand charge was calculated, those demand charges were all collected during the summer months. The basic argument being that only during the summer did the peak occur and only then a threat that the utility might not be able to meet the load and only during the summer such capacity has to be maintained to meet that peak, etc. Although that argument has some appeal, from a practical point of view given the way the utility designed this operation, and the way in which it uses its equipment and the characteristics of that equipment, there are some demand costs during the winter. It just simply isn't the case that the utility expends no funds to be sure they can beat whatever load might occur in the winter given the various possibilities of certain parts of their generation plant not operating, given the need to have certain pieces

of equipment down for maintenance, etc. It's true that demand costs are lower during the winter because the peak demand is not as high, but it's not the case the demand charges are zero. What I have done in allocating or arranging to collect the additional revenues that are needed from the residential class and what I have done to reduce the revenues generated by the general service, especially the large general service classes, has been to change the way in which demand charges are collected. In particular I recommend that increased revenue responsibilities for the residential class be collected by raising the winter charge. That amounts to establishing some type of demand responsibility during the winter and collecting it from the residential class so my proposed rates do not affect the summer rates, they don't affect the initial charge for block rate. What they do is raise the winter rate. For the larger general service customers and primary service customers, whose rates would be lowered, I propose to lower their rates by lowering their demand charges by increasing emphasis on the energy charge, which I think is important because the primary problem faced by the utility is to provide cheap energy with the excess capacity it has its primary difficulty now and in the foreseeable future is not to meet peak load but to provide inexpensive energy. Given that that is the primary constraint on a utility I think it is appropriate to emphasize energy costs. I proposed for commercial/industrial classes to actually raise slightly the energy charges, lower significantly the demand charges. The reason they are labeled revised proposals is that this cost of service study is a process and I couldn't wait until all the numbers had been generated to get on with my part of the work so I had to design rates before I knew exactly what the final numbers coming from the other parties working on that would look like. Since you never saw my initial rates, I think you can forget about the word revised. The other thing you have in front of you with my name on it is labeled my revised alternative. Again, I think you can forget about the word revised since you saw nothing else. There is a general rate making principle that suggests one should move in a conservative fashion in changing rates so that the people who make decisions on the basis of rates don't see the prices jumping all over the place and switching drastically this direction and that direction. If one wants to change the direction rates are going one should move carefully in a methodical way." Dr. Power said some people think he is moving too fast so he has developed a set of alternatives that moves in the same direction but in a more modest way. "My feeling is that the impact of my proposal is modest enough that it is not disruptive and should be adopted. The Electric Utility Commission felt otherwise and has recommended that the alternative rates be developed and adopted."

Councilmember Deuser inquired concerning the cost of service inside and outside the City, that is, should there be a higher rate for those outside the City limits. Mr. Butler told him that so far there is no need to distinguish in or out of the City. He said he has instructed people working on the case to work out this information. Mr. Butler said the only beneficiary would be Bergstrom Air Force Base.

Peck Young, member of Public Utility Commission, referred to a letter he had written. CITY CLERK DID NOT RECEIVE A COPY. He told Council the reason the Commission voted on the rate it did was because the changes in all rate classes is much less drastic. He said he agrees there should not be a summer differential.

Merle Moden, Electric Utility Commission, told Council a load survey on small customers should be done.

Shudde Fath, member of Electric Utility Commission, read something from Dr. Powers report.

Jerry Schmidt told Council he built an all electric home in 1972 because the City at that time was pushing the building of same. He said Austin has a moral & legal obligation to consider the inducements it offered to residents to go all electric. Mr. Schmidt said the all electric discount was eliminated by Proposal 7, and that his kwh usage only increased 40% but his rates doubled. He asked why out of City customers can't be charged more.

James H. Phillips told Council that nuclear energy is cheaper than any other and Council should stay with nuclear.

ADJOURNMENT

Council adjourned its meeting at 7:05 p.m.