

**AUSTIN ENERGY TARIFF PACKAGE
UPDATE—2016 RATE REVIEW**

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

CROSS REBUTTAL TESTIMONY

OF

CLARENCE L. JOHNSON

ON BEHALF OF THE

INDEPENDENT CONSUMER ADVOCATE

AUSTIN ENERGY

2016 MAY 10 AM 11:50

MAY 10, 2016

**CITY OF AUSTIN 2016 BASE RATE REVIEW
BEFORE THE IMPARTIAL HEARING EXAMINER**

CROSS REBUTTAL TESTIMONY OF CLARENCE JOHNSON

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1 **I. INTRODUCTION**

2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 A. My name is Clarence Johnson. My address is 3707 Robinson Avenue, Austin, Texas
4 78722.

5 **Q. ARE YOU THE SAME CLARENCE JOHNSON WHO PREVIOUSLY FILED**
6 **TESTIMONY IN THIS PROCEEDING?**

7 A. Yes.

8 **Q. WHAT IS YOUR ROLE IN THIS PROCEEDING?**

9 A. I am appearing on behalf of the Independent Consumer Advocate (ICA). The City of
10 Austin retained John B. Coffman LLC as the ICA, with the role of representing the
11 interests of residential, small commercial, and houses of worship (“HOW”) customers in
12 the electric rate review process. Mr. Coffman’s ICA team includes myself and Ms. Janee
13 Briesmeister as subcontractors.

14 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

15 A. My testimony will respond to selected parts of the presentations and witnesses of the
16 following parties in the proceeding: NXP and Samsung (Goble); Data Foundry; Mr.
17 Robbins; Public Citizen/Sierra Club; Austin Energy Low Income Customers (“ALIC”);
18 and Bethany United Methodist Church. The omission of a response to a particular
19 recommendation or claim by a witness does not imply either agreement or disagreement
20 with that witness.

II. GOBLE CCOS STUDY PROPOSALS

Q. DOES NXP AND SAMSUNG RECOMMEND CLASS COST ALLOCATION CHANGES THROUGH WITNESS GOBLE?

A. Yes. Mr. Goble recommends allocation factor changes in the class cost of service study (CCOS). The allocation factor changes involve production demand and distribution demand allocation factors.¹ Mr. Goble also proposes a different allocation for billing adjustments. Setting aside revenue requirement adjustments, I estimate that Mr. Goble's class cost allocation changes would shift approximately \$13 million more onto the residential class.² My testimony will respond to these recommendations below.

A. Production Demand Methodology

Q. DO YOU AGREE WITH MR. GOBLE'S RECOMMENDATION REGARDING THE PRODUCTION DEMAND ALLOCATION METHOD?

A. No. Mr. Goble proposes to replace AE's 12 CP method with Average & Excess Demand/4CP ("AED-4CP"). In my view, the AED-4CP method produces results which do not take into account the role of energy use in system planning, relies too heavily on only four hours of the year to allocate almost one billion dollars of generation investment, and ignores the effect of ERCOT dispatch on generation cost causation. As stated in my

¹ Mr. Goble also proposed inclusion of city lighting in the final class allocation. However, for my purposes, I consider this recommendation to be a revenue requirement issue, rather than a class allocation issue.

² For residential customers, my estimate: production demand increase of \$9.1 million; distribution demand increase of \$2.7 million; billing adjustment allocation increase of \$1.3 million. The production demand estimate is based on inserting "AED4CP" into col. G, l. 9 – 15, Schedule G-6, of the AE CCOS model. The remaining part of the estimate is derived from Mr. Goble's schedules.

1 direct testimony, my version of the Baseload-Intermediate-Peak (“BIP”) methodology is
2 superior to either 12 CP or AED-4CP.

3 **Q. MR. GOBLE POINTS TO SEVERAL CASES IN WHICH THE TEXAS PUC HAS**
4 **APPROVED THE AED-4CP METHOD AS SUPPORT FOR APPROVING HIS**
5 **RECOMMENDATION. WHAT IS YOUR RESPONSE?**

6 A. First, my assumption is that the city council approved the impartial hearing process so
7 that rate making decisions would be based on the merits of the proposals presented in the
8 hearing of this specific rate review. In my view, the evidence will support the use of BIP
9 in this case. Furthermore, the city of Austin has original jurisdiction over the retail rates
10 set in this case. The Texas Public Utility Commission (“PUC”) potentially has appellate
11 jurisdiction over rates outside the city. But, even considering that situation, the city of
12 Austin continues to have sole jurisdiction over the vast majority of Austin Energy
13 revenues. The choice of production plant allocation is a very significant decision, and the
14 city of Austin should not cede that responsibility to the Texas PUC. Second, the Texas
15 PUC has not addressed the appropriate production demand methodology for an ERCOT
16 electric utility since the ERCOT nodal market structure was put in place. I agree with
17 Austin Energy’s position that the AED-4CP method is not consistent with the ERCOT
18 dispatch system. No Texas PUC precedent exists for the appropriate production demand
19 methodology to use as a guide under the current ERCOT market structure.

