

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

BEFORE THE CITY OF AUSTIN
IMPARTIAL HEARING EXAMINER



REBUTTAL TESTIMONY

OF

MARK K. DREYFUS

ON BEHALF OF AUSTIN ENERGY

AUSTIN ENERGY

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1 **I. INTRODUCTION**

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

3 A. My name is Mark K. Dreyfus. My business address is Town Lake Center, 721 Barton
4 Springs Road, Austin, Texas 78704.

5 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT POSITION?**

6 A. I am employed by the City of Austin as the Vice President of Regulatory Affairs and
7 Corporate Communications for Austin Energy (“AE”). In conjunction with Mark
8 Dombroski, AE’s Chief Financial Officer, I have overall authority and responsibility
9 for the rate review process for AE. I have been responsible for a variety of electric
10 utility costing and pricing activities, including designing and developing electric rates
11 and cost of service studies, and providing comments before the City Council
12 (“Council”) and the City’s Electric Utility Commission describing the rates process
13 and conclusions of our rates studies.

14 **Q. ON WHOSE BEHALF ARE YOU TESTIFYING?**

15 A. I am testifying on behalf of Austin Energy.

16 **Q. WOULD YOU PLEASE CLARIFY YOUR REFERENCES TO THE CITY OF**
17 **AUSTIN AND AE?**

18 A. Yes. Austin Energy is a municipally owned electric utility (“MOU”), owned by the
19 City of Austin, a home-rule city. When I refer to AE, I am referring to the utility
20 providing electric service, which is a department functioning within the City of
21 Austin.

1 **Q. DID YOU PREPARE THIS TESTIMONY?**

2 A. Yes. This testimony was prepared by me or under my direct supervision.

3 **Q. PLEASE DISCUSS BRIEFLY YOUR EDUCATIONAL BACKGROUND,**
4 **PROFESSIONAL EXPERIENCE, AND QUALIFICATIONS.**

5 A. I hold a Bachelor of Arts degree awarded in 1982 from the University of Texas at
6 Austin under the Plan II Liberal Arts Honors Program, concentrating in Economics. I
7 received a Master's of Public Policy from the John F. Kennedy School of
8 Government at Harvard University in 1984, and I have a Ph.D. in Economics awarded
9 in 1993 from Duke University, with a concentration in Public Finance.

10 I began my career as an economist at the U.S. Environmental Protection
11 Agency ("EPA"). At the EPA, I was a member of, and later managed, the group
12 responsible for conducting cost-benefit and other economic/regulatory studies related
13 to regulatory policies affecting the chemicals manufacturing industry. After
14 completing my Ph.D., I worked as a consulting economist with National Economic
15 Research Associates ("NERA"). At NERA, under the direction of senior economists,
16 I researched and conducted economic studies affecting the electric utility industry,
17 particularly in the areas of electricity competition, emissions trading programs, and
18 the economic costs of environmental policies affecting the electric industry.

19 In 1996, I joined the staff of the Public Utility Commission of Texas
20 ("Commission" or "PUC") as Chief Economist in the Office of Policy Development,
21 where I was the project manager and lead author of the first report on the Scope of
22 Competition to the Texas Legislature. I was also the co-project manager for the
23 legislative report on Potentially Strandable Investment ("ECOM"). The development
24 of these reports was a key predecessor to the passage of Senate Bill 7 in 1999. We

1 organized an extensive public process with over a dozen public workshops on issues
2 related to deregulation of the electric utility industry. These sessions introduced key
3 concepts to the major industry stakeholders across Texas and helped educate the
4 industry stakeholders in anticipation of the development of comprehensive
5 deregulation legislation. In 1998, I became an advisor on the staff of Public Utility
6 Commission Commissioner Pat Curran and later served as advisor on the staff of
7 Commissioner Judy Walsh during the 1999 Legislative Session in which Senate Bill 7
8 was written and finally passed.

