

AUSTIN ENERGY'S TARIFF PACKAGE: §
2015 COST OF SERVICE § BEFORE THE CITY OF AUSTIN
STUDY AND PROPOSAL TO CHANGE § IMPARTIAL HEARING EXAMINER
BASE ELECTRIC RATES §

**AUSTIN ENERGY'S RESPONSE TO DATA FOUNDRY'S
FIRST REQUEST FOR INFORMATION**

Austin Energy ("AE") files this Response to Data Foundry's ("Data Foundry" or "DF") First Request for Information submitted on April 13, 2016. Pursuant to the City of Austin Procedural Rules for the Initial Review of Austin Energy's Rates § 7.3(c)(1), this Response is timely filed.

Respectfully submitted,

**LLOYD GOSSELINK ROCHELLE &
TOWNSEND, P.C.**

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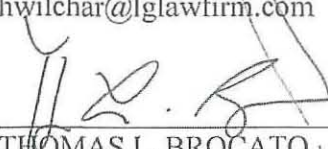
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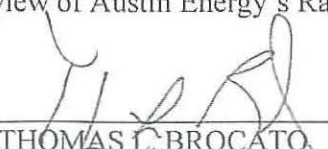
THOMAS L. BROCATO
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ATTORNEYS FOR AUSTIN ENERGY

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of this pleading has been served on all parties and the Impartial Hearing Examiner on this 25th day of April, 2016, in accordance with the City of Austin Procedural Rules for the Initial Review of Austin Energy's Rates.



THOMAS L. BROCATO

AUSTIN ENERGY
2016 APR 25 AM 9:47

DF 1-1 Please provide the cost of service by class that would result from using the generation production cost allocation method that was approved by the City Council in 2012.

ANSWER:

This request is subject to a pending objection.

Prepared by: -

Sponsored by: -

DF 1-2 Please provide any and all documentation from American Public Power Association, the National Association of Regulatory Utility Commissioners (NARUC), or the National Rural Electric Cooperative Association (NRECA) that discusses use of a production demand allocation method similar to AE's proposed ERCOT Twelve Coincident Peak (ERCOT 12CP) method.

ANSWER:

Austin Energy does not possess documentation from the APPA or NRECA that discusses the demand allocation method. AE does possess the NARUC Electric Utility Cost Allocation Manual, which does discuss demand allocation methods. The NARUC Electric Utility Cost Allocation Manual is available using the following link, see page 46 for a discussion regarding the 12CP method.

<http://pubs.naruc.org/pub/53A3986F-2354-D714-51BD-23412BCFEDFD>

Prepared by: JL
Sponsored by: Mark Dombroski

DF 1-3 Please provide any known precedent where a rate-setting body approved a production demand allocation method similar to AE's proposed ERCOT 12CP.

ANSWER:

Austin Energy is not aware of any precedent where a rate-setting body approved an ERCOT 12CP production demand allocation method. However, Austin Energy has not conducted an exhaustive search on this matter.

Prepared by: BE
Sponsored by: Mark Dombroski

DF 1-4 Please identify any and all wholesale markets in the U.S. that operate a centralized dispatched environment like the ERCOT Nodal Market.

ANSWER:

Austin Energy is not aware of any wholesale market in the U.S. that operates in a centralized dispatch environment like the ERCOT Nodal Market. However, Austin Energy has not conducted an exhaustive search on this matter.

Prepared by: BE
Sponsored by: Mark Dombroski

DF 1-5 Please identify the generation production cost allocation methods approved for regulated retail utilities within the wholesale markets in the U.S. that operate a centralized dispatched environment like the ERCOT Nodal Market identified in RFI 1-4.

ANSWER:

Austin Energy does not have information related to the generation production cost allocation methods approved for regulated retail utilities within wholesale markets in the U.S. that operate in a centralized dispatch environment like the ERCOT Nodal Market. However, Austin Energy has not conducted an exhaustive search on this matter.