1 **Q. MR. GOBLE ARGUES THAT THE CITY COUNCIL’S APPROVAL OF AED-**
2 **4CP IN SETTING 2012 RATES SHOULD LEAD TO THE ADOPTION OF THE**
3 **SAME METHODOLOGY IN THIS RATE REVIEW. DO YOU AGREE?**

4 A. No. In approving this rate review, the city council has placed no limitation or constraint
5 on the allocation methods to be considered. Moreover, as I pointed out in my direct
6 testimony, AE relied upon the BIP method in 2012 to support its recommendation of
7 setting residential class revenues at 95% of the AED-4CP result. AE’s general manager
8 at the time told the council and mayor that the “AED method with a 5% reduction from
9 cost of service provides similar results to the Baseload, Intermediate, Peak (BIP) method.
10 At 95% of AED, residential rates are essentially the same as what the rates would be
11 using the BIP method.”³

12 **Q. PLEASE ELABORATE ON YOUR ASSERTION THAT MR. GOBLE’S AED-4CP**
13 **METHOD ESSENTIALLY ALLOCATES COSTS TO ONLY FOUR HOURS OF**
14 **THE YEAR.**

15 A. Although the AED-4CP formula appears to allocate costs in part on the basis of energy
16 usage (average demand), that appearance is largely a mathematical illusion, particularly if
17 coincident peak data is used, as Mr. Goble has proposed. The AED-4CP formula is a
18 circuitous route to estimating the class shares of 4CP demands, which in turn allocates
19 costs to only four hours.

³ Memorandum to Mayor and City Council Members, From Larry Weis, General Manager, Jan. 23, 2012, Subject: Follow Up to Jan. 17 Council Work Session on Electric Rate Recommendations, at 8.

1 If the load factor for the AED-4CP calculation is derived from 4CP, the results of
2 A&E/4CP are the same as a straight 4CP allocator. Minor adjustments, such as
3 converting “negative” excess demands to zero (such as the Texas PUC’s typical
4 formulation), or using a different load factor may cause the A&E/4CP to diverge slightly
5 from 4CP. This change is slight because it usually affects only the lighting classes.

6 Mr. Goble cites the NARUC Cost Allocation Manual (CAM) to oppose AE’s 12
7 CP methodology. However, the NARUC CAM does not support the AED-4CP method
8 which he employs. The NARUC CAM cautions against the insertion of coincident peaks
9 into this formula stating that reliance upon coincident peak (“CP”) demands for the
10 Average & Excess (“A&E”) method will preclude the methodology from achieving the
11 purported aim of recognizing energy use (average demand):⁴

12 If your objective is – as it should be using this method – to reflect
13 the impact of average demand on production plant costs, then it is
14 a mistake to allocate the excess demand with a coincident peak
15 allocation factor because it produces allocation factors that are
16 identical to those derived using a CP method.

17 **Q. CAN YOU SHOW THAT AED-4CP, AS PROPOSED BY MR. GOBLE, IS**
18 **EQUIVALENT, IN PRACTICE, TO SIMPLE 4 CP FOR MOST OF AUSTIN**
19 **ENERGY’S NON-LIGHTING CLASSES?**

20 A. Yes. The proof is in the results. The table below, shows the difference between the
21 AED-4CP and 4CP by rate class, rounded to tenth of a percentage point:

⁴ NARUC Electric Utility Cost Allocation Manual (1992) at 50.

A&E/4CP Allocator Minus 4CP Allocator

	Difference (Percentage Points)
Residential	-0.2%
Secondary 1	0.0%
Secondary 2	-0.1%
Secondary 3	0.0%
Primary Total	0.0%
Transmission Total	0.1%

The largest difference is only 2/10 of 1 percentage point, and the difference is not noticeable for most classes.

Q. MR. GOBLE CONTENDS THAT AED-4CP IS APPROPRIATE BECAUSE ERCOT CALCULATES SUMMER RESERVE MARGINS AND BECAUSE PEAK DEMANDS ARE HIGHER IN THE SUMMER. PLEASE RESPOND TO THESE POINTS.

A. First, in contrast to the press release cited by Mr. Goble, ERCOT's seasonal assessment calculates reserve margins in both the summer and winter.⁵ Second, despite higher peak demands in the summer, most of ERCOT's recent significant reliability events occurred in the winter due to cold weather. For example, ERCOT endured rolling blackouts in February 2011 when 50 power plants were unable to operate due to ice storms; and in January 2014, ERCOT was close to rolling outages when cold weather knocked two large

⁵ For example, see the May 2016 Capacity Demand Reserve Report in excel format at <http://www.ercot.com/gridinfo/resource/>.

1 power plants off-line.⁶ Third, reserve margins and peak demands are only a partial
2 explanation of generation plant cost causation. These characteristics relate only to
3 reliability criteria, but ignore the financial and economic characteristics that determine
4 what type of generation technology will be constructed and how the generation will be
5 dispatched. In order to evaluate long range supply conditions, ERCOT projects fuel
6 prices, capital costs of various generation technologies, heat rates, and financial criteria.
7 The decision to build generation with capital costs several times higher than the lowest
8 cost peaking units is critical to evaluating cost causation.

9 **Q. HAS MR. GOBLE PREVIOUSLY RECOGNIZED THE LINKAGE BETWEEN**
10 **GENERATION PLANT DISPATCH AND THE SELECTION OF A**
11 **PRODUCTION DEMAND ALLOCATION METHOD?**

12 A. Yes. Mr. Goble has previously supported the Probability of Dispatch (POD) allocation
13 method.⁷ The NARUC CAM lists both POD and BIP among the family of “production
14 stacking” allocation methods. Unlike AED-4CP, POD spreads generation plant costs to
15 all 8,760 hours of the year. POD recognizes that the South Texas Project would be
16 dispatched in as many hours as it is capable of running, and assigns the costs to time
17 periods accordingly. Mr. Goble’s testimony discusses why AED-4CP is preferable, in his

⁶ “Storm Disrupts Power for Thousands,” Wall Street Journal, Feb. 2, 2011.<http://www.wsj.com/articles/SB10001424052748703960804576120272556018158>; “North Texas Cold Snap Nearly Prompts Power Outages,” Jan. 6, 2014, <http://dfw.cbslocal.com/2014/01/06/north-texas-cold-snap-nearly-prompts-rolling-power-outages/>.

⁷ For instance, Mr. Goble testified in support of the POD method in CPL Docket Nos. 8646 and 9561 before the Texas PUC.

1 opinion, to 12 CP. But he does not say that AED-4CP is preferable to an allocation
2 methodology that accounts for the dispatch of generating plants.

3 **Q. PLEASE SUMMARIZE YOUR RESPONSE TO MR. GOBLE’S TESTIMONY**
4 **REGARDING PRODUCTION DEMAND ALLOCATION.**

5 A. The AED-4CP method should be rejected as overly simplistic and inconsistent with
6 ERCOT dispatch principles. If power plants were built to serve load in only four hours
7 of the year, the utility would always construct gas peaker units because that reflects the
8 cheapest conventional technology for generating power during a minimal number of
9 hours. However, Austin Energy builds base load and intermediate plants because these
10 technologies are expected to minimize total costs over a larger number of hours.

11 **B. Distribution Demand Methodology**

12 **Q. DO YOU AGREE WITH MR. GOBLE’S RECOMMENDED CHANGE TO**
13 **DISTRIBUTION DEMAND ALLOCATORS?**

14 A. No. Class non-coincident demands (NCP) normally are used to allocate most demand
15 related distribution costs. Austin Energy applies the 12 NCP method to allocate poles,
16 conductors, and substations, and Mr. Goble proposes to replace this allocator with a NCP
17 allocator limited to the summer season. The 12 NCP method used by AE is an average of
18 class NCP for each of the 12 months. Mr. Goble’s method utilizes each class’ highest
19 demand during the four-month summer period. The purpose of the NCP demand method
20 is to recognize load diversity and the localized nature of distribution planning. Mr.
21 Goble’s summer NCP method dilutes the recognition of both factors.