9 I joined AE in 1999 as a strategic policy analyst and was promoted to Director
10 of Market Policy and Planning in 2001, where I was responsible for AE's
11 participation before the Commission and in the Electric Reliability Council of Texas
12 ("ERCOT") stakeholder process. In 2008, I was named Director of Regulatory and
13 Government Affairs where I was given additional responsibility for governmental
14 relations and local government issues. In 2012, I was promoted to Vice President of
15 Regulatory Affairs and Corporate Communications where, in addition to my previous
16 responsibilities, I am responsible for corporate communications.

17 I have been a regular participant in the ERCOT stakeholder process. I was
18 actively involved in the ERCOT Retail Users Group, which developed the original
19 ERCOT Protocols, and was later involved in the development of the ERCOT Nodal
20 Protocols. I served as Chair of ERCOT's Technical Advisory Committee from 2007
21 to 2008, and as Vice Chair from 2004 to 2006. From 2010 through 2014, I served as
22 a member of the Board of Directors of ERCOT. I also served on the Board of
23 Directors of the Texas Renewables Energy Industry Association from 2007 to 2010.

1 **Q. HAVE YOU PROVIDED AN ATTACHMENT THAT DETAILS YOUR**
2 **EDUCATIONAL BACKGROUND AND PROFESSIONAL EXPERIENCE?**

3 A. Yes. I provide this information in Exhibit MKD-1 to my testimony.

4 **II. REBUTTAL TESTIMONY OVERVIEW**

5 **Q. WHAT TOPICS ARE THE SUBJECT OF YOUR REBUTTAL TESTIMONY**

6 A. I will cover a number of topics raised in the testimony, statements of position, and
7 presentations of parties to this proceeding. First, I will discuss the distinction
8 between the proposed rates for customers served by AE inside the city limits of
9 Austin and customers served outside the city limits of Austin. Next, I will discuss the
10 issue of piecemeal ratemaking, which was raised by several intervenors. I will
11 discuss the Service Area Lighting (“SAL”) component of the Community Benefit
12 Charge (“CBC”) and the City’s policy for provision and remuneration for SAL. The
13 next area I will cover is the recommendation to conclude the transition period leading
14 up to the elimination of the rate cap for House of Worship customers. I then address
15 the recommendation by Data Foundry to disallow Austin Energy’s entire power
16 production function from retail rates. My final topic is planning for conducting
17 studies prior to Austin Energy’s next rate setting.

1 **III. RATES FOR CUSTOMERS INSIDE AND OUTSIDE**
2 **THE CITY LIMITS OF AUSTIN**

3 **Q. WHICH PARTIES TO THIS PROCEEDING PROVIDED TESTIMONY OR A**
4 **STATEMENT OF POSITION ON THE SUBJECT OF RATE**
5 **DIFFERENTIALS FOR CUSTOMERS INSIDE AND OUTSIDE THE CITY**
6 **LIMITS OF AUSTIN?**

7 A. Mr. Paul Robbins, Public Citizen/Sierra Club (“PCSC”), and Mr. Clarence Johnson
8 on behalf of the Independent Consumer Advocate (“ICA”) provided testimony on this
9 topic.

10 **Q. WHEN THE CITY COUNCIL LAST SET ELECTRIC RATES, DID THE**
11 **COUNCIL ADOPT DIFFERENT RATES FOR CUSTOMERS INSIDE THE**
12 **CITY LIMITS OF AUSTIN FROM THOSE CUSTOMERS OUTSIDE THE**
13 **CITY LIMITS?**

14 A. In its last comprehensive rate setting in 2012, the City Council initially adopted
15 uniform rates for customers inside the city limits and outside the city limits.

