

**AUSTIN ENERGY'S TARIFF PACKAGE:  
2015 COST OF SERVICE STUDY  
AND PROPOSAL TO CHANGE BASE  
ELECTRIC RATES**

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**BEFORE THE CITY OF AUSTIN  
IMPARTIAL HEARING EXAMINER**

**PUBLIC CITIZEN's AND SIERRA CLUB's CROSS REBUTTAL  
PRESENTATION ON THE ISSUES**

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Intervenors Sierra Club and Public Citizen respectfully submit their Cross Rebuttal Presentation on the following issues.

**Cost of Service**

In our position statement, we advocated for using a cost of service (COS) methodology that better allocated the production costs of generation resources. We support the use of either a Base, Intermediate, Peak (BIP) method or an hourly energy cost method such as a Probability of Dispatch method.

The Independent Consumer Advocate also supported both of these approaches as preferable COS approaches. In particular, the ICA stated that a modified BIP approach should be used, and provided two different modifications to apply the BIP in the Austin Energy rate case. We are in general agreement, and while we continue to support an hourly energy cost approach as well, we agree that a modified BIP may be easier to implement absent detailed hourly information and would be an improvement over the 12-Coincident Peak (12 CP) method.

One of the approaches that the ICA advocated relies on the Energy Information Administration for comparison on technology cost information. While

the EIA is a well known and an available cost allocator, we suggest some further analysis of these cost assumptions. Because EIA generally uses nationwide cost assumptions, certain resources -- such as wind and solar -- often have significantly lower costs in the southwest than EIA data indicates (because of superior resources in states like Texas). Therefore, we believe some analysis of other cost assumptions, such as those used in the 2014 Generation Plan development and an independent firm such as Lazard should be utilized if the modified BIP approach advocated by the ICA is used. Finally, if the BIP modified approach is used going forward in future rate cases, the methodology should continue to be improved by analyzing real cost data for various resources.

We also found the ICA's application of the COS and its revenue requirement assumptions to be reasonable, where the actual rate decrease to most customer classes would be applied according to both COS, and a general level decrease for most classes based largely on kilowatt hour use. Specifically, the ICA recommended an approximately \$36 million decrease in revenue requirements, and then spread this decrease across all customers classes, with one exception. Whatever the ultimate decision on the amount of the rate decrease, this is a fair approach to benefit all rate classes, and avoid major winners and losers.

We oppose the use of either the 12 CP approach favored by AE, or the Average and Excess Demand (AED) approach utilized in the previous rate case. In particular, the COS approach advocated by the Austin Chamber of Commerce

and Data Foundry, as well as by NXP and Samsung would significantly shift the cost of service to residential consumers, which we oppose.

The Chamber and Data Foundry argue in their filings that:

“AE has proposed a new and unprecedented cost allocation method that increases the estimated cost responsibility of Commercial Class customers. AE's proposed cost allocation method is significantly different than the previous approved method, which followed long-standing precedent at the Public Utility Commission of Texas (PUCT), and was also approved by the Austin City Council in AE's most recent rate case.”<sup>1</sup>

While Data Foundry/Chamber is correct that AE is proposing a COS that differs from that used in the previous rate case, and is also correct that AE's COS does not recover the individual rate class cost of service found in AE's study, Sierra Club and Public Citizen do not support the cost allocation assumptions of Data Foundry that residential and small commercial customers are not paying their true cost of service. Indeed, if the BIP method had been utilized, the cost of service allocation would have been considerably different, and found that residential and smaller commercial entities were paying more than their fair cost of service.

While we do not support the use of the 12 CP method, we disagree that AE should utilize the previous AED method. During the 2012 rate case, the BIP was recommended by various parties, including an outside consultant as the preferred method, but, instead, a modified AED was used, largely based on the recommendations of many larger customer classes.

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<sup>1</sup> Intervenor Data Foundry/Austin Chamber Cost Allocation, Revenue Distribution and Rate Design Presentation. May 3, 2016. Pg 2.

Data Foundry and the Chamber of Commerce are advocating that the AED approach be used in this rate case, and essentially that six rate classes be allocated a rate hike of two percent, while six rate classes receive a significant rate decrease, ranging from one to seven percent.<sup>2</sup>

Public Citizen and Sierra Club cannot support the proposals from Samsung/NXP or Data Foundry and the Chamber to move toward the AED method as we believe the BIP method advocated for by the ICA is a more reasonable cost of service approach. Further, we support a modified cost allocation method to equitably share the proposed reduction in rates, as supported by the ICA, as opposed to attempting to exactly equal cost of service through allocation of decreased revenue requirements.

### **In-City versus Out-of-City Residential Rates**

The ICA correctly pointed out that residential customers living outside of Austin enjoy a direct subsidy compared to residential rate payers within the city, as a result of the previous rate case settlement. Sierra Club and Public Citizen argued in our filings that there is no reason to provide this discount to those living outside the city. Indeed, it almost certainly costs more, not less, to serve those living outside the city. While further study is merited to prove that customers outside of Austin should pay more, there is certainly no evidence to support them paying less.

We appreciate that the ICA recommended that the cost of the discount

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<sup>2</sup> Intervenor Data Foundry/Austin Chamber Cost Allocation, Revenue Distribution and Rate Design Presentation. May 3, 2016. Pg 19.

customers who live outside of Austin not be allocated to the residential class through an adjustment in the cost of service methodology. We believe the simplest solution is to apply the same residential rate to all customers, no matter what side of the city limit they live on, but would support this proposed change in cost allocation if the discount for customers outside of Austin is maintained.

### **Proposed Flattening of Residential Tiered Rates**

In its filings, the ICA also correctly points out that it is unusual and beyond normal ratemaking practices for Austin Energy to attempt to assign cost of service to different categories of energy users within the residential rate class. AE is essentially arguing that those with lower energy use are not paying their cost of service, and instead attempts to adjust its tiered rates by flattening and significantly reducing the highest energy use tiers. We appreciate the ICA's comment that a preferable approach would be to simply adjust all tiers to meet the lower cost of service, rather than pit one energy use category within the rate class against another.

### **Seasonal Power Supply Adjustment Proposal**

We agree with the comments made by the Texas Legal Services Center (TLSC) on behalf of AE Low Income Customers (AELIC), which argues that switching to a summer and winter Power Supply Adjustment (PSA) fee as being contrary to the interests of residential consumers, and particularly low-income consumer interests.

### **Pilot Projects**

Both the AELIC and the ICA object to the pilot projects advocated by AE in their rate case. While Sierra Club and Public Citizen support some of these pilots, including the Time of Use (TOU) Rates, and Electric Vehicle Charging Rates, we found the position of ICA reasonable that special tariffs and rates should have a review process with stakeholders to ensure they are designed appropriately. However, in the case of the TOU rates, these were included in the previous rate case, and thus theoretically have been in existence for many years, but as stated, have not been appropriately marketed or implemented. Thus, we believe at least in the case of the TOU rate, it should be maintained in the current rate case.

We agree that the costs, expected timelines, and terms and conditions of pilot programs should be clearly defined. However, the proposed peak shift tariff for commercial customers that utilize storage technology should not be considered a pilot, since it is replacing an existing thermal storage tariff.

We do not object to the pre-pay pilot being removed from the present rate case, and instead go through a stakeholder process to determine its usefulness and assure that residential customers are protected.

### **Reserve Policy**

Many parties objected to the large reserve requirements identified by Austin Energy as part of this rate case. We are not currently taking a position on that issue in general, but we do object to the idea that the specific “Non-Nuclear

Decommissioning Fund” should be eliminated from the revenue requirements or reduced to only a few million dollars.

Austin Energy utilized a real study on the decommissioning costs of its three fossil fuel plants and creating a three-year average cost to determine the revenue requirement for the decommissioning fund. While it is accurate that the exact year in which some of these plants would be decommissioned is unknown, the 2025 Generation Plan does establish a 2018 expected retirement date for the Decker steam plants, and a 2023 date for Fayette retirement, subject to negotiations with LCRA (co-owner) as well as the creation of a debt defeasement account. We agree that the exact date for Sand Hill retirement is unknown, but do believe that 2030 is reasonable, given city policy for Austin Energy generation assets will be a zero-carbon utility by 2030.

Thus, we strongly object to both the AELIC and Samsung/NXP proposals to essentially eliminate the decommissioning account. While the ICA proposal to assume lower decommissioning costs appears to be more reasonable, we also object to this proposal. Austin Energy has an obligation to completely remediate the land on which its assets are located. This may likely include significant clean-up of toxic environmental contaminants – particularly at the Fayette Power Project site. It is often difficult or even impossible to fully account for the costs of such remediation prior to commencement of decommissioning. It is in the interest of ratepayers that high end in projected costs be budgeted for in advance. This will allow the costs of decommissioning to be spread over a longer period and have the least impact on rates. Conversely, budgeting too little for

decommissioning could result in unexpected higher costs that must be recouped in a short time period. Any excess money in the Non-Nuclear Decommissioning Fund can later be returned to ratepayers.

We do agree with others that for the sake of transparency, some “confidential” information on these plants costs could be shared by agreement of the parties.

### **Value of Solar Transparency**

We agree with the argument made by Mr. Jim Rourke in regard to the Value of Solar (VoS) tariff. Because the VoS tariff is adjusted annually, outside of rate case proceedings, it is important that the methodology be fully transparent. Although Austin Energy has release descriptions of the components of the VoS, it has not released the actual formula used to calculate the VoS. Without the specific formula, it is impossible for members of the Electric Utility Commission, the Resource Management Commission, City Council or the public to verify that annual adjustments of the VoS are being made solely based on updated data and not changes to the formula itself. Austin Energy customers who invest in on-site solar energy systems are entirely reliant on the VoS for recovering the costs of their investments. It is therefore critical to the success of Austin Energy’s solar programs that the public and policy makers have full access to the formula used to calculate the VoS.



Copies of this Cross Rebuttal Presentation are being served on parties listed on the City Clerk's service list as of the date of this filing.

Respectfully submitted,

A handwritten signature in cursive script that reads "Carol S. Birch".

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Carol S Birch  
Texas Bar No. 02328375  
Attorney for Public Citizen and Sierra Club

Submitted: May 10, 2016