1 **Q. PLEASE DISCUSS THE RELATIONSHIP OF NCP DEMANDS TO LOAD**
2 **DIVERSITY AND LOCALIZED LOADS.**

3 A. Load diversity is an important economy of scope in the electric utility industry. When
4 class loads have a similar profile, increased demand imposes higher costs on distribution
5 facilities. However, as more and different types of loads are combined within a local area
6 served by distribution facilities, diversity benefits reduce the cost associated with
7 additional new load. Different types of loads can be complementary, with the peak of
8 one profile occurring outside the peak of the other type of load. Loads tend to become
9 increasingly diverse for more upstream facilities, since the local area served is expanded.
10 Local area facilities closest to the end user tend to be more homogenous, even though
11 some local areas may have a significant variety of customer profiles. Given that
12 customer classes tend to have profiles which are more homogenous, class maximum
13 demands are assumed to be most representative of the most localized facilities. By
14 restricting the NCP demand to summer months, Mr. Goble's method limits the
15 recognition of diversity of loads between classes, because classes with high demands
16 outside the summer season are insulated from the allocation of distribution costs
17 associated with their high demand periods.

18 **Q. MR. GOBLE POINTS OUT THAT DISTRIBUTION FACILITIES HAVE**
19 **LOWER LOAD CARRYING CAPABILITY IN HOT TEMPERATURES. DO**
20 **YOU AGREE THAT THIS JUSTIFIES HIS METHOD?**

21 A. No. This may be a factor in the selection of sizes for distribution facilities. However,
22 other factors like economies of scale and energy loss reduction are benefits associated

1 with selecting larger sizes of distribution facilities. For upstream facilities, such as larger
2 feeders, the conductors are generally sized for capacity significantly higher than expected
3 demand due to economies of scale, potential future growth, and benefits of reducing
4 energy losses. In those circumstances, the effect of summer temperature is not the
5 controlling factor in sizing the feeder.

6 **Q. WOULD YOU CHARACTERIZE MR. GOBLE'S METHOD AS THE**
7 **PREDOMINANT FORM OF NCP USED BY TEXAS UTILITIES?**

8 A. No. Most utilities use NCP methods for distribution, but in my experience the
9 conventional approach is to use NCP demands based on class maximum demand for the
10 annual period.

11 **C. Billing Adjustment to Revenues**

12 **Q. DO YOU AGREE WITH MR. GOBLE'S RECOMMENDED CHANGE TO THE**
13 **ALLOCATION OF THE \$2.9 MILLION BILLING ADJUSTMENT TO**
14 **REVENUES?**

15 A. No. Mr. Goble attempts to insulate certain customer classes from the reduced revenue
16 effect. AE attempts to reconcile billed revenues with book revenues in its cost of service
17 study. Because AE cannot access information regarding the classes which caused this
18 downward adjustment in revenues, AE allocates the adjustment on a prorated basis
19 among classes. Mr. Goble believes that AE should have maintained adequate records of
20 rebilled revenues by classes. He contends that larger customers in the higher voltage
21 primary and transmission classes are less likely to have experienced such rebilling, and
22 proposes to shield those customers from any reduction in revenues. Thus, he would

1 allocate the adjustment to the remaining classes. I agree with Mr. Goble that it would be
2 preferable if AE could have provided data by class for this adjustment. However, in the
3 absence of such information, insulating larger customers from this adjustment is
4 arbitrary.

5 **Q. DO WE KNOW IF THE LARGER CUSTOMERS HAVE NO RESPONSIBILITY**
6 **FOR ANY OF THIS ADJUSTMENT?**

7 A. No. By definition, if no information regarding the causal classes is available, we cannot
8 determine that larger customers bear no responsibility. Mr. Goble may be correct that
9 rebillings are less frequent among such customers. But, even if less frequent, an incident
10 which occurs among large customers generally will involve a larger amount of revenues.
11 Larger customers are not immune from meter error, administrative errors, transpositional
12 errors etc. Without additional information, a pro rata allocation of the adjustment is more
13 equitable than arbitrarily removing certain classes from the allocation process.

14 **Q. DOES MR. GOBLE PROPOSE AN ALTERNATIVE RECOMMENDATION?**

15 A. As an alternative proposal, Mr. Goble suggests that the adjustment could be denied based
16 on AE's failure to maintain adequate records to support the reduced revenue level. I do
17 not object to this alternative recommendation.

1 **III. NXP/SAMSUNG AND DATA FOUNDRY**
2 **PRODUCTION COST ISSUES**

3 **Q. DO MR. GOBLE AND DATA FOUNDRY RAISE OBJECTIONS TO AE’S**
4 **PRODUCTION COSTS, PARTICULARLY AS IT RELATES TO AE’S**
5 **PARTICIPATION IN THE ERCOT WHOLESALE MARKET?**

6 A. Yes. They raise a variety of arguments and make a number of production cost
7 comparisons. I will only address a few statements which seem inconsistent with
8 regulatory practice in Texas.

9 **Q. DATA FOUNDRY ASSERTS THAT AE’S PRODUCTION PLANT IS**
10 **“DEDICATED” TO THE WHOLESALE MARKET AND CANNOT BE**
11 **INCLUDED IN RETAIL RATES. IS THIS CONSISTENT WITH YOUR**
12 **UNDERSTANDING OF REGULATORY PRACTICE IN TEXAS?**

13 A. No. All of the investor-owned bundled utilities in Texas buy and sell power in real time
14 wholesale markets without excluding the associated power plant fixed costs from retail
15 rate base. Only plant allocable to native load wholesale customers pursuant to FERC cost
16 of service tariffs are excluded from those utilities’ retail rate base. AE has no comparable
17 native load wholesale customers. For the bundled utilities within ERCOT such as AE
18 (i.e., non-opt in utilities), the ERCOT market structure represents a system for buying and
19 selling power similar to a power pool. In a regulatory sense, this is no different than El
20 Paso Electric Co. (EPE) or Southwestern Public Service Co. (SPS), which include power
21 plant investment in retail rate base, but use revenues from opportunity sales of power and
22 purchases of power on the wholesale market as an offset to retail revenue requirement.

1 EPE's Palo Verde nuclear investment is located near the California border, and
2 significant quantities of Palo Verde power are sold into the California market. The Texas
3 PUC does not consider any of the Palo Verde investment to be dedicated to the wholesale
4 market, but instead includes Palo Verde in EPE's retail rate base and uses margins on the
5 sale of power as a reduction to retail revenue requirements.

6 **Q. BOTH MR. GOBLE AND DATA FOUNDRY MAKE COMPARISONS OF**
7 **ERCOT PRICES WITH AE PRODUCTION COSTS, INCLUDING FIXED**
8 **COSTS. ARE THESE COMPARISONS MEANINGFUL?**

9 A. No. ERCOT is an "energy-only" market structure. Power sales are bid on a variable cost
10 basis. ERCOT does not have a capacity market. It would not be surprising if South
11 Texas Project's plant investment costs are not economic. Few, if any, nuclear power
12 plants were economic on a total cost basis when the units were placed in service.
13 However, from the standpoint of AE's retail customers, STP investment is a sunk cost,
14 and retail ratepayers' interest are best served by maximizing the margins that AE receives
15 on STP's variable costs in the ERCOT market—even if the margins do not fully offset
16 the fixed costs paid by retail ratepayers.

17 **Q. MR. GOBLE SAYS THAT OTHER GENERATORS IN ERCOT DO NOT HAVE**
18 **RETAIL CUSTOMERS TO PAY FOR THE GENERATION FIXED COSTS**
19 **WHICH EXCEED REVENUES EARNED IN THE ERCOT MARKET. IS THIS A**
20 **REASONABLE COMPARISON?**

21 A. This is an incomplete picture, at best. For example, NRG is a deregulated generator
22 which owns part of STP, like Austin Energy. However, NRG is not responsible for the

1 full installed cost of STP, because it purchased its share of STP through Center Point's
2 (CNP) and Texas Central Company's (TCC) stranded cost true up proceedings. CNP and
3 TCC ratepayers paid billions of dollars for the "uneconomic" portion of STP plant
4 investment through stranded cost charges. Retail ratepayers of CNP, Texas New-Mexico
5 Power, and TCC paid--and continue to pay in some cases--for uneconomic production
6 fixed costs through transition charges.

7 **Q. DO YOU DISAGREE WITH MR. GOBLE'S AND DATA FOUNDRY'S**
8 **POSITION THAT AE'S PSA COSTS SHOULD BE SUBJECT TO A REVIEW**
9 **SIMILAR TO BASE RATES?**

10 A. I agree that it is preferable to review fuel and purchase power costs at the same time as
11 base rates. However, that is not included in the scope of this proceeding. Perhaps the
12 city council should consider expanding the scope of AE's rate inquiry in the next rate
13 case. Both Data Foundry and Mr. Goble suggest that AE's ratepayers are subsidizing
14 AE's wholesale market sales. This would require a consistent pattern of bidding below
15 marginal cost, which would be a serious prudence issue, if true. However, I am skeptical
16 that AE has a motive for consistently selling below cost, and neither Mr. Goble or Data
17 Foundry have provided any hard evidence to support such a claim. That said, if the IHE
18 believes that the allegation should be examined, the IHE could recommend that the city
19 council engage an independent performance audit of AE's sale of power in the ERCOT
20 market.