16 **Q. HOW DID THAT POLICY CHANGE IN PUC DOCKET NO. 40627?**

17 A. The rates adopted by the City Council were appealed to the PUC by Homeowners
18 United for Rate Fairness (“HURF”) in Docket No. 40627. That proceeding was
19 ultimately settled in a unanimous stipulation.¹ The City Council approved the
20 settlement, which was adopted by the PUC and memorialized in the final order in that
21 docket.²

¹ PUC Docket No. 40627 intervenor Data Foundry, while not a signatory to the agreement, agreed that it would not oppose the issuance of the final order in that proceeding consistent with the terms of the agreement. See *Petition by Homeowners United for Rate Fairness to Review Austin Energy Rate Ordinance No. 20120607-055*, Docket No. 40627, Finding of Fact No. 30 (Apr. 29, 2013).

² Docket No. 40627, Final Order (Apr. 29, 2013).

1 **Q. WITH RESPECT TO THE RATES FOR CUSTOMERS OUTSIDE THE CITY**
2 **OF AUSTIN, WHAT WERE THE TERMS OF THE ADOPTED**
3 **SETTLEMENT?**

4 A. The settlement adopted several rate differentials for customers outside the City of
5 Austin. Outside city residential customers received a revenue requirement reduction
6 of \$5,751,892.³ Outside city commercial classes received a base rate reduction of
7 \$326,451.⁴ The residential reduction was achieved in part by adjustments to the five-
8 tier residential rate structure initially adopted by the City Council. The fourth and
9 fifth tiers were reduced to the same level as the third tier, both for summer and non-
10 summer rates. The summer rate for this combined tier was set above the rate of the
11 third tier for residential customers taking service inside the City – \$0.09325 per kWh
12 compared to \$0.09100, respectively. The first tier summer rate was raised as well.
13 Outside residential customers also received a reduction in the Customer Assistance
14 Program component of the CBC and the removal of the SAL component of the CBC.⁵
15 Outside non-residential classes received various reductions in base rates and the
16 removal of the SAL component of the CBC.

³ Docket No. 40627, Finding of Fact No. 35.

⁴ *Id.* at Finding of Fact No. 36.

⁵ *Id.*

1 **Q. WHAT POLICY DID AUSTIN ENERGY RECOMMEND IN THE CURRENT**
2 **PROCEEDING WITH RESPECT TO THE RELATIVE RATES OF**
3 **CUSTOMERS INSIDE AND OUTSIDE THE CITY OF AUSTIN?**

4 A. In the current proceeding, Austin Energy has recommended that the reductions in
5 revenue requirements for outside customers agreed to in the 2013 stipulation be
6 sustained and has reflected those reductions in Austin Energy's Tariff Package.

7 **Q. IN PREPARING AUSTIN ENERGY'S TARIFF PACKAGE, DID AUSTIN**
8 **ENERGY CONDUCT A COST OF SERVICE STUDY COMPARING THE**
9 **COSTS OF SERVING CUSTOMERS OUTSIDE THE CITY LIMITS OF**
10 **AUSTIN WITH THE COSTS OF SERVING CUSTOMERS INSIDE THE**
11 **CITY?**

12 A. No.

13 **Q. WHAT IS THE BASIS OF AUSTIN ENERGY'S RECOMMENDATION TO**
14 **SUSTAIN THE TERMS OF THE 2013 STIPULATION?**

15 A. The basis for the recommendation is the same as the basis for the terms of the
16 settlement in 2013: reasonable public policymaking associated with risk mitigation.
17 The unanimous stipulation in Docket No. 40627 settled all of the issues of all of the
18 parties to the proceeding, resolving significant litigation uncertainty facing the City. I
19 believed then that the terms of the stipulation were reasonable, and I continue to
20 believe today that those terms are reasonable. The settlement was approved by both
21 the Austin City Council and the PUC, and hence deemed reasonable and in the public
22 interest by those bodies. Accordingly, Austin Energy is recommending in this
23 proceeding that those reasonable terms continue at least until the City's next

1 comprehensive rate proceeding. The benefit continues to be a reduction in litigation
2 risk at reasonable terms.

3 **Q. WHAT POSITION DID MR. ROBBINS TAKE WITH RESPECT TO THIS**
4 **ISSUE?**

5 A. Mr. Robbins stated that “the special rate break for customers served by Austin Energy
6 outside Austin’s City Limits is not justified ... if anything, these customers should be
7 charged more.”⁶

8 **Q. WHAT IS THE BASIS OF MR. ROBBINS’ CONCLUSION THAT**
9 **CUSTOMERS OUTSIDE THE CITY OF AUSTIN SHOULD BE CHARGED**
10 **MORE?**

11 A. Mr. Robbins’ contention that customers outside the City of Austin should be charged
12 more is based on his assessment of the pattern of growth in the Austin Energy service
13 territory. He points to rapid growth in the area, the proportion of Austin Energy’s
14 service territory outside the city limits, and spending on transmission and distribution
15 infrastructure. Based on these observations, Mr. Robbins infers that “customers
16 outside the city are getting substantially more benefits than they are justified if their
17 cost is based on their proportion of the service area.”⁷

⁶ Testimony of Paul Robbins in 2016 Austin Energy Rate Case Submitted May 3, 2016 at 6 (May 3, 2016).

⁷ *Id.*

1 **Q. DO YOU AGREE WITH MR. ROBBINS' CONCLUSION WITH RESPECT**
2 **TO THE COST OF SERVICE FOR CUSTOMERS OUTSIDE THE CITY OF**
3 **AUSTIN?**

4 A. No. As Mr. Robbins himself notes, his conclusion is circumstantial and not based on
5 a cost study of the differential.

6 **Q. DO YOU AGREE WITH MR. ROBBINS' CONCLUSION THAT THE**
7 **DIFFERENTIAL RATE FOR CUSTOMERS OUTSIDE THE CITY OF**
8 **AUSTIN SHOULD BE ELIMINATED "...BECAUSE IT LACKS**
9 **JUSTIFICATION"?**

10 A. No. As I have noted, Austin Energy's recommendation is not based on a cost of
11 service study; however, it is not without justification. The justification is mitigation
12 of the uncertainty of litigation at a reasonable cost to the City.

13 **Q. MR. ROBBINS ALSO RECOMMENDS THAT, IN PREPARATION OF ITS**
14 **NEXT RATE SETTING, AUSTIN ENERGY CONDUCT A COST OF**
15 **SERVICE STUDY OF THE DIFFERENTIAL BETWEEN THE COSTS OF**
16 **CUSTOMERS INSIDE AND OUTSIDE THE CITY OF AUSTIN.⁸ DO YOU**
17 **AGREE WITH MR. ROBBINS' RECOMMENDATION?**

18 A. I do not support Mr. Robbins' recommendation that Austin Energy conduct a study of
19 the cost of service for customers inside and outside the City of Austin for the next
20 comprehensive rate setting. The current differential is a reasonable accommodation
21 for outside customers and no COS is necessary. In addition, Austin Energy does not

⁸ *Id.*

1 track its fixed assets and other costs on a locational basis that would allow for such a
2 study.

3 **Q. WHAT CONCLUSIONS DOES MR. JOHNSON ON BEHALF OF THE**
4 **INDEPENDENT CONSUMER ADVOCATE MAKE ON THIS ISSUE?**

5 A. Mr. Johnson notes that the rate differential for customers inside and outside the City
6 of Austin is not a cost-based differential but is, instead, offered to mitigate litigation
7 risk.

8 **Q. DOES MR. JOHNSON ARGUE THAT THIS APPROACH IS**
9 **INAPPROPRIATE?**

10 A. No. In fact, he concludes that “the outside city rate discount can be continued, as
11 proposed by AE.”⁹

12 **Q. WHAT OTHER RECOMMENDATIONS DOES MR. JOHNSON MAKE ON**
13 **THIS TOPIC?**

14 A. Mr. Johnson also discusses the imputation of the costs of the rate differential in
15 customer rates. This topic is addressed in the Rebuttal Testimony of AE witness
16 Mark Dombroski.

17 **Q. WHAT RECOMMENDATION DOES PCSC MAKE ON THE**
18 **DIFFERENTIAL IN RATES BETWEEN CUSTOMERS INSIDE AND**
19 **OUTSIDE THE CITY OF AUSTIN?**

20 A. PCSC states that “the five-tiered rate should be applied to all residential customers.”¹⁰

⁹ Direct Testimony of Clarence Johnson at 21:17 (May 3, 2016).

¹⁰ Public Citizen’s and Sierra Club’s Position Statement/Presentation on the Issues at 14 (May 3, 2016).

1 **Q. WHAT IS THE BASIS FOR THIS RECOMMENDATION?**

2 A. PCSC argues that “Austin Energy’s proposal would largely benefit highest energy
3 users, and most significantly, high energy users who live outside the city.”¹¹ They
4 also argue that “the proposed rate would ... increase inequity between in-city and out-
5 of-city residents.”¹²

6 **Q. DO YOU AGREE WITH THE CONCLUSIONS OF PCSC THAT THE**
7 **PROPOSAL WILL INCREASE INEQUITY BETWEEN IN-CITY AND OUT-**
8 **OF-CITY RESIDENTS?**

9 A. PCSC has offered no evidence that the proposed changes in rate tiers will increase
10 inequity between in-city and out-of-city residents. The proposed changes to the tier
11 structure affect both sets of customers; though, because the adopted tier structures are
12 different, the recommended tier adjustments are different as well. While it is true that
13 Austin Energy’s proposal reduces the incremental rates of customers taking service at
14 the highest residential tiers during the summer months, PCSC provide no support for
15 the claim that the change in residential tier rates will impact equity between inside
16 city customers and outside city customers. Furthermore, Austin Energy is proposing
17 to sustain the outside city revenue requirement adjustment. Thus, the change in rate
18 tiers does not increase inequity between in-city and out-of-city residents. The
19 differential previously approved by the City Council and adopted by the PUC remains
20 the same.

¹¹ *Id.*

¹² *Id.*

1 **Q. DO YOU AGREE WITH THE ANALYSIS OF PCSC THAT CLAIMS TO**
2 **SHOW THAT “LARGE ENERGY USERS OUTSIDE THE CITY WOULD**
3 **MOST BENEFIT FROM THE PROPOSAL TO LOWERS [SIC] THE TOP**
4 **RATE TIER”?**¹³

5 A. No. PCSC fails to present any analysis to support their claim. Their evidence
6 consists of two tables that present the number of customers both inside and outside
7 the City of Austin in each of the five rate tiers (Table 5) and the percentage of
8 customers in each tier (Table 6).¹⁴ Table 6 shows that there is a greater percentage of
9 customers taking service in the top two tiers outside the City of Austin in all three
10 months presented and in the third tier in December and March. The data also show
11 that in August, a greater percentage of customers inside the City of Austin take
12 service in the third tier. Referencing these data, they conclude that “Tables 5 and 6
13 ... clearly shows that large energy users outside the city would most benefit from the
14 proposal to lowers the top rate tier.”¹⁵

15 **Q. DO YOU AGREE THIS “CLEARLY SHOWS” THAT RESIDENTIAL**
16 **CUSTOMERS TAKING SERVICE OUTSIDE THE CITY WOULD BENEFIT**
17 **MOST FROM AUSTIN ENERGY’S PROPOSAL?**

18 A. No. Austin Energy’s proposal regarding the residential rate tier structure is to
19 eliminate the summer/winter energy rate differential, raise the lower tier, and reduce
20 the top tiers. How these multiple changes will affect any particular customer or
21 customer grouping is an empirical issue that cannot be gleaned from a superficial

¹³ *Id.*

¹⁴ *Id.* at 14. Tables 5 and 6 are found at 14-15.

¹⁵ *Id.* at 14.

1 look at Tables 5 and 6. Note that Austin Energy is recommending that in the non-
2 summer months, the rate for customers outside the City of Austin in the top three tiers
3 will *increase*. Thus, for those eight months of the year, all outside-city residential
4 customers will see an increase in their rates. Furthermore, changes in tiered rates do
5 not necessarily infer any particular bill impact as individual customer behavior may
6 change any or all of a group's consumption patterns. Thus, it's impossible to justify a
7 factually unsupported conclusion that outside customers will most benefit from the
8 proposal to lower the top rate tier based solely on customer counts.

9 **Q. IN ITS TESTIMONY, PCSC ALSO STATE THAT “THE FIVE-TIERED**
10 **RATE IN THE CITY IS WORKING AS INTENDED. IN CONTRAST, THE**
11 **THREE-TIERED RATE FOR CUSTOMERS OUTSIDE THE CITY APPEARS**
12 **TO BE LESS EFFECTIVE AT ENCOURAGING CONSERVATION.”¹⁶**
13 **WHAT EVIDENCE IS PRESENTED TO SUPPORT THIS STATEMENT?**

14 A. PCSC does not support this statement with any evidence. The data offered in their
15 party presentation do not speak at all to whether the five-tier rate structure or the
16 three-tier rate structure is effective at encouraging conservation. The data simply
17 suggests to me that housing units outside the City of Austin are larger on average than
18 housing units inside the City of Austin. Whether the five-tier rate structure or the
19 three-tier rate structure is effective at driving customers to use energy more efficiently
20 is an empirical issue. Higher rates—all else equal—provide an incentive for less
21 consumption. But all else is not equal. In addition to higher consumption,
22 comparable outside city residential customers incur higher total bills due to larger on
23 average square footage. Whether the three-tier rate outside the City—given that

¹⁶ *Id.* at 15.

1 comparable outside customers incur higher bills—is more or less successful at
2 encouraging conservation than the five-tier rate inside the City remains opaque.
3 There is one piece of evidence, however, that suggests that both the inside and outside
4 residential rate tier structures are successful at encouraging conservation. I compared
5 the number of rebates awarded to customers taking service inside the City of Austin
6 to the number of rebates awarded to customers taking service located outside the City
7 of Austin. In total, for fiscal year (“FY”) 2015, approximately 23,000 customers
8 received rebates under Austin Energy’s various energy efficiency and solar programs.
9 While outside city customers represent 13.6 percent of AE’s customer base, they
10 represented 22 percent of rebates received in 2015.¹⁷ The results suggest that there is
11 significant uptake of Austin Energy’s energy efficiency programs on a percentage
12 basis for customers outside the City. While I would not call this information
13 dispositive, it suggests that both rate structures are successful at encouraging
14 conservation.

15 **Q. WHAT IS YOUR CONCLUSION REGARDING PCSC’S**
16 **RECOMMENDATION ON THE ISSUE OF RESIDENTIAL RATES FOR**
17 **CUSTOMERS TAKING SERVICE INSIDE AND OUTSIDE THE CITY OF**
18 **AUSTIN?**

19 A. PCSC argue that the five-tier rate structure should be extended to residential
20 customers taking service outside the city because the recommended changes to the
21 residential rate tier structures largely benefit the highest energy users outside the City,
22 increase inequity, and are less effective at encouraging conservation by outside city

¹⁷ Austin Energy’s 2015 Cost of Service Study and Proposal to Change Base Electric Rates at 1074-1093 (WP H-5.1- WP H-5.7) and 1097-1102 (WP H-5.9-WP H-5.10) (Jan. 25, 2016) (“Tariff Package”).

1 customers. As I have discussed, none of these arguments is supported by evidence.
2 PCSC's recommendation on this issue should be rejected.

3 **IV. PIECEMEAL RATEMAKING**

4 **Q. WHICH INTERVENORS ADDRESSED THE ISSUE OF PIECEMEAL**
5 **RATEMAKING IN THEIR TESTIMONY?**

6 A. This topic is raised by Mr. Johnson on behalf of ICA and by Ms. Fox on behalf of
7 NXP Semiconductor, Inc. and Samsung Austin Semiconductor, Inc. (jointly,
8 "NXP/Samsung").

9 **Q. WHAT RECOMMENDATIONS DID MR. JOHNSON MAKE ON THIS**
10 **ISSUE?**

11 A. Mr. Johnson's recommendation is that the "Council should not adopt changes in rates
12 or rate design, outside of the already established PSA and pass-through charges,
13 during the time period in between rate review proceedings."¹⁸ Mr. Johnson bases his
14 recommendation on the observation that when rates are adjusted for an expense item
15 outside of a full rate review, there can be "a mismatch...which distorts the overall
16 cost of service."¹⁹

17 **Q. DO YOU AGREE WITH MR. JOHNSON'S RECOMMENDATION?**

18 A. I do agree in part, but I recognize that there may be exceptions. Mr. Johnson's
19 observation would be correct in an instance in which the rates for one customer class
20 are adjusted outside of a general rate review, while the rates of other customer classes
21 are not considered for adjustment. That could lead to a distortion in which customers

¹⁸ Direct Testimony of Clarence Johnson at 103:17-19.

¹⁹ *Id.* at 102:6-7.

1 in that one class pay less (or more) than the cost of service allocated to that class,
2 while other classes continue to pay at the allocated cost of service. I also generally
3 agree with the point noted by Mr. Johnson that this concern applies to rates beyond
4 the established pass-through charges previously approved by the City Council. For
5 the Power Supply Adjustment (“PSA”), the CBC, and the Regulatory Charge, the
6 tariffs approved previously by the City Council include embedded processes for
7 setting those charges outside of a general rate review.

8 **Q. YOU STATED THAT THERE COULD BE EXCEPTIONS TO**
9 **MR. JOHNSON’S RECOMMENDATION REGARDING SETTING RATES**
10 **OR RATE DESIGNS OUTSIDE OF A GENERAL RATE SETTING**
11 **PROCESS. ARE THERE EXAMPLES OF SUCH EXCEPTIONS IN THE**
12 **PAST?**

13 A. Yes. This past year, the Council made such an exception regarding the rates and rate
14 structures for certain commercial customers. The rate tariffs adopted by Council in
15 the general rate review in 2012 assigned commercial customers to customer classes
16 based on each customer’s peak demand set in any one of the four prior summer
17 months. The rate ordinance adopted by Council in 2015 changed that policy so that
18 instead customers are assigned to customer classes based on the average peak demand
19 over the four summer months of the prior rate year.²⁰ In that instance, the Council
20 deemed that it was in the public interest to change the structure of commercial electric
21 rates outside of a general rate review. This rates policy change altered the rates—and
22 thus bills—of many customers, introducing as suggested by Mr. Johnson, a distortion

²⁰ City of Austin Ordinance No. 20150908-003 (September 8, 2015).

1 from the last overall cost of service. Nevertheless, the Council found this exception
2 to adjusting base rates outside of a general rate review to be appropriate.

3 **Q. WHAT DO YOU CONCLUDE WITH RESPECT TO MR. JOHNSON’S**
4 **RECOMMENDATION ON THIS ISSUE?**

5 A. First, I conclude that the Council has previously approved processes for adjustments
6 of the PSA, CBC, and Regulatory Charge outside of a general rate review. Those
7 processes are appropriate. I generally agree with Mr. Johnson that changes to base
8 rate components and base rate structures outside of a general rate review may lead to
9 distortions from cost of service. However, I recognize that there may be exceptions
10 to this policy when the City Council deems such an adjustment is in the public
11 interest on balance.

12 **Q. WHAT ARGUMENTS AND RECOMMENDATIONS DOES MS. FOX MAKE**
13 **ON THE ISSUE OF PIECEMEAL RATEMAKING?**

14 A. Ms. Fox argues that piecemeal ratemaking should be avoided, notes that the City
15 Council is endorsing piecemeal ratemaking, and recommends that the Council review
16 a comprehensive recommendation that includes all base rate components and pass-
17 through charges.²¹

18 **Q. WHAT IS THE BASIS CITED BY MS. FOX FOR HER CONCERNS**
19 **REGARDING PIECEMEAL RATEMAKING?**

20 A. Ms. Fox states that the PUC has pointed out problems with piecemeal ratemaking,
21 and cites to one Finding of Fact (“FOF”) rendered in a rate proceeding before the

²¹ Direct Testimony and Exhibits of Marilyn J. Fox at 10-16 (May 3, 2016).

1 PUC in 2005.²² As noted by Ms. Fox in her testimony, FOF 257 in that case under
2 the heading of “Riders” states: “A utility cannot increase its rates unless it
3 demonstrates that its total revenues are insufficient to recover the totality of its costs,
4 plus a reasonable rate of return. Singling out certain expenses in order to guarantee
5 dollar-for-dollar cost recovery is piecemeal ratemaking.”

6 **Q. DID YOU REVIEW THE ORDER IN THAT PROCEEDING? WHAT DID**
7 **THE COMMISSION DECIDE IN THAT CASE WITH RESPECT TO RATE**
8 **RIDERS?**

9 A. Yes, I did review the Final Order in that case. My understanding of the outcome is
10 that the Commission denied several riders due to concern for over-recovery and
11 piecemeal ratemaking, but did approve the nuclear decommissioning rider.²³
12 Specifically with respect to the nuclear decommissioning rider, the Commission cited
13 its rules at P.U.C. SUBST R. 25.303(g)(1) requiring that the nuclear decommissioning
14 costs be recovered through a separate rider.²⁴

15 **Q. WHAT IS THE SUBSTANCE OF P.U.C. SUBST R. 25.303(G)(1) THAT**
16 **SPEAKS TO PIECEMEAL RULEMAKING?**

17 A. In that rule, a utility that accumulates funds for a nuclear decommissioning fund is
18 required to unbundle those funds from its general rates and collect those funds in a
19 separate rider. I would also note that P.U.C. SUBST R. 25.303(g)(3) establishes a

²² *Id.* at 11:3-9, citing to *Application of AEP Texas Central Company for Authority to Change Rates*, Docket No. 28840, Finding of Fact No. 257 (Aug. 15, 2005).

²³ Docket No. 28840, Finding of Fact Nos. 258 through 261.

²⁴ Docket No. 28840, Final Order at 20 (Aug. 15, 2005).

1 process directing the utility in certain circumstances to update its nuclear
2 decommissioning rider *outside* of a general rate proceeding.

3 **Q. ARE THERE OTHER EXCEPTIONS ADOPTED BY THE COMMISSION**
4 **THAT ALLOW UTILITIES TO SET RATES FOR SPECIFIC CATEGORIES**
5 **OF EXPENSES OUTSIDE A GENERAL RATE PROCEEDING?**

6 A. Yes. There are several rules adopted by the PUC which enable electric utilities to set
7 rates for specific types of expenses, some of which were cited in Ms. Fox's own
8 testimony. She references specifically fuel costs, ERCOT fees, and transition
9 charges.²⁵ My quick review of the PUC rules identified the following: Fuel Factor
10 (P.U.C. SUBST. R. 25.237); Power Cost Recovery Factor (P.U.C. SUBST. R. 25.238);
11 Transmission Cost Recovery Factor (P.U.C. SUBST. R. 25.239); Distribution Cost
12 Recovery Factor (P.U.C. SUBST. R. 25.243); Advanced Metering (P.U.C. SUBST. R.
13 25.130); and Energy Efficiency Cost Recovery Factor (P.U.C. SUBST. R. 25.181(f)).

14 **Q. DO EACH OF THE COMMISSION RULES YOU REFERENCED ABOVE**
15 **FOLLOW A UNIFORM STRUCTURE IN ADJUSTING THESE SEPARATE**
16 **PASS THROUGH CHARGES?**

17 A. No. My review of these rules finds that each is specific to the cost component.

18 **Q. DO YOU FIND ANY OF THE SPECIFICS PARTICULARLY INSTRUCTIVE**
19 **IN THIS INSTANCE?**

20 A. Yes. In particular, