

AUSTIN ENERGY 2016 RATE REVIEW

AUSTIN ENERGY'S TARIFF
PACKAGE UPDATE OF THE 2009
COST OF SERVICE STUDY AND
PROPOSAL TO CHANGE BASE
ELECTRIC RATES

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BEFORE THE CITY OF AUSTIN
IMPARTIAL HEARINGS
EXAMINER

2016 FEB 17 AM 11:58

AUSTIN ENERGY

IMPARTIAL HEARING EXAMINER'S MEMORANDUM NO. 6: STATEMENT OF ISSUES

Pursuant to City of Austin Procedural Rule § 6.1(a)(2) and § 1.4(a), the Impartial Hearing Examiner in "Attachment A" to this Memorandum, provides the Statement of Issues for review of Austin Energy's rates.

In addition to Austin Energy ("AE"), the following parties submitted a list of issues:

- AE Low Income Customers
- Building Owners Management Association ("BOMA")
- Homeowners United for Rate Fairness ("HURF")
- NXP Semiconductors and Samsung Austin Semiconductor, LLC (collectively, "NXP/Samsung")
- Paul Robbins
- St. David's Healthcare Partnership L.P., LLP's
- Seton Healthcare Family

The Impartial Hearing Examiner also received a list of issues from the House of Worship ("HOW").¹ The Impartial Hearing Examiner is not aware of a motion to intervene having been filed by HOW. The Impartial Hearing Examiner requests that HOW file a motion to intervene if it intends formally to participate in this proceeding.

In Attachment A to this Memorandum, the Impartial Hearing Examiner sets out the Statement of Issues. The Impartial Hearing Examiner has identified three categories

¹ HOW's List of Issues was submitted via email from Beki and Richard Halpin, Co-Chairs Green Sanctuary Committee, First Unitarian Universalist Church of Austin.

of issues: Issues within the scope of this proceeding; issues outside the scope of this proceeding; and issues upon which the Impartial Hearing Examiner requests further information from the parties as to why the issue is or is not within the scope of this proceeding.

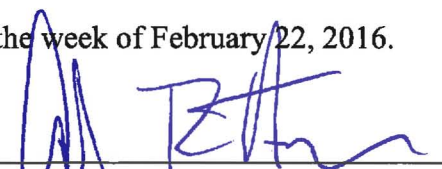
Generally, the Impartial Hearing Examiner observes that AE's Statement of Issues stated the issues in a manner to include the more detailed issues submitted, for example by NXP/Samsung and AE Low Income Customers. Nonetheless, the Impartial Hearing Examiner has included in large part many of the more specifically identified issues submitted by the parties. The Impartial Hearing Examiner further observes, that with some exceptions noted below and in Attachment A, the issues identified by those submitting a list of issues are within the scope of this proceeding. Thus, unless an issue is in the category of issues the Impartial Hearing Examiner believes is outside the scope of this proceeding, the Impartial Hearing Examiner's Statement of Issues is intended as a guide for the issues a party may raise in this proceeding. In general, an issue of cost incurred or revenue received by AE related to its base rates is within the scope of this proceeding.

However, as is shown in Attachment A, the Impartial Hearing Examiner also lists as outside the scope of this proceeding, issues related to AE's pass-through charges and underlying costs pertaining to AE's Power Supply Adjustment and the prudence of Austin Energy's fuel and power supply contracts. Issues related to allocation of the fuel and wholesale market expenses and revenues to rate classes are nevertheless within the scope of this proceeding. Should a party disagree with the Impartial Hearing Examiner's conclusion that these issues are outside the scope of this proceeding, the Impartial

Hearing Examiner will entertain arguments to the contrary and responses to those arguments. If a party intends to submit argument addressing the exclusion of issues related to AE's fuel and power supply contracts and its PSA, the Impartial Hearing Examiner requests that a party do so by no later than **Monday, February 22, 2016 and any responses be filed by no later than Friday, February 26, 2016.**

The third category of issues are issues related to AE's "Regulatory Charge," the Community Benefit Charge," and the "Customer Assistance Program." On these issues the Impartial Hearing Examiner requests that those parties that believe the issues are within the scope of this proceeding to submit argument explaining why those issues are within the scope of this proceeding. Those arguments are due by no later than **Monday, February 22, 2016 and any responses be filed by no later than Friday, February 26, 2016.**

Lastly, should any party believe a prehearing conference would be of assistance to the efficient prosecution of these proceedings, and in particular, to address the Statement of Issues presented in Attachment A, the Impartial Hearing Examiner asks that a party request a prehearing conference by no later than Tuesday, February 19, 2016 and that such a prehearing conference be held on a date during the week of February 22, 2016.



Alfred R. Herrera
Impartial Hearing Examiner

DATE: FEBRUARY 16, 2016

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ATTACHMENT A TO MEMORANDUM NO. 6

| ISSUES RELATED TO AUSTIN ENERGY'S REVENUE REQUIREMENT/COST OF PROVIDING SERVICE | |
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| 1 | What is Austin Energy's reasonable and necessary cost of providing service? |
| 2 | What adjustments, if any, should be made to the utility's proposed test-year data? |
| 3 | Is the amount of the General Fund Transfer (GFT) reasonable? |
| 4 | What other revenue sources besides rates does Austin Energy have? Were other revenue sources used to offset the requested base rate? |
| 5 | Is it necessary to calculate an effective return for the utility to be used for other purposes? If so, what is the appropriate effective return and what is the original cost of the property used and useful in providing service to the public at the time the property was dedicated to public use and the accumulated depreciation on that property that should be used to calculate this return? |
| 6 | Which method, cash-flow or debt service coverage, is more appropriate for determining just and reasonable base rates for Austin Energy? Explain why. |
| 7 | Under the cash-flow method, what are the utility's reasonable and necessary cash needs for the provision of utility services in the following categories: |
| 8 | Debt service (including principal and interest) for long-term and short-term debt; |
| 9 | Funding of reserve requirements on both long-term and short-term debt as set forth in revenue bond and debt ordinances; |
| 10 | Annual payments for transfers to the city's general fund at rates established by the utility's governing authority, to the extent such amounts are not recovered through other elements of the cost of service; |
| 11 | Capital lease payments and finance lease payments; |
| 12 | Annual payments to provide internally generated funds for construction, system improvements, and repair and replacement; and |
| 13 | Credits, if any, from non-regulated activities, including activities characterized by Austin Energy as non-electric activities, funded with ratepayer funds; and |
| 14 | Was all of the utility's invested capital that was the basis for any part of the utility's reasonable cash needs used and useful in the provision of utility service? |
| 15 | How, if at all, should the factors specified in PURA § 36.052 and P.U.C. SUBST. R. 25.23(c)(1) impact the utility's reasonable cash needs? |
| 16 | What assets are funded by equity and what assets are funded by bonds, used and useful in providing electric service? Were these assets prudently acquired? |
| 17 | What amount, if any, of the utility's invested capital used to determine the utility's reasonable cash needs has not previously been subject to a prudence review? If there are any such amounts, what are the amounts, for what facilities, property, or equipment was the investment made, and were the amounts prudently incurred? What amount, if any, of allowance for funds used during construction (AFUDC) is being transferred to invested capital in this proceeding? If AFUDC is being transferred, for what facilities and at what rate was the AFUDC accrued? If AE does not record AFUDC, does AE capitalize interest to invested capital? |
| 18 | City fund? If so, for each item or class of items, would the payment conform to the requirements in PURA § 36.058? |
| 19 | Is the buy-back of solar energy properly treated? Is this properly an "avoidable cost"? If so, should all locally produced power be treated as an avoidable cost? |
| 20 | What is the reasonable and necessary amount, if any, of the utility's contingency reserves, property insurance reserves, contributions in aid of construction, customer deposits, and other sources of cost-free capital? How, if at all, should these amounts impact the utility's reasonable cash needs? |
| 21 | What regulatory assets, if any, should be accounted for in determining the utility's reasonable cash needs? If included, what is the appropriate treatment of such regulatory assets? |
| 22 | Are the number and funding level of Austin Energy's operating, contingency, rate stabilization and strategic reserves necessary and reasonable or should the metric be 150 days average cash on hand? |
| 23 | How should Austin Energy collect revenue to comply with the City of Austin's financial and reserve policies? Should Austin Energy collect revenue through rates or fund from excess revenue from operations? |
| 24 | What are the reasonable and necessary costs for shared services? |
| 25 | What are the reasonable and necessary costs for economic development? |

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| 26 | What are the reasonable and necessary energy-efficiency program costs? Have these costs been properly allocated? |
| 27 | What are the utility's reasonable and necessary rate case expenses? Does this amount include any anticipated expenses to appeal this docket? |
| 28 | What is the reasonable and necessary amount for assessments and taxes, if any? |
| 29 | donations? |
| 30 | What is the reasonable and necessary amount for nuclear decommissioning expenses, if any, how is it calculated? Should it be calculated in accordance with Public Utility Commission of Texas (PUC) rules? |
| 31 | Is the utility seeking approval of a self-insurance plan or changes to an existing plan? If so, does the plan provide a lower-cost alternative to purchasing commercial insurance and what is the reasonable and necessary target amount for the utility's self-insurance reserve account? |
| 32 | What are the reasonable and necessary post-retirement benefits, if any. Should these expenses be calculated in accordance with PURA § 36.065 and P.U.C. Subst. R. 25.231(a)(1)(H)? |
| 33 | Has the utility made any payments for expenses to non-electric utility operations or other City funds? If so, for each item or class of items, does the payment conform to the requirements in PURA § 36.058? |
| 34 | Are costs appropriately assigned to the utility and its non-electric utility operations? |
| 35 | Has the utility met the standard of recovery of costs under PURA § 36.058? |
| 36 | Are any expenditures unreasonable, unnecessary, or not in the public interest, including but not limited to executive salaries, advertising expenses, legal expenses, penalties and interest on overdue taxes, criminal penalties or fines, and civil penalties or fines? |
| 37 | How does Austin Energy fund the District Cooling program? Are these district cooling plants self-sufficient or do they use cash from regulated activities? |
| 38 | What are the appropriate billing and usage data for the utility's test year? What known and measurable changes, if any, should be used to adjust the test-year data? What changes, if any, are necessary to reflect abnormal weather conditions? |
| 39 | Has the billing and usage data been adjusted to account for the rate decreases provided AE customers whose point of service is located outside the city limits of Austin, including the 3% rate decrease to the residential customers whose electrical service is located outside Austin city limits? |
| 40 | Has the billing and usage data been adjusted to reflect the changed rate design for residential customers whose electrical service is located outside Austin City limits? |
| 41 | Has the billing and usage data been adjusted to reflect the revenues AE realized from the Customer Assistance Program for its rates? |
| 42 | What is the proper line-loss factor to use for each rate class? |
| 43 | Has AE acted imprudently in its use of contracting for the provision of any of its services as opposed to providing the services in-house? |
| 44 | Did the utility record revenues and expenses from off-system sales? |
| 45 | What is the appropriate debt-to-equity capital structure for the utility? |
| 46 | Is the utility seeking the inclusion of construction work in progress in its reasonable cash needs? If so, has the utility proven that the inclusion is necessary to the financial integrity of the electric utility and that major projects under construction have been efficiently and prudently planned and managed? |
| 47 | Are the modifications to the financial reserve policies proposed by Austin Energy reasonable? |
| 48 | Are Austin Energy's rates just and reasonable? If not, what are the just and reasonable rates that Austin Energy should be permitted to charge? |

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| <u>COST ALLOCATION ISSUES</u> | |
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| 49 | Are Austin Energy's costs properly functionalized? |
| 50 | Do Austin Energy's rates reflect a proper allocation of its cost of service to its customer classes? Specifically, is the ERCOT 12CP cost allocation method the appropriate method to use when allocating production costs? |
| 51 | Has Austin Energy made any direct assignments to its large customers that should have been allocated instead of directly assigned, such as substations and/or transmission facilities? |
| 52 | Is the elimination of the municipal street lighting tariff and allocation of service area lighting to all other rate classes appropriate? |
| 53 | What are the appropriate just and reasonable cost-based rates for Austin Energy's State of Texas tariff? |
| 54 | Will the costs to serve commercial customers taking service under special contracts be properly addressed to ensure there is no subsidy borne by non-special contract Austin Energy customers? |
| 55 | costs? |
| 56 | What is the proper allocation of the fuel and wholesale market expenses and revenues to rate classes? |
| <u>RATE DESIGN ISSUES</u> | |
| 57 | Are the rate discounts proposed by Austin Energy reasonable? |
| 58 | apply? |
| 59 | Did Austin Energy appropriately spread the proposed rate reduction across the various customer classes? |
| 60 | Are all rate classes at unity (<i>i.e.</i> , at cost of service)? If not, what, if anything, should be done to address the lack of unity? |
| 61 | What is the proper line-loss factor to use for each rate class? |
| 62 | Is Austin Energy's proposal to maintain a rate differential between customers located outside of the Austin city limits and those located inside reasonable? |
| 63 | reasonable? |
| 64 | Does the utility have any existing rate riders that should be modified or terminated? What regulatory assets or other items are currently being recovered through rate riders? |
| 65 | Would a prudent utility in Austin Energy's position implement a standby power tariff? |
| 66 | Does Austin Energy's wheeling tariff and policies accurately reflect current conditions? |
| 67 | Are the rates in Austin Energy's wheeling tariff just and reasonable and cost-based? |
| 68 | Does Austin Energy's current policy on wheeling discourage distributed generation and carbon reduction? |
| 69 | Should other rate riders be proposed? If so, should any of the proposed rate riders be adopted? If so, what are the appropriate costs to be recovered through the riders and what are the appropriate terms and conditions of the riders? |
| 70 | Does the utility have any existing rate riders that should be modified or terminated? |
| 71 | Is the proposed prepaid service pilot tariff reasonable, fair, equitable and in the public interest? |
| 72 | What regulatory assets or other items are currently being recovered through rate riders? |
| 73 | Would the Houses of Worship customers better fit in a class by themselves? |
| 74 | Is Austin Energy's proposed load factor floor reasonable? |
| 75 | Should the revenues for the reserves be recovered in base rates or in a rate rider? |
| 76 | Has Austin Energy adopted appropriate criteria for establishing customer classes? |
| 77 | Were Austin Energy's customer class realignments appropriate and reasonable? |
| 78 | What are the appropriate rate classes for which rates should be determined? |
| 79 | What is the appropriate rate treatment for those commercial customers taking service under contracts with fixed base rates? |
| 80 | Are the proposed changes to methodologies by which AE calculates the pass-through charges reasonable? |

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| <u>ISSUES OUTSIDE SCOPE OF PROCEEDING</u> | |
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| 1 | Rates for pass-through charges for the Power Supply Adjustment and related issues. |
| 2 | Does Austin Energy's power supply adjustment properly account for all reasonable fuel (including transportation and hedging) and wholesale market (including power sales, power purchases, revenues and expenses resulting from ERCOT market instructions or reliability directives) expenses and revenues? |
| 3 | What is the proper allocation of these amounts to rate classes? |
| 4 | What is the proper line-loss factor to use for each rate class? |
| 5 | Does the power supply adjustment properly account for over- and under-recoveries from prior periods that used the fuel adjustment charge? |
| 6 | Will the power supply adjustment properly account for over- and under-recoveries from prior periods that used the power supply adjustment? |
| 7 | Did Austin Energy's power supply adjustment (PSA) charge properly account for all reasonable fuel (including transportation and hedging) and wholesale market (including power sales, power purchases, revenues and expenses resulting from ERCOT market instructions or reliability directives, and ERCOT and Texas Reliability Entity (TRE) fees and charges) expenses and revenues? |
| 8 | Did the PSA charge properly account for over- and under-recoveries from prior periods? |
| 9 | Does Austin Energy's power supply adjustment properly account for all reasonable fuel (including transportation and hedging) and wholesale market (including power sales, power purchases, revenues and expenses resulting from ERCOT market instructions or reliability directives) expenses and revenues? |
| 10 | What is the proper allocation of these amounts to rate classes? |
| 11 | What is the proper line-loss factor to use for each rate class? |
| 12 | Does the power supply adjustment properly account for over- and under-recoveries from prior periods that used the PSA charge? |
| 13 | Will the power supply adjustment properly account for over- and under-recoveries from prior periods that used the power supply adjustment? How will any over or under recovery be handled? |
| 14 | Does the Power Supply Adjustment only include variable cost associated with producing and purchasing electricity and exclude all fixed operational costs? |
| 15 | How should Austin Energy's Power Supply Adjustment review be conducted? Should each cost component be included by line item? |
| 16 | Will Austin Energy's regulatory charge properly account for ERCOT and TRE fees and charges? |
| 17 | Were the utility's fuel and fuel transportation contracts prudently incurred and managed? |
| 18 | Were the utility's fuel inventories prudently managed? |
| 19 | Were the utility's hedging contracts prudently incurred and managed? |
| 20 | Did the utility take advantage of opportunities in the fuel and purchased-power markets to reduce costs, lessen price volatility, and enhance reliability? |
| 21 | Were the utility's purchased power and fuel contracts prudently incurred and managed? |
| 22 | Has the utility properly accounted for all fuel-related and wholesale market revenues? |
| 23 | What post-test-year adjustments for known and measurable changes to historical test-year data for fuel and wholesale market expenses and revenues, if any, should be made? For any such adjustments, have all the attendant impacts on all aspects of a utility's operations (including but not limited to revenue, expenses, and invested capital) been identified with reasonable certainty, quantified and matched? |
| 24 | The prudence of Austin Energy's fuel and power supply contracts. These contracts are reviewed and approved by the Austin City Council and represent firm obligations of Austin Energy. |
| 25 | Austin Energy's decision to utilize a cash flow basis to determine just and reasonable base rates in lieu of debt service coverage. As a department of the City of Austin, Austin Energy uses a cash basis accounting of its financial information in order to conduct and document transactions in a manner that is consistent with the City's financial practices. This City practice has been approved by the Public Utility Commission as part of their Order in PUC Docket No. 40627 and is no longer an appropriate topic for debate. |
| 26 | The On-site Energy Resources ("OSER") system. All test year costs and revenues related to OSER are expressly excluded from Austin Energy's electric rates. |
| 27 | Austin Energy's Transmission Cost of Service ("TCOS"). Under the law, the Public Utility Commission of Texas has exclusive jurisdiction over the reasonableness of Austin Energy's transmission rates and services. |

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| 28 | For transmission investment required under PURA § 39.203(e), do conditions warrant the inclusion of construction work in progress for such transmission investment? |
| 29 | The prudence of any invested capital investment that was used and useful prior to end of the City's 2009 Fiscal Year. These Council-ratified decisions have been approved by the Public Utility Commission as part of their Order in PUC Docket No. 40627 and are no longer appropriate topics for debate. |
| 30 | Do Austin Energy prices reflect those prices available in the competitive market of ERCOT? Should Austin Energy be required to unbundle its costs into Generation, Transmission and Distribution, and Retail functions to allow a comparison to prices in the competitive market of ERCOT? |
| 31 | Overall rate differential between Austin Energy rates and other comparable Texas Municipally Owned Utilities' rates; |
| 32 | Consideration of the more than \$80 million annually in uncompensated care that St. David's HealthCare provides to the community, taxes paid by St. David's HealthCare and philanthropic endeavors funded by St. David's HealthCare which are awarded by and through the St. David's Foundation; |
| 33 | Consideration that St. David's HealthCare hospitals must remain open 365 days a year, 24 hours a day even and especially during natural disasters - with limited ability to shift load to mid- and off-peak periods - and must provide care to all who present at our emergency departments, irrespective of the patients' ability to pay; |
| 34 | A separate issue is that classes represented by the Consumer Advocate have competing interests. For instance, retaining a House of Worship discount in the commercial class might raise the rates of other customers in the same class. Both parties, however, are represented by the Consumer Advocate. It appears that some commercial class customers will have an intervener provided by BOMA. Houses of worship may have no intervener except the Consumer Advocate. Would it be fair for the Consumer Advocate to hire a consultant to provide support for the unique issue for the Houses of Worship? |
| 35 | The process is going forward with no one to formally represent the Houses of Worship or general residential class at this point since no Consumer Advocate has been hired. Settling on issues and engaging in requests for information and so on before the Consumer Advocate is on board seems to put the classes represented by the Consumer Advocate at a clear disadvantage. |
| ISSUES ON WHICH THE IHE REQUESTS CLARIFICATION FROM THE PARTIES REGARDING INCLUSION OR EXCLUSION OF THE ISSUE | |
| 1 | Should issues related to the Regulatory Charge be included or excluded from this proceeding? Please explain the basis for your answer. |
| 2 | Should issues related to the Community Benefit Charge be included or excluded from this proceeding? Please explain the basis for your answer. |
| 3 | Should issues related to the Customer Assistance Program be included or excluded from this proceeding? Please explain the basis for your answer. |