1 **IV. RESPONSE TO PUBLIC CITIZEN/SIERRA CLUB**

2 **Q. WHAT DOES PUBLIC CITIZEN/SIERRA CLUB PROPOSE WITH REGARD**
3 **TO CUSTOMER CHARGES?**

4 A. Public Citizen/Sierra Club say they believe the cost of service for multi-family dwellings
5 is significantly lower than the cost of serving single family residences and recommend
6 the customer charge for customers in multi-family units be lowered to \$6 per month.⁸

7 **Q. DO YOU AGREE WITH THIS RECOMMENDATION?**

8 A. No. Public Citizen/Sierra Club have not provided any data or analysis to support a \$6
9 customer charge for multi-family dwellings. It is not appropriate to change the customer
10 charge for multi-family residences without a complete understanding of whether the
11 change is cost-based and what impact the change would have on other residential
12 customers. Further, as described in my direct testimony, my recommendation is to limit
13 the customer charge to recover only costs which vary directly with the number of
14 customers. Limiting the customer charge to costs that vary directly with the number of
15 customers is likely to find little differentiation between multi-family and single family
16 residences.⁹ Further, it would be unwise to create a different customer charge for multi-
17 family residences in this rate case when Austin Energy has plans to study customer-

⁸ Public Citizen/Sierra Club at pp 15-16.

⁹ The customer charge does not include any delivery costs associated with lines, poles, and transformers. The principal cost components are customer accounting and billing, which vary on a per customer basis and which are unlikely to be affected by the type of dwelling unit.

1 related cost recovery charges for multi-family, single-family and solar customers before
2 the next rate review.¹⁰

3 **Q. WHAT IS PUBLIC CITIZEN/SIERRA CLUB'S PROPOSAL REGARDING THE**
4 **FAYETTE POWER PROJECT?**

5 A. Public Citizen/Sierra Club proposed establishment of a new fund to collect money for
6 defeasement of debt linked to the Fayette Power Project. The groups propose revenue of
7 \$31.5 million per years for fiscal years 2017 through 2022.

8 **Q. DO YOU AGREE WITH ESTABLISHMENT OF SUCH A DEFEASEMENT**
9 **FUND?**

10 A. No. I do not agree that it is appropriate to increase rates by more than \$30 million to
11 create a new reserve fund when Austin Energy continues to struggle with meeting the
12 affordability and competitiveness goals set by Council.

13 In supporting the creation of this fund, Public Citizen/Sierra Club cite a statement
14 from the Austin Energy Resource Generation and Climate Protection Plan to 2025,
15 adopted in December 2014: "Supporting creation of a cash reserve fund for Fayette
16 Power Project ("FPP") retirement. Reserves would be approved through the budgeting
17 process and targeted to retire Austin's share of the plant beginning in 2022. Retiring
18 Austin's portion of Fayette is contingent upon cash available to pay off debts and other
19 costs associated with retirement while maintaining affordability." (Emphasis added)¹¹

¹⁰ Tariff Package, Appendix E, Bates 372.

¹¹ See Public Citizen/Sierra Club direct at p. 22; see 2025 Climate Plan at p. 3
<https://austinenenergy.com/wps/wcm/connect/461827d4-e46e-4ba8-acf5-e8b0716261de/aeResourceGenerationClimateProtectionPlan2025.pdf?MOD=AJPERES>.

1 Moreover, in addition to discussing a cash reserve fund for retiring FPP, the Plan
2 emphasizes the city's affordability goals for Austin Energy, as shown above and in the
3 section quoted below:

4 “Affordable. Austin Energy will strive to optimize rates and
5 services in a responsible manner. A fundamental benchmark that
6 will guide implementation of the Plan is affordability. Austin
7 Energy must be financially sound, the cost of electric service must
8 be affordable for all classes of customers (with particular attention
9 to the low income and underserved customers), and rates must be
10 competitive to ensure the retention and attraction of businesses for
11 a strong local economy. As Austin Energy moves forward with
12 implementation of the Plan, customer bills will be compared to
13 those for similar customers in other major metropolitan areas,
14 including, Houston, San Antonio, Dallas-Fort Worth and other
15 areas within the Austin Metropolitan Statistical Area (MSA). The
16 Plan will be subject to keeping overall rates from rising more than
17 2 percent per year and maintaining a competitive posture.
18 Available data (rates, average monthly bills for residential,
19 commercial and industrial, and other affordability/competitive
20 benchmarks) will be included in Austin Energy's Annual
21 Performance Report.”¹²

22 Affordability has been challenge for Austin Energy. In a February 1, 2016
23 Memo, Interim General Manager Mark Dombroski explained the challenges:

24 “Austin Energy can, and has, managed rates within the 2%
25 affordability metric since 2013 with the use of its working capital
26 (cash). For example, when regulatory charges to the utility for
27 access to the ERCOT transmission grid in 2014 and 2015 would
28 have increased average system rate more than 2%, AE used its
29 working capital to pay these expenses. Austin Energy delayed
30 collecting the allocated charges from the customers until 2016
31 when a significant decrease in power supply costs allowed AE to
32 raise the regulatory charge without exceeding the 2% affordability

¹² 2025 Plan at p. 2.

metric.”¹³ The memo further stated that Austin Energy has not been in compliance with the competitiveness metric since 2012.¹⁴

Furthermore, AE includes the Fayette Power Project in the development of a non-nuclear decommissioning expense as part of this rate filing, and this expense may be functionally equivalent to creating the reserve fund contemplated by the plan.¹⁵

Q. IS IT PREMATURE TO ADDRESS THE RATE MAKING TREATMENT OF THE RETIREMENT OF THE FAYETTE POWER PLANT?

A. In my opinion, this issue is premature. Although early retirement may be likely, a final decision regarding the timing of such an action has not occurred. Typically, a utility with undepreciated gross plant cost at the date of plant retirement will amortize the unrecovered cost over a period of time. The amortization could span the number of depreciable years that would remain in the absence of early retirement, or it could be a shorter recovery period. Presumably, the effect on the utility’s financial position, as well as the impact upon customers’ rates would be considerations in determining the amortization period. The best course of action is to determine the rate recovery when the factual circumstances are known. Moreover, with respect to debt defeasement, AE’s existing cash reserves at the time of retirement may be sufficient to pay this cost. Also refinancing all or part of the remaining debt may be a more reasonable action from the perspective of customer interests. A determination of these matters is premature.

¹³ See NXP/Samsung 2-16, Attachment 1, p 75 of 891.

¹⁴ See NXP/Samsung 2-16, Attachment 1, p 78 of 891.

¹⁵ AE’s consultant, NewGen, recommended funding a non-nuclear decommissioning reserve fund. Instead, in this filing, AE chose to use NewGen’s recommended funding amounts for fossil plant decommissioning to establish an expense recovery.

1 **V. RESPONSE TO MR. PAUL ROBBINS**

2 **Q. WHAT DOES MR. PAUL ROBBINS RECOMMEND?**

3 A. Mr. Paul Robbins requests the IHE to recommend to the City Council that administration
4 of the Customer Assistance Program (CAP) be changed to stricter automatic enrollment
5 requirements and/or income verification.¹⁶

6 **Q. WHAT ARE YOUR COMMENTS ON THIS RECOMMENDATION?**

7 A. The ICA supports the CAP program with automatic enrollment and proper oversight.
8 Affordability of utility service is a concern for a wide swath of Austin energy customers,
9 but none more so than lower income households. Automatic enrollment linked to income
10 qualified assistance programs is a proven method to prevent deserving customers from
11 falling through the cracks. Mr. Robbins has identified shortcomings that may have
12 allowed unqualified customers to be enrolled in the CAP program. It is appropriate to
13 review the enrollment process and to remove unqualified recipients from the program
14 when they are identified, while ensuring that qualified and deserving customers are not
15 also removed from the rolls. The City Council and Austin Energy have already taken
16 steps to address these enrollment questions.¹⁷

¹⁶ Robbins at p. 6.

¹⁷ See transcript of City Council Austin Energy Oversight Committee meeting of April 28, 2016 at <http://www.austintexas.gov/edims/document.cfm?id=252964> and Austin Energy presentation and discussion on Cap at the same committee, meeting of February 25, 2016 <http://www.austintexas.gov/department/city-council/2016/20160225-aeuoc.htm>.

1 **VI. RESPONSE TO AELIC POSITION**
2 **ON TREATMENT OF CAP DISCOUNT**

3 **Q. DO YOU HAVE A RESPONSE TO AUSTIN ENERGY LOW INCOME**
4 **CUSTOMERS (AELIC)?**

5 A. Yes. AELIC raises an issue regarding Austin Energy's treatment of revenues from the
6 Customer Assistance Program (CAP), and its relationship to cost of service for residential
7 customers.¹⁸ I do not believe that AE's cost of service has double counted the CAP
8 program in the calculation of its overall revenue requirement, which could be implied
9 from ALIC's position. However, AELIC has raised an interesting point which could lead
10 to skepticism of the amount of AE's claimed base revenue deficiency applicable to the
11 residential class.

12 **Q. DID YOU MAKE AN EFFORT TO EXPLORE THIS ISSUE WITH A REQUEST**
13 **FOR INFORMATION TO AE?**

14 A. Yes, ICA Request 6-6 asked for a thorough explanation as to how CAP customer
15 revenues and CAP discounts are accounted for in the CCOS study. AE's response to ICA
16 6-6 is somewhat ambiguous. But a reasonable interpretation of ICA 6-6 is that the
17 residential class base revenue cost of service result (WP G-10.2) includes CAP customers
18 at actual base revenue (i.e., a discounted rate). If this reading is correct, the discount
19 likely increases the amount that the residential class is shown to be below cost. The CAP
20 discount should be treated differently in the CCOS study than other discounts (school
21 district, military, etc.) because there is a stream of revenue dedicated to funding the

¹⁸ AELIC at p. 3.

1 discount. The existence of the regulatory charge indicates an intent that all customer
2 classes pay for the discount. The CAP discount should not be absorbed solely by the
3 residential class indirectly through the CCOS study's indicated residential class revenue
4 deficiency. The difficulty in correcting this issue in the CCOS study is that the revenues
5 that fund the discount are included in the regulatory charge, which is not part of base
6 rates, while the two sheets which quantify the residential relationship to cost are either
7 limited to base revenues (WP G-10.2) or exclude CAP revenues (Schedule G-10).

8 **Q. WHAT IS YOUR CONCLUSION?**

9 A. This is an additional reason to question the claimed residential subsidy produced by the
10 CCOS study. As stated in my initial testimony, the CCOS study is a blunt instrument
11 which may produce cost-based results which should be viewed as part of a *range* rather
12 than a specific point estimate.

13 **VII. RESPONSE TO BETHANY UNITED METHODIST**
14 **CHURCH ON RATE SHOCK FOR HOUSES OF WORSHIP**

15 **Q. DO YOU HAVE A RESPONSE TO BETHANY'S INFORMATION ON RATE**
16 **INCREASES THAT WOULD BE EXPERIENCED BY HOUSES OF WORSHIP?**

17 A. I do not have a response to Bethany's specific calculations of the rate impact on
18 individual Houses of Worship. I have not attempted to verify the calculations. However,
19 the Bethany's calculations are generally consistent with the conclusion in my direct
20 testimony. I agree that some HOWs will see a significant impact while others may see
21 little change, or even a decrease. Austin Energy provided a similar range of impacts on

1 the HOW customers in its February 25 presentation to the City Council.¹⁹ The fact that
2 some HOWs would experience rate shock under the new rates is due to the effect of
3 restructuring the Secondary rate classes. I would encourage Austin Energy to examine
4 Bethany's bill impact estimates and assist the customers in accurately calculating the
5 likely bill impact.

6 **Q. ARE COMPLAINTS, SUCH AS THOSE RAISED BY BETHANY, FREQUENTLY**
7 **ASSOCIATED WITH RATE CLASS RESTRUCTURING IN TEXAS?**

8 A. Yes. When retail electric competition began in Texas, small commercial customers were
9 subject to the Price to Beat, which was based on the same rate structure as the prior
10 bundled utility rate. When the Price to Beat expired in 2007, many churches faced
11 demand charge rates and ratchets for the first time. This rate shock resulted in
12 considerable public complaints to the Commission. As a result, the Texas PUC
13 encouraged various forms of rate relief aimed at small low load factor customers, such as
14 churches and little league ballparks. Sharyland Utilities (SU) is an ERCOT bundled
15 utility which implemented the Texas PUC's generic rate class structure in 2014. SU filed
16 for a rate review in April, 2016 and noted that churches had encountered severe rate
17 impacts due to the demand charge rate structure. As a result, SU has proposed an
18 optional rate rider for churches which is based on an energy rate, instead of demand
19 charges. SU rate design witness Jim Daniel states that this rate option recognizes the
20 financial hardship experienced by churches in Secondary >10 kW class, and points out

¹⁹<http://austinenergy.com/wps/wcm/connect/c5fceb8d-3f57-47f8-a03a-31ddcef08373/RateDesignCOSbriefing-AEUOC-01252016.pdf?MOD=AJPERES> See slides 30-32.

1 that the weekend usage by churches “do not contribute to the customer class NCP
2 demands used to allocate distribution-related costs.”²⁰ The proposed SU rate would
3 reduce a typical church’s bill from \$400 with demand charge billing to \$30 with energy
4 charge billing, according to Mr. Daniel’s testimony.²¹ This provides evidence that
5 Austin’s experience with rate structure changes is not unusual.

6 **Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

7 A. Yes.

²⁰ Direct Testimony of Jim Daniel for Sharyland Utilities at page 18 -19, Docket No. 45414, Review of Sharyland Rates, April 29, 2016.

²¹ Ibid.