Prepared by: BE
Sponsored by: Mark Dombroski

DF 1-6 For each and every generation production cost allocation method that was considered but rejected by AE:

- A. Please provide all materials associated with the AE analysis of each generation production cost allocation method that was considered; and
- B. Please provide a narrative that presents AE's rationale for rejecting each generation production cost allocation method that was ultimately not selected by AE.
- C. To the extent not already produced in response to RFI 1.6(a) please provide the cost of service by class for any and all production cost allocations that were considered by but ultimately not selected.

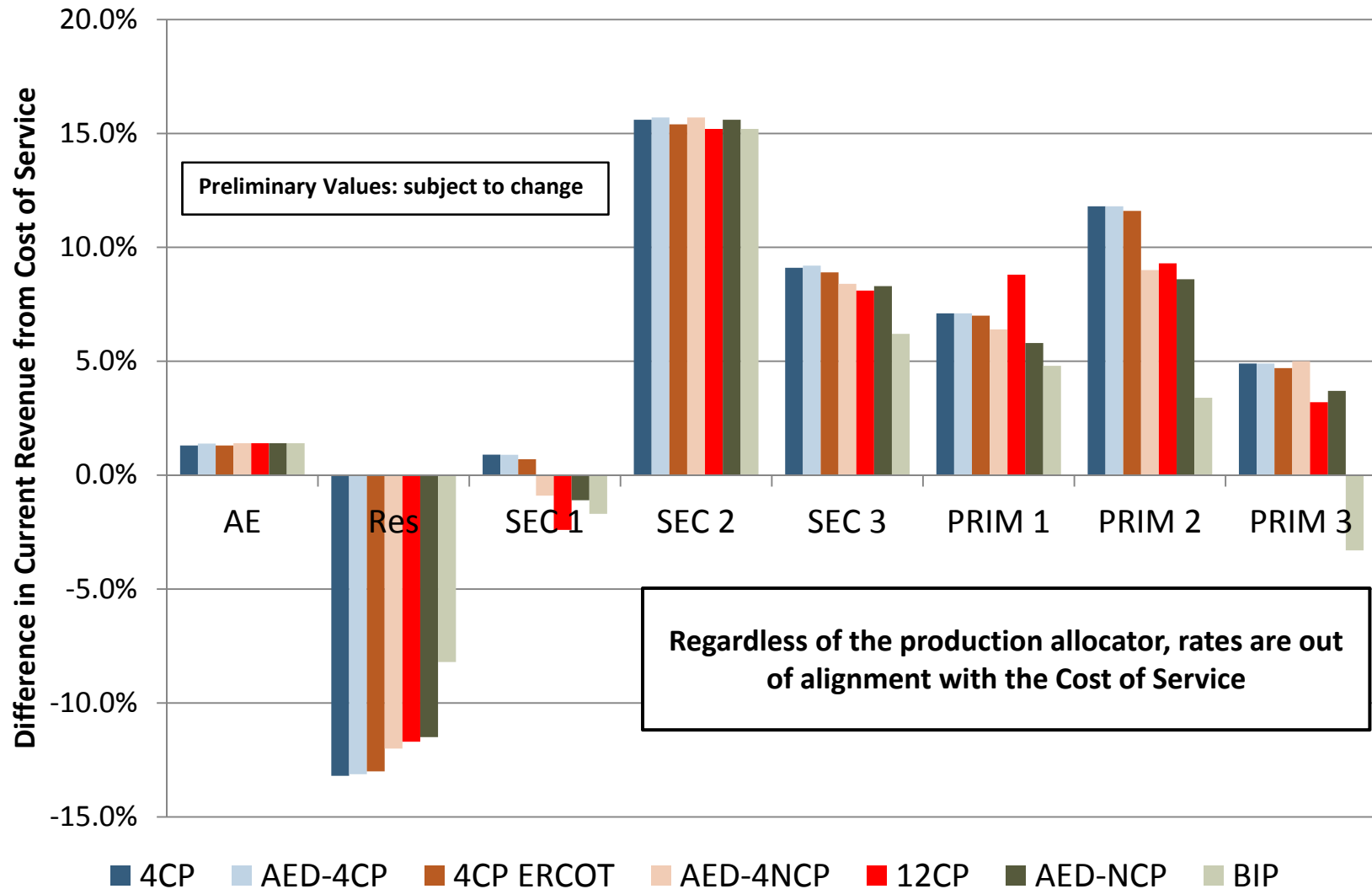
ANSWER:

- A. Please see AE's Response to NXP/Samsung RFI No. 1-104. The Rate Filing Package includes all analytic materials associated with the allocation methods listed in the aforementioned response. Additionally, please see Attachment 1 for a slide presented to the Electric Utility Commission on December 14, 2015.
- B. Austin Energy selected the generation production cost allocation method that best aligns with its operating and financial principles. Please see the RFP narrative, section 5.4.1.1 (Production – Demand), starting at Bates number 117.
- C. Please see AE's Response to Public Citizen/Sierra Club RFI No. 1-2.

Prepared by: JL
Sponsored by: Mark Dombroski



Cost Allocation Conclusions not Driven by Production Cost Allocation Method Used



DF 1-7 On page 5-11 of AE's January 25, Proposal to Change Base Electric Rates, AE states: "For the production function, AE is concerned with making generation available during the ERCOT system peak throughout the year . . .". Please identify in more specific terms the recipients of the generation AE is concerned about making available to and why there is a concern regarding each such recipient.

ANSWER:

Austin Energy sells all of the energy it produces or for which it contracts into the ERCOT wholesale market. So, the "recipient" is the ERCOT wholesale market.

ERCOT wholesale market prices tend to be the highest during the peak day each month. If AE's generation is not available during system peaks throughout the year, then AE loses an opportunity to maximize the economic value of the assets paid for by its ratepayers. In addition, because Austin Energy buys all of the energy it needs to serve its customers from the wholesale market, AE's resource fleet can serve as a physical hedge against increasing market prices. The energy sold from the fleet at the higher prices can offset some or all of the cost to purchase energy from the wholesale market through the Power Supply Adjustment. See the extensive discussion of Austin Energy's business environment in Section 3.2 of the Tariff Package, starting on page 3-11 (Bates 040).

Prepared by: BE
Sponsored by: Elaina Ball

DF 1-8 Please identify and fully discuss each and every reason that AE is concerned with making generation available to the identified recipients during the ERCOT system peak throughout the year.

ANSWER:

See Austin Energy's Response to DF RFI No. 1-7.

Prepared by: BE
Sponsored by: Elaina Ball

DF 1-9 Please discuss whether AE is obligated to make generation to the identified recipients available during the ERCOT system peak throughout the year.

ANSWER:

Generally speaking, Austin Energy is not legally obligated to make resources available for dispatch to the ERCOT wholesale market during the system peak throughout the year. However, Austin Energy is required to abide by ERCOT market rules regarding energy offers, economic withholding, and emergency operations. Those rules can be found in the ERCOT Nodal Protocols and Operating Guides available at www.ercot.com.

Prepared by: BE
Sponsored by: Elaina Ball

DF 1-10 Please explain how AE allocated production costs between the demand and energy classifications. Provide the complete rationale for use of this method. Provide or identify the location of workpapers supporting this procedure.

ANSWER:

Refer to the narrative 5.4 Cost Allocation starting at Bates Stamp 115 on how Austin Energy allocated production costs. Production cost allocation is shown on Schedules G-2 and G-6.

Prepared by: MM
Sponsored by: Mark Dombroski

DF 1-11 On page 5-13 of AE's January 25, Proposal to Change Base Electric Rates, AE states "the allocation of demand-related costs to each customer class was based on accepted industry practices . . ." Please identify and discuss the "accepted" industry practices that purportedly support AE's proposed generation production cost allocation methods. Provide any and all supporting documentation.

