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

SETON HEALTHCARE FAMILY PRESENTATION ON THE ISSUES

Over the course of the hearings, Seton Healthcare Family ("Seton") intends to address the following issues related to Austin Energy's proposed tariff package:

(1) Reduction in Operating Reserves
(2) Decrease in the Decommissioning Costs
(3) Reduction in Transfer to Capital Improvements
(4) Adjustment to Transmission Costs and Revenue
(5) Inclusion of Street Lighting costs in the Community Benefit Charge rather as a cost to the General Fund

1ST Issue: REDUCTION OF OPERATING RESERVES

RECOMMENDATION: Seton recommends that the Operating Reserves be adjusted.

There are several recommendations included and by other intervenors that affect the amount of Operation and Maintenance (O&M) cost. If these and other cost reductions are accepted, then the Operating Reserves need to be recalculated and reduced to the appropriate amount.

2nd Issue: DECREASE IN THE DECOMMISSIONING COSTS

RECOMMENDATION: Seton recommends the decommissioning costs included by Austin Energy ("AE") in operations and maintenance expense be reduced by approximately $19 million resulting in a decrease of a like amount in Revenue Requirements.

AE has included the estimated costs to decommission the Decker, Fayette and Sandhill plants at the maximum amount recommended in the NewGen Study. They have also recommended this be treated as an operational cost rather than being funded from a reserve. Seton recommends that the decommissioning cost continue to be funded by reserves as approved by the City Council.

Seton further recommends that the reserve be funded by the amount allowed for kWs approved by regulatory agencies and from the discontinued Emergency Reserve, resulting in approximately $19 million to be removed from the Revenue Requirement.

3^{th} Issue: REDUCTION IN TRANSFER TO CAPITAL IMPROVEMENT PLAN (CIP)

RECOMMENDATION: Seton recommends that the CIP transfer be limited to the amount in the 2016 spending plan rather than the four year average for calculating the anticipated CIP spending. This should result in a reduction of approximately $23 million in Revenue Requirement.

The City Council has voiced their desire to look more frequently at rates and further adjustments could be made in the future if the proposed spending plan changes significantly.

4^{th} Issue: ADJUSTMENT TO TRANSMISSION COSTS AND REVENUE

RECOMMEDATION: Seton recommends that the Revenue Requirement be reduced by approximately $14 million, resulting from net changes in transmission costs and revenue.

AE's rate design includes a Regulatory Charge relating to transmission charges. In the proposed rate study, apparently AE had two off-setting issues in the Regulatory Charge calculation. First, AE did not use the most recently approved costs factors approved by the Public Utility Commission which will result in an **increase** in the Regulatory Charge of about $10 million.

At the same time, AE did not increase Other Revenue to reflect the Public Utility Commission's approved transmission factors for 2016. Other Revenue decreases the Revenue Requirement. This increased revenue of approximately $14.5 million from the amount AE included in its filing. The increased revenue should offset the increased costs and should result in a net reduction of about $4.5 million in charges to the ratepayers.

5^{TH} ISSUE: STREET LIGHTING COSTS

AE current rate design includes the cost of municipal street lighting in the Community Benefit Charge which is approximately $11.5 million dollars. The ratepayers are paying for this charge and not the general government. Most other municipally owned utilities, including San Antonio, do not include street lighting in their charges to all ratepayers but collect the cost through a separate rate tariff which is charged to the cities or other entities that provide street lighting. This is usually paid from a city's General Fund.

RECOMMENDATION: Consider eliminating the cost of street lighting from AE's Community Benefit Charge and re-instate a Municipal Lighting Tariff for the City of Austin to be paid by the City rather than the rate payers, phasing it in over a period of three years. AE already has a Municipal Lighting Tariff that is currently charged to other cities in AE's service area.

There has been much discussion about reducing the transfer from Austin Energy to the General Fund. It is hard to determine what that reduction should be because of the difficulty of analyzing and comparing the transfers from other utilities. Different utilities have different percentages of transfers. Most utilities use gross revenue as the base except Austin excludes fuel from the calculations. Some utilities share administrative costs; some do not. Even investor-owned utilities provide payments to the General Fund through Franchise Fees and property taxes. Regardless of the level, any decrease in the transfer would have to be offset by other increases in general revenue, generally property taxes. There is only a small amout of additional revenue that could be generated from property taxes because of the small difference between the Effective Tax Rate and the Roll Back Rate.

Rather than trying to reduce the transfer at this time, the better decision may be to use these same dollars and have the General Fund assume the cost of street lighting. By using some portion of the revenue generated from the difference between the Effective and Roll Back Tax Rates, this cost could be phased in over two or three years. This change would benefit AE in two ways: first by lowering the overall cost to ratepayers and secondly by making AE structurally like most other utilities in Texas.

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