

## A G E N D A



## Recommendation for Council Action

Austin City Council	Item ID	16078	Agenda Number	55.
Meeting Date:	6/7/2012		Department:	Austin Energy
Subject				
Conduct a public hearing and consider an ordinance establishing revised electric rates and charges for Austin Energy customers.				
Amount and Source of Funding				
Fiscal Note				
Purchasing Language:				
Prior Council Action:	May 26, 2010 – Approved Resolution 20100526-002 setting the process for the review of electric rates; January 12 and February 9, 2012 – Held public hearings on electric rates; February 22, 2012 – Approved initial Council Work Plan to discuss topics related to electric rates; March 1, 2012 – Approved Resolution 20120301-046 directing City Manager to hire an independent consumer advocate and adopting a Work Session schedule.			
For More Information:	Larry Weis, General Manager, 322-6002.			
Boards and Commission Action:				
MBE / WBE:				
Related Items:				
Additional Backup Information				

Austin Energy last reset base electric rates (non-fuel) in 1994. While those rates have served the public interest for longer than expected, Austin Energy's revenues are no longer sufficient to fund its requirements, and its rate structures are not adequately aligned with strategic objectives. A comprehensive review and redesign of Austin Energy's rates is necessary to restore adequate revenues and align rates with strategic objectives. Austin Energy has successfully met the challenges of the last two decades with revenue from customer growth as well as cost-cutting adjustments, deferrals, and new initiatives. The cumulative effects of nearly two decades of changes in the utility industry, the state of the economy, the shape of local business and industry, and the way customers use electricity must be addressed for Austin Energy to continue to provide clean, affordable, reliable energy and excellent customer service.

Austin Energy's review of its rates has been guided by policy objectives derived from Austin Energy'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 Austin Energy'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 and encourage efficient energy use.

Austin Energy began its rates process by determining how much revenue is required from customers in a single year in order to continue providing electric service. Austin Energy then evaluated an extensive amount of customer data including billing data and load research, to redesign customer classes based upon industry best practices. After consolidating the customer classes from 24 to 9, Austin Energy and its consultants conducted a Cost of Service Study, which calculates the share of total revenue requirement that each customer class (e.g., residential, commercial, industrial) should pay. Austin Energy also retained an Independent Residential Rate Advisor to provide input and feedback specifically from the perspective of residential customers.

Austin Energy launched the rate review process in January 2011. In addition to input sought and received at City Council and Electric Utility Commission (EUC) meetings, the utility convened a Public Involvement Committee (PIC) to act as a sounding board for the many issues involved in developing rate recommendations and options. The PIC met monthly from January through June of 2011, and was composed of 14 members of the community representing all Austin Energy customer classes and major stakeholder groups.

Throughout the year, Austin Energy delivered public, televised briefings about the rate review process to the EUC and City Council. In addition, Austin Energy created a dedicated rate review Website, [www.rates.austinenergy.com](http://www.rates.austinenergy.com), where it has posted related materials, including those developed for the PIC and EUC processes, as well as responses to hundreds of inquiries received from customers, commissioners and the public. Since the beginning of the rate review process, Austin Energy responded to approximately 800 Requests for Information (RFIs).

On May 26, 2011 the Austin City Council passed Resolution 20110526-002 governing the process for the EUC review of proposed revisions to Austin Energy's electric rates. The EUC held five meetings, including public hearings and panel presentations, in September and October of 2011 to review and discuss Austin Energy's Rate Analysis and Recommendations Report, Residential Rates, Commercial and Industrial Rates, rates for school districts and worship facilities, and their recommendations. Austin Energy provided briefings on each topic, including a presentation of its preliminary rate proposals at the first meeting. Austin Energy staff and experts in ratemaking who assisted Austin Energy in developing its rate proposal were available for questions and discussion at each meeting. About 60 members of the public attended each meeting with 10 to 20 speakers in citizen communications at each meeting. The EUC established a process in which citizens were placed on panels and allocated time to present on topics related to electric rates. Citizen panel participants made recommendations on various rate issues. Many members of the public including advocates for residential customers, low-income customers, schools, worship facilities, and commercial and industrial customers participated in these citizen panels. In total, 33 citizens participated in the panels.

During the EUC review process, 27 issues were identified as items for discussion in the form of a Decision Point List

(DPL) that included Austin Energy's staff recommendations. The EUC discussed and made recommendations on each of these issues. The Independent Residential Rate Advisor and members of the public who participated in citizen panels during the EUC meetings were also invited to comment on the DPL. By a majority vote, the EUC approved all 27 issues in the DPL. On October 31, the EUC submitted its final recommendations to the City Council.

Austin Energy presented its rate recommendations to City Council at a special-called Work Session on December 14, 2011. City Council held public hearings on electric rates on January 12, 2012 and February 9, 2012. At a special-called meeting on February 22, Council approved an initial Work Plan identifying topics of discussion related to electric rates. On March 1, Council approved Resolution 20120301-046 directing City Manager to hire an independent consumer advocate and adopting a Work Session schedule.

Twelve Work Sessions were held in March, April and May of 2012 on topics including: revenue requirements; Austin Energy's financial forecast; financial policies (debt service coverage ratio, capital projects, debt-to-equity funding ratios, reserve fund policies, interim revenue options, General Fund transfer levels and calculation methodology, and payments for shared services); distributed generation and energy efficiency goals; the design and funding of low income customer assistance programs; budget reduction options; line extension and new service charges; revenue regulation and decoupling; cost-of-service methodologies for allocating costs among customer classes; rates for specific customer classes including faith-based, community and not-for-profit organizations, school districts, industrial users, and out-of-city ratepayers; rate design for distributed solar and energy efficiency goals; allocation of off-system wholesale power sale revenues; connection and disconnection fees; fixed charges and alternatives; inverted block rate structures; bundled rate plans for low-use customers; the components and calculation methodology for the fuel charge; phasing options for the implementation of rate increases; potential rate impacts from Generation Plan updates; and the rate design and structure to be brought back to Council for final consideration and action.

During these Work Sessions, Council members passed motions on a variety of issues including debt-equity ratio, reserves, General Fund transfer policy, Customer Assistance Program or CAP, rates for Worship facilities and school districts, fixed customer charge, production allocation method and tiered rates. These motions provided direction for Austin Energy to revise a rate structure, as detailed in the attached draft ordinance, for consideration by City Council on June 7, 2012.