ANSWER:

The coincident peak (CP) method is a demand allocation method that recognizes that system generation costs are incurred primarily to meet the system peak demands. The CP method may take various forms from the 1 CP, which looks at the contribution of each customer class to the annual system peak, to the 12 CP, which looks at the contribution of each customer class to each of the 12 monthly system peaks. At the national level, FERC recognizes the CP method when allocating demand costs within its jurisdiction (144 FERC ¶ 61,134, Order Dismissing Request for Rehearing, Pg 1, Footnote 4), at the state level, the Public Utility Commission of Texas (PUCT) has established a precedent of using the Average and Excess Demand (AED)/4 CP which is mathematically similar to the 4 CP demand allocation method. The appropriate CP allocator for any utility (e.g., 1 CP, 4 CP, 12 CP, etc.) is dependent on the system load profile and market conditions. The 12CP method is described on page 46 of the National Association of Regulatory Utility Commissioners Electric Utility Cost Allocation Manual which states:

This method [12CP] uses an allocator based on the class contribution to the 12 monthly maximum system peaks. This method is usually used when the monthly peak lie within a narrow range; i.e., when the annual load shape is not spike. The 12-CP method may be appropriate when the utility plans its maintenance so as to have equal reserve margins, LOLPs [loss of loss probabilities] or other reliability index values in all months.

Utilities that are actively engaged in energy markets, such as AE, must have sufficient capacity to meet their system demand requirements or the utility may be susceptible to reliability concerns and price instability resulting from fluctuating ERCOT market prices. An analysis of the ERCOT market shows that prices spike to over \$200 in all months of the year (see Figure 1). Given the reality of high market prices in every month of the year, a 12CP allocator is appropriate to account for the annual nature of market prices.

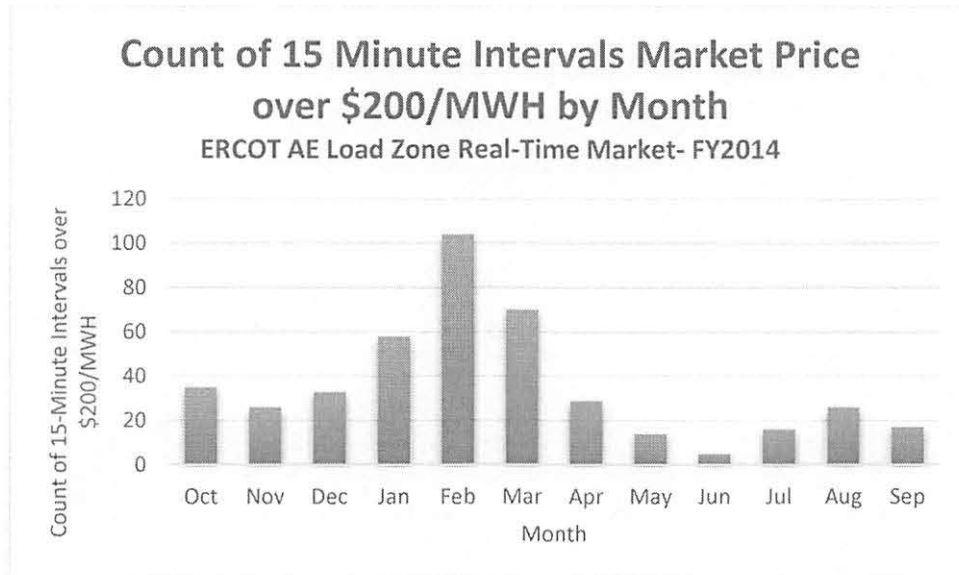


Figure 1. Count of 15 Minute Intervals Market Price over \$200/MWH by Month ERCOT AE Load Zone Real-Time Market- FY2014

To be an effective financial hedge against high market prices, AE approximates the amount of resources it maintains to its load. Therefore, an analysis of AE's load is also necessary to evaluate the number of CPs to use for allocation of demand costs. AE's monthly peaks for the system during Test Year 2014 are shown in Figure 2.

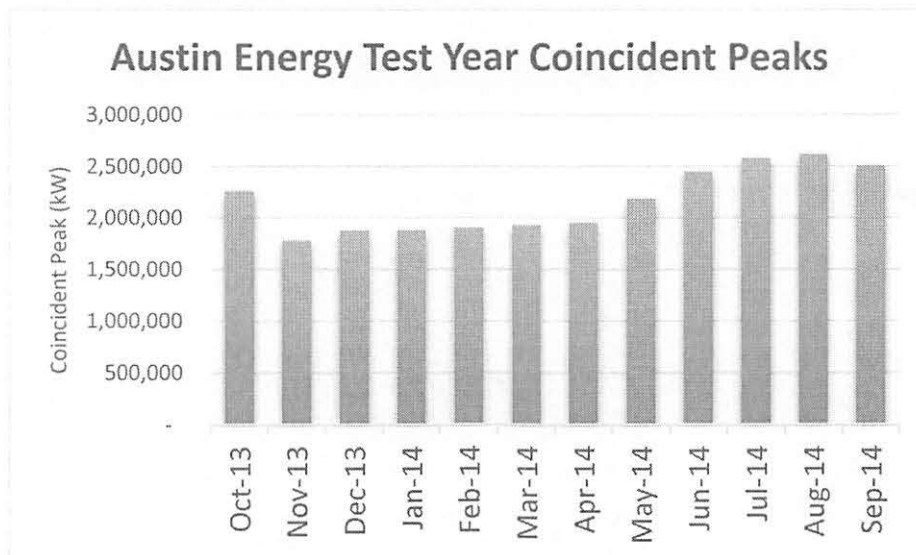


Figure 2. Test Year Coincident Peaks

In evaluating the appropriate CP allocation method, FERC has accepted three tests (144 FERC ¶ 61,132, Opinion NO. 501-A Paragraph 27). These tests are intended to be quantitative assessments to guide the determination of the appropriate CP allocator for a utility.

- **Season to Peak Test** – This test evaluates the relationship between seasonal monthly system peaks. To use this test, compute the average monthly peak during the peak season, expressed as a percent of the annual peak, and compare this result to the average monthly

peak during the non-peak season, again expressed as a percent of the annual peak. If the difference between the two (the peak and non-peak seasons) is less than 19% then the seasonal load variation is not extreme enough to warrant the use of a seasonal CP approach (e.g., 4 CP). As shown in Table 1, AE's seasonal differential is 21.7% and, therefore, this test supports the use of a seasonal CP for AE, rather than the 12 CP.

- **Lowest Peak to Annual System Peak Test** – This test evaluates the annual variation in monthly system peaks. To use this test, calculate the lowest monthly peak as a percentage of the annual system peak. If this percentage is greater than 66%, then the annual variation in monthly peaks is not large enough to warrant the use of a seasonal CP and, therefore, the use of a 12 CP approach is more appropriate. As shown in Table 1, the annual variation for AE is 68% and, therefore, AE's load is not overly seasonal. This indicates the 12 CP is appropriate for AE.
- **Average Annual Peak to System Peak Test** – This test evaluates the variation between the average annual monthly peaks and the annual system peak. If this percentage is greater than 81%, then the annual variation in monthly peaks is not large enough to warrant the use of a seasonal CP and, therefore, the use of a 12 CP approach is more appropriate. As shown in Table 1, the annual variation for AE is 83% and, therefore, AE's load is not overly seasonal. This indicates the 12 CP is appropriate for AE.

Table 1
Three FERC 12 CP Tests

Test 1: Season to Peak		Test 2: Low to Annual		Test 3: Average Annual to Peak	
Average Coincident Peaks (kW)		Low Peak	1,783,000	Annual Average	2,161,250
Oct-May	1,971,750	Annual Peak	2,617,000	Annual Peak	2,617,000
June-Sep	2,540,250	Low/Annual	68%	Average/Annual	83.0%
System Peak	2,617,000				
Percent of System Peak					
Oct-May	75.3%				
June-Sep	97.1%				
Difference	21.7%				
Test Metric that Supports 12 CP	< 19.0%	Test Metric that Supports 12 CP	> 66.0%	Test Metric that Supports 12 CP	> 81.0%
Indication	Seasonal CP Supported	Indication	12 CP Supported	Indication	12 CP Supported

Using FERC methodology, as indicated by two of the three tests, the AE system load profile exhibits an annual propensity. Given AE's load profile and its participation in the ERCOT market, the application of the 12CP was chosen as the best allocator of production demand costs.

Prepared by: GR
Sponsored by: Mark Dombroski

DF 1-12 With regard to the affordability goal of remaining in the lower 50 percent of retail rates across the state, please provide all documents and other information available to AE comparing AE's rates with retail rates across the state.

ANSWER:

Please see AE's Response to NXP/Samsung RFI No. 2-16.

Prepared by:
Sponsored by: