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

NXP Semiconductors and Samsung Austin Semiconductor, LLCs' Response to Austin Energy's Fifth Request for Information

NXP Semiconductor, Inc. ("NXP") and Samsung Austin Semiconductor, LLC, ("Samsung") (collectively, "Customers"), each on its own behalf, by and through its attorneys of record, files this Response to Austin Energy's ("AE") Fifth Request for Information, submitted on May 10, 2016. Pursuant to the March 10, 2016 Revised Procedural Schedule, this Response is timely filed.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I certify that a true and correct copy of this pleading has been forwarded by fax, e-mail, U.S. first class mail, hand-delivery, or by courier service to all parties and filed with the City Clerk on the 16th day of May, 2016.

Maria Faconti
Maria C. Faconti

AE 5-1 Is it appropriate for a utility that owns a generation resource to start collecting the cost to retire and replace that asset prior to announcing the date on which the resource is to be retired? Why or why not? In your response, please address the use of depreciation expense by investor-owned generation companies and if there are similar financial mechanisms that may be used by municipally owned utilities.

Answer: It is appropriate for a utility that owns generation assets to start collecting the cost to remove and replace an asset prior to announcing the date on which the resource is to be retired. However, this is done over the anticipated life of the asset not when the asset is nearing the end of its useful life.

Regulated utilities following the Federal Energy Regulatory Commission's System of Accounts include the cost of removal as part of the depreciation rate which spreads the cost of decommissioning or removal over the life of the asset. "Salvage and cost of removal are built into depreciation rates by a net salvage factor usually determined through an evaluation of historical experience."[1] As part of the depreciation rate, ratepayers are charged all of the costs associated with the asset, including the cost of removal, as the asset provides service to the ratepayer. This approach could and should be used by municipally-owned utilities since depreciation expense is a non-cash expense included in rates.

Prepared by: Marilyn J. Fox
Sponsored by: Marilyn J. Fox

[1] Robert L. Hahne, Gregory E. Aliff, Deloitte & Touche LLP, *Accounting for Public Utilities*, Section 6.07 at 6-27.

AE 5-2 Ms. Fox states on page 39 (Bates 41) of her Direct Testimony, "AE has far more reserves than its peers." She then references Table 7-6 of NewGen Strategies and Solutions *Summary of Austin Energy's Reserve Funds* at Bates 478. Please provide the dollar amount of total reserves for each of the peer companies referenced in NewGen's Table 7-6 and explain how Austin Energy has "far more reserves than its peers."

Answer: Objection.

AE 5-3 Ms. Fox also indicates on page 39 of her Direct Testimony that she reviewed the City of Austin Internal Audit Report of Reserves to assess AE's level of reserves as compared with peer companies. Please provide the total dollar amount of reserves for each of the peer companies referenced in that report and explain how Austin Energy has "far more reserves than its peers."

Answer: Objection.

AE 5-4 Which of the following determines which resources are dispatched in ERCOT: total system demand or resource offer price? See the Direct Testimony of Gary Goble, page 13 (Bates 15). Please explain your response.

Answer: According to *AE's Tariff Package: 2015 Cost of Service Study and Proposal to Change Base Electric Rates* ("Tariff Package") at page 3-8 "[i]n the Nodal Market design, ERCOT tells each generation resource owner how much to dispatch its units based upon its availability and the price it offers into the market." Also at page 3-13, AE's Tariff Package states "[e]ach generating company offers to sell energy from its generation resources to the market at a price that is typically consistent with their resources' marginal operating costs and operational limitations. ERCOT takes each offer and stacks them in order from the least cost to highest cost. Then, ERCOT selects the least number of resources required to meet the forecasted load for that next five-minute interval, starting with the lowest cost resource first. The price of the last resource needed to meet the forecasted load sets the price for all resources required in that five-minute interval." Thus, both ERCOT system demand and the price that matches that ERCOT demand level determines which resources are dispatched subject to operational limitations.

Prepared by: Gary L. Goble
Sponsored by: Gary L. Goble

AE 5-5 Does ERCOT peak demand always correlate with ERCOT peak price? Please explain your response.

Answer: No. Refer to *AE's Tariff Package: 2015 Cost of Service Study and Proposal to Change Base Electric Rates* at pages 6-33 and 6-34. Generation availability impacts ERCOT prices.

Prepared by: Gary L. Goble
Sponsored by: Gary L. Goble

AE 5-6 Please explain in detail why ERCOT plans according to forecasted system peak. How is that different than how a generation company plans for future operations?

Answer: ERCOT plans for forecast system peaks since planning for past system peaks would not provide sufficient resources to meet current and future needs. ERCOT does not plan generation by making capital substitution decisions. A generation company operating in the ERCOT market will decide whether or not to build generation and what type of generation to build depending upon a host of factors such as expected operating levels, forecasted fuel expense, environmental concerns and requirements, expected capital costs, anticipated rate of return, and other factors. Furthermore, ERCOT's forecasting requirements as an Independent System Operator are far different than those of a generation company. Under the ERCOT protocols, ERCOT develops weekly peak hour demand forecasts for a 36 month period.

Prepared by: Gary L. Goble
Sponsored by: Gary L. Goble

AE 5-7 In 2014, in which five months were the average all-in price for electricity highest in ERCOT?

Answer: See AE's response to NXP/Samsung Request for Information No. 1-36. In addition, the occurrence of price spikes during off peak periods often indicates the impacts that planned maintenance of large base load generation has upon ERCOT reserves. Generally, maintenance of large generation units is planned during off-peak periods when the likelihood of needing the resources to meet peak demand is lowest. As a result, generation with higher fuel costs replaces the lower fuel cost large plants in the generation stack that may result in higher costs during the maintenance period.

Prepared by: Gary L. Goble
Sponsored by: Gary L. Goble

AE 5-8 Please provide any documentation that supports the claim that the Austin City Council requires Austin Energy to use the A&E 4CP production allocation methodology in this cost of service study.

Answer: See the Direct Testimony of Gary L. Goble at 15. Also see City of Austin Ordinance No. 20120607-055, Part 6, which states "[t]he Council adopts as policy the use of the A&E 4CP methodology to allocate production demand costs among customer rates classes."

Prepared by: Gary L. Goble
Sponsored by: Gary L. Goble

AE 5-9 Please provide documentation that supports the claim that "a kilowatt of demand placed upon distribution equipment during the summer has a much greater impact upon equipment capacity than occurs during the winter…." See the Direct Testimony of Gary Goble at page 25 (Bates 27). Include any calculations relied upon to substantiate the statement.

Answer: See the Cross-Rebuttal Testimony of Gary L. Goble at 16-19. See also AE's response to NXP/Samsung's Request for Information No. 1-76.

Prepared by: Gary L. Goble
Sponsored by: Gary L. Goble

AE 5-10 Please provide the work papers that show "high load factor industrial customers located elsewhere in Texas pay rates less than 5.1 cents per kWh." See Direct Testimony of Gary Goble at page 34 (Bates 36).

Answer: See Attachment AE 5-10.

Prepared by: Gary L. Goble
Sponsored by: Gary L. Goble

Competitive Market – Actual Bill

TXU energy

Customer Name:	[redacted]
Account Number:	[redacted]
Invoice Number:	[redacted]
Invoice Date:	[illegible]

Pay your bill online

Account Summary

Previous Balance	Credits/Payments	Balance Forward	Total Current Charges	Total Amount Due	Due Date
[illegible]	[illegible] CR	$0.00	$401,412.49	$401,412.49	[illegible]

How to Contact Us

Customer Service: [illegible]

Account Number:	Total Amount Due	Due Date
[redacted]	$401,412.49	02/25/2015

To ensure proper payment posting, please provide this number ([illegible]) on all payments and send to the address directly below.

[redacted]

TXU ENERGY
Dallas, TX [illegible]

Important Information

[illegible]

Account Summary Detail

Previous Balance	$	[illegible]
Credits/Payments		
Payment	$	[illegible] CR
Subtotal	$	[illegible] CR
Balance Forward	$	0.00
Debits/Charges	$	0.00

[redacted]

Service Address: [redacted]

Plan:

Electric Service Usage
Meter Type: Actual

Electric Service Charges
TXU ENERGY FIXED PRICE

Base Usage	$	[illegible]
HUB To Load Zone Pass Through	$	[illegible]
PUC Assessment	$	[illegible]
Gross Receipts Reimb	$	[illegible]
Base Charge	$	[illegible]
Meter Charge	$	[illegible]
Distribution System Charge	$	[illegible]
Transmission Cost Recovery Factor	$	[illegible]
Transition Charge	$	[illegible]
Nuclear Decommission	$	[illegible]
Subtotal	$	[illegible]
Sales Tax	$	[illegible]

Total Charges for Meter ID	$ 401,412.49
Electric Service Charges for Period	$ 401,412.49
Total Current Charges	$ 401,412.49

Bill provided by AE customer who has operations in nearby Dallas competitive market area:

- Date – 2/10/15
- Service – Primary dual feed
- Demand - 12.5 MW
- Amount - $401,412
- Consumption – 7,901,761 kWh
- Rate = $401,412 / 7,901,761 kWh
  = $50.80/MWh

AE 5-10

AE 5-11 Can competitive generation companies raise money through the bond markets or from equity investors? If yes, can competitive generation companies use these funds to pay for some of the costs of operating in the ERCOT wholesale market? See the Direct Testimony of Gary Goble at page 41 (Bates 43).

Answer: Competitive generators are likely to have access to various sources of funding. With respect to AE's question whether competitive generation companies may use the funds raised from bond markets or equity investors to pay for some of the costs of operating in the ERCOT wholesale market, see the ERCOT Nodal Protocols, Section 16: Registration and Qualification of Market Participants. Mr. Goble has no direct knowledge as to how competitive generation companies use bond or equity funding to pay for their costs of operating in the ERCOT market. The point of Mr. Goble's Direct Testimony in the section identified in this request for information is that Austin Energy appears to have taken advantage of its ability to compete in a competitive market by bidding below cost prices that fail to recover the capital costs of generation from the market sale, thus necessitating AE's captive retail customers subsidizing AE's market activities. Few ERCOT competitive generation companies have AE's monopoly status and thus must rely upon an ERCOT price that recovers all of their costs, both fuel and capital.

Prepared by: Gary L. Goble
Sponsored by: Gary L. Goble

AE 5-12 Who are Austin Energy's owners? Do they provide funding similar to equity investments? How?

Answer: Although neither Ms. Fox nor Mr. Goble are attorneys, they believe that Austin Energy's owners are ultimately the citizens of Austin. No, the citizens of Austin do not provide funding similar to equity investments of other competitive generation companies insofar as the funding for other competitive generation companies is unlikely to come from the use of a "cash flow" determined revenue requirement as AE has proposed applied to a captive monopoly market of retail consumers. Equally true, no citizen of Austin has chosen to purchase stock in Austin Energy nor do they have the right to sell any sort of ownership interest.

Prepared by: Marilyn J. Fox and Gary L. Goble
Sponsored by: Marilyn J. Fox and Gary L. Goble

AE 5-13 Page 38, line 8 of the Direct Testimony of Marilyn J. Fox states, "...current reserves are too high." Please provide any and all documentation supporting this statement.

Answer: See FSA Work Paper C-3.2.1 provided in NXP/Samsung response to AE's Third Request for Information 3-1.

Prepared by: Marilyn J. Fox
Sponsored by: Marilyn J. Fox

AE 5-14 Page 38, lines 14-15 of the Direct Testimony of Marilyn J. Fox states, "...AE is requesting that Council approve some, but not all, of NewGen's recommendations." Please provide a list of NewGen's recommendations that AE is not requesting City Council to approve and a document reference relied upon for the list.

Answer: Objection.

AE 5-15 Please identify the NewGen recommendation referenced on page 38, line 20 of the Direct Testimony of Marilyn J. Fox.

Answer: See the NewGen recommendation shown on Figure 4.6 of *AE's Tariff Package: 2015 Cost of Service Study and Proposal to Change Base Electric Rates*, bates labeled 102.

Prepared by: Marilyn J. Fox
Sponsored by: Marilyn J. Fox

AE 5-16 Page 39, line 2 of the Direct Testimony of Marilyn J. Fox states that NewGen recommended "...to include Non-Nuclear Decommissioning cost as a reserve, instead of as part of O&M expense." Please provide the document relied upon for this statement.

Answer: Objection.

AE 5-17 Page 41, line 3 of the Direct Testimony of Marilyn J. Fox sates, "...The Rate Stabilization Reserve is especially unreasonable." Please provide documentation that supports this claim.

Answer: The concept of charging today's ratepayers for an event that may or may not occur in the future violates the ratemaking principle that costs should only be included in revenue requirement if adjustments to the test year are known and measurable. AE should fund its reserves by transferring excess revenue from operations (perhaps achieved by cost savings) instead of inflating the revenue requirement for events that may not occur. Please see Thomas Brocato's presentation to the Austin City Council Electric Utility Oversight Committee on February 25, 2016 and discussion of known and measurable adjustment in Accounting for Public Utilities.[2]

Prepared by: Marilyn J. Fox
Sponsored by: Marilyn J. Fox

[2] Robert L. Hahne, Gregory E. Aliff, Deloitte & Touche LLP, *Accounting for Public Utilities*, Section 7.05 at 7-10.