

AUSTIN ENERGY 2016 RATE REVIEW

AUSTIN ENERGY'S TARIFF
PACKAGE UPDATE OF THE 2009

AUSTIN ENERGY
2016 MAY 18 PM 2:07

COST OF SERVICE STUDY AND

PROPOSAL TO CHANGE BASE

ELECTRIC RATES

BEFORE THE CITY OF AUSTIN
IMPARTIAL HEARINGS

EXAMINER

**Testimony of Paul Robbins in 2016 Austin Energy Rate Case
Submitted May 3, 2016
Corrected for Minor Errors May 18, 2016**

Dear Judge Herrera,

I am submitting my testimony in the Austin Energy rate case before you.

I have done my best to be clear and concise.

Sincerely,

Paul Robbins
(512) 447-8712

Issue 1: Imprudence Due to Misuse of Property

Issue 2: Special Rates for Out-of-City Customers

Issue 3: Imprudence in Customer Assistance Program Spending

Issue 4: Under Spending for South Texas Nuclear Project

Issue 1: Imprudence Due to Misuse of Property

I will prove that the City of Austin mismanaged Austin Energy (AE) property by giving it to the City of Austin General Fund, either without compensation, or without adequate compensation. The amount of imprudence should be quantified, and the General Fund should reimburse AE for misuse of property. This will allow AE to lower its rates below what it is expecting in these proceedings.

A 1989 City Attorney opinion advised Council against transfer of utility assets without compensation. It stated: *If the City Council makes a decision to utilize the Green Water Treatment Plant site for a purpose unrelated to the Water and Wastewater Utility's functions, the Water and Wastewater Utility fund must be compensated for the value of that property by the General Fund if the property becomes a "General Fund" property whose revenues are attributed to the General Revenue Fund.* (Copy attached.)

Austin Energy contends that any transfers of ownership of its formerly owned property that took place before the 2012 rate case and its 2009 test year are irrelevant because the decisions on prudence have, de facto, already been made.

If Austin Energy or any of the interveners can cite specific mention of a decision for any of these properties in the 2012 rate case, I will not make further arguments about them in this current proceeding. If no party can prove this, I believe all the properties detailed here are relevant.

I will begin by discussing property that either AE has acknowledged as relevant to this rate case, or whose transfer is pending (and whose uncompensated transfer) can be prevented. These are discussed under "Undisputed Property."

I will then list properties that AE claims are not relevant. These are discussed under "Disputed Property."

Undisputed Property

1. Name: Energy Control Center

Location: 301 West Avenue, Austin, TX 78701

Date of Sale or Transfer: Sold in 2015 for \$ 14.5 million

Benchmark for Received Value: Appraisal of \$14.5 million in 2008

Rationale for Imprudence: The sales agreement, executed in 2010, allowed the developer to wait several years to decide on whether development should go forward with actual sale, essentially using the contract as a land bank. Austin Energy has thus lost the appreciated value of this land between 2008 and 2015.

Resolution: I ask that the Judge recommend that Austin Energy hire an appraiser to estimate the 2015 market value of this property. The delta between the 2008 and 2015 values should be reimbursed by the General Fund to AE. The appraisal cost should also be reimbursed by the General Fund.

Documentation: Paul Robbins 1st RFI, Question 2.4, PDF Pages 41, 167

2. Name: Holly Street Power Plant

Location: 2401 Holly Street, Austin, TX 78702

Date of Sale or Transfer: This land is intended for transfer to the Austin Parks Department after the old power plant that sits on the land is decommissioned.

Benchmark for Received Value: None. The transfer is pending after full decommissioning. However, it has not actually been executed yet.

Rationale for Imprudence: Donation of asset without reimbursement.

Resolution: I am asking that the Judge recommend to Council that an appraisal for the value of the decommissioned property be conducted, and that any transfer to the Austin Parks Department or another owner be compensated.

Documentation: Austin Energy PIR 5/1/15

3. Name: Vacant Lot

Location: 2406 Ventura Drive, Austin, TX 78741

Date of Sale or Transfer: June 10, 2010

Benchmark for Received Value: None

Rationale for Imprudence: Donation of asset without reimbursement.

Resolution: I ask that the Judge recommend that Austin Energy hire an appraiser to estimate the 2010 market value of this property. The money, plus inflation between then and 2016, should be reimbursed by the General Fund to AE. The appraisal cost should also be reimbursed by the General Fund.

Documentation: Austin Energy PIR 5/1/15

4. Name: Vacant Lot

Location: 3400 Bureson Drive, Austin, TX 78741

Date of Sale or Transfer: June 10, 2010

Benchmark for Received Value: None

Rationale for Imprudence: Donation of asset without reimbursement.

Resolution: I ask that the Judge recommend that Austin Energy hire an appraiser to estimate the 2010 market value of this property. The money, plus inflation between then and 2016, should be reimbursed by the General Fund to AE. The appraisal cost should also be reimbursed by the General Fund.

Documentation: Austin Energy PIR 5/1/15

Disputed Property

1. Name: Seaholm Power Plant

Location: 800 W. Cesar Chavez St, Austin, TX 78701

Date of Sale or Transfer: 2007

Benchmark for Received Value: The Seaholm Power Plant site is about 7.5 acres. The actual power plant building and its surroundings is about 4.5 acres, and was appraised at \$14 million in 2007. Parts of this land were sold or leased to private companies by the General Fund.

The cooling water intake structure and its surroundings represents most/all the balance of the land. This was transferred to the Parks Department without compensation. The Parks Department intends to lease the building to a private developer for an events center.

Rationale for Imprudence: Donation of asset without reimbursement.

Resolution: I ask that the Judge recommend that Austin Energy hire an appraiser to estimate the 2016 market value of this property. The money should be reimbursed by the General Fund to AE. The appraisal cost should also be reimbursed by the General Fund.

Documentation: Seaholm appraisal obtained through public information request.

2. Name: The Pole Yard

Location: 300 West Avenue, Austin, TX 78701

(This property is adjacent to the former Energy Control Center. It was informally called the "Pole Yard" because electric poles and other utility supplies were stored there.)

Date of Sale or Transfer: AE transferred the land to the General Fund Public Works Department on September 21, 1999. The City of Austin still retains title; it leases the land to Gables West Avenue Lofts apartment complex.

Benchmark for Received Value: NA

Rationale for Imprudence: Donation of asset without reimbursement.

Resolution: I ask that the Judge recommend that Austin Energy hire an appraiser to estimate the 1999 market value of this property. The money, plus inflation between then and 2016, should be reimbursed by the General Fund to AE. The appraisal cost should also be reimbursed by the General Fund.

Documentation: Paul Robbins 1st RFI, Question 2.5, PDF Page 245

3. Name: Grooms Substation

Location: 3701 Grooms Street, Austin, TX 78705

Date of Sale or Transfer: September 1, 2006

Benchmark for Received Value: None

Rationale for Imprudence: Donation of asset without reimbursement.

Resolution: I ask that the Judge recommend that Austin Energy hire an appraiser to estimate the 2006 market value of this property. The money, plus inflation between then and 2016, should be reimbursed by the General Fund to AE. The appraisal cost should also be reimbursed by the General Fund.

Documentation: Paul Robbins 1st RFI, Question 2.6, PDF Page 248

4. Name: Vacant Lot

Location: 58 Rainey Street, Austin, TX 78701

Date of Sale or Transfer: May 22, 2006

Benchmark for Received Value: None

Rationale for Imprudence: Donation of asset without reimbursement.

Resolution: I ask that the Judge recommend that Austin Energy hire an appraiser to estimate the 2006 market value of this property. The money, plus inflation between then and 2016, should be reimbursed by the General Fund to AE. The appraisal cost should also be reimbursed by the General Fund.

Documentation: Austin Energy PIR 5/1/15

5. Name: Vacant Lot

Location: 2221 Haskell Street, Austin, TX 78701

Date of Sale or Transfer: May 25, 2006

Benchmark for Received Value: None

Rationale for Imprudence: Donation of asset without reimbursement.

Resolution: I ask that the Judge recommend that Austin Energy hire an appraiser to estimate the 2006 market value of this property. The money, plus inflation between then and 2016, should be reimbursed by the General Fund to AE. The appraisal cost should also be reimbursed by the General Fund.

Documentation: Austin Energy PIR 5/1/15

6. Name: Vacant Lot

Location: 2220 Riverview, Austin, TX 78701

Date of Sale or Transfer: May 25, 2006

Benchmark for Received Value: None

Rationale for Imprudence: Donation of asset without reimbursement.

Resolution: I ask that the Judge recommend that Austin Energy hire an appraiser to estimate the 2006 market value of this property. The money, plus inflation between then and 2015, should be reimbursed by the General Fund to AE. The appraisal cost should also be reimbursed by the General Fund.

Documentation: Austin Energy PIR 5/1/15

7. Name: Vacant Lot

Location: 3300 Burleson Road, Austin TX 78741

Date of Sale or Transfer: June 24, 2009

Benchmark for Received Value: None

Rationale for Imprudence: Donation of asset without reimbursement.

Resolution: I ask that the Judge recommend that Austin Energy hire an appraiser to estimate the 2009 market value of this property. The money, plus inflation between then and 2016, should be reimbursed by the General Fund to AE. The appraisal cost should also be reimbursed by the General Fund.

Documentation: Austin Energy PIR 5/1/15

8. Name: Seaholm South Substation Land

Location: Cesar Chavez and West Avenue, 78701

Date of Sale or Transfer: NA

Benchmark for Received Value: None

Rationale for Imprudence: Donation of asset without reimbursement.

Resolution: I ask that the Judge recommend that Austin Energy hire an appraiser to estimate the market value of this property at the time of transfer. (It is not clear when this occurred.) The money, plus inflation between then and 2016, should be reimbursed by the General Fund to AE. The appraisal cost should also be reimbursed by the General Fund.

Documentation: Austin Energy PIR 5/1/15

Issue 2: Special Rates for Out-of-City Customers

I will demonstrate, circumstantially, that the special rate break for customers served by Austin Energy outside Austin's City Limits is not justified. My contention is that, if anything, these customers should be charged more.

Service delivery and T&D costs are, to some degree, determined by the area (square miles) served.

The discovery process has provided the following information.

FY 2016 electric service delivery budget: \$82.1 million

Percentage of Austin Energy customers outside City Limits: 14%

Percentage of Austin Energy service territory outside City Limits: About 53%

Amount Out-of-City Ratepayers Should Pay if Based on Percent of Customers:

\$11.5 million

Amount Out-of-City Ratepayers Should Pay if Based on Percent of Service Area:

\$43.5 million

It should also be noted that between FY 2016 and 2020, projected T&D Capital Improvement Project spending is estimated to collectively be \$449 million. This large amount of money does not consider the current carrying cost of existing T&D infrastructure.

It stands to reason that in the fast-growing metropolitan area of Austin, a large amount of this will be for new infrastructure to serve areas outside of Austin.

Customers outside the city are getting substantially more benefits than they are justified if their cost is based on their proportion of the service area.

The deduction above is circumstantial. Austin Energy does not currently break down its budget by how much of it is spent inside and outside the City Limits. (My request for information on this subject during discovery was unanswered for this reason.)

As such, AE has not proved the outside-city ratepayers are deserving of a discount. To my knowledge, HURF (Homeowners United for Rate Fairness, representing the interest of ratepayers outside the City Limits) has not offered evidence for this either as of this time.

Resolution: I ask the Judge to recommend two things to City Council: 1) eliminate the rate break in the next tariff because it lacks justification; 2) conduct a cost of service study detailing the true costs of serving customers inside and outside the City Limits. This can be used to properly apportion delivery costs in the next rate case.

Documentation: Paul Robbins 3rd RFI, Questions 4.3, 4.5, PDF Pages 7, 9

Austin Energy 2014 Annual Performance Report, PDF Page 11

Austin Energy e-mail May 2, 2016 asserting 53% of the service territory is outside the Austin City Limits

Issue 3: Imprudence in Customer Assistance Program Spending

I will demonstrate, circumstantially, that Austin Energy is misspending some of its rate-based administrative funds to enroll and/or assist the wrong customers in its Customer Assistance Program (CAP) bill discount for low-income ratepayers.

CAP is intended to discount bills for low-income customers. While the actual discounts are collected in a discrete surcharge separate from the purview of this rate case, the administrative money is funded through base rates. This includes funding for 11 staff persons, as well as a contract with a data management firm charged with administering enrollment. In 2015, the costs amounted to \$673,235 for staff and \$502,052 for the data firm, totaling \$1,173,287. AE also cited additional admin transfers of \$300,000 in FY 2014.

Since 2013, participants to the CAP program have been automatically enrolled by matching participants in social service programs such as food stamps, Medicaid, and the Children's Health Insurance Program (CHIP) with electric accounts. However, a household is eligible if *anyone* enrolled is using one of these social service programs, not just the person who pays the bill.

This has lead to a flawed system where even people that live in mansions can sometimes be enrolled. For example, if a wealthy customer takes in a foster child who automatically qualifies for CHIP, their household will receive the CAP discount.

Austin Energy's enrollment method is generally atypical of other discounts around the country. I have analyzed the top 10 municipal utilities in the U.S., and also looked closely at the Lite-Up Texas discount program managed by ERCOT.

Seven of these 11 programs income qualify participants, requiring documentation. Two automatically enroll if the customers name is on a social service program and is simultaneously on the bill. One utility has an 'honor system' allowing a customer to simply declare eligibility over the phone, but a random audit of about 11% of participants that do this each year is conducted. Of these 11 utility programs, Austin is the outlier in regards to lax screening.

In an effort to prove how this damages program efficiency, I obtained the names and service addresses of CAP participants who were receiving water and drainage utility discounts in 2014. The names and addresses of Austin Energy CAP participants are obscured by a different set of privacy laws. However, water and drainage utility customers receiving CAP discounts are often (but not always) Austin Energy customers. I then matched over a thousand high-valued homes to CAP participants by comparing the addresses with Travis and Williamson County Appraisal District records.

Since Austin Energy customers had more than double the CAP participants as the water and drainage utilities, I could probably find many more customers with high-valued homes receiving the discount. In fact, I asked to search for these in discovery, offering to sign a non-disclosure agreement, but AE has opposed this. So while I am positive that some of the CAP administrative money is being spent imprudently because some wealthy people are receiving discounts, I cannot make a realistic estimate of what percentage.

Resolution: I ask the Judge to recommend to City Council that CAP administration be changed to stricter automatic enrollment screening requirements and/or income verifications, similar to the way the majority of surveyed utilities operate their low-income discount programs.

Documentation: Paul Robbins ^{2nd} RFI.

Letter to City Council on CAP, December 1, 2014

Attachment to December 1 Letter listing 66 CAP Recipients with More than \$1 Million in Real Estate Assets

Survey of Discount Programs in Other Municipal Utilities

Issue 4: Under Spending for South Texas Nuclear Project

I will demonstrate that the South Texas Nuclear Project is currently underpaying what it owes to principal and interest. Unit 1 is currently licensed to operate until August 20, 2027. Unit 2 is currently licensed until December 15, 2028. However, the plant's payment schedule stretches into 2041.

Barring a license extension, about \$21.8 million dollars will be paid between 2027 and 2041, after the plant's expected operational life ends.

Resolution: I am asking for the Judge to recommend that the payments be increased to match the current expected lifetime.

Documentation: Paul Robbins 1st RFI, Question 3.1, PDF Page 252

Note: This estimation prorated payments in the years 2027 and 2028 to compensate for operation in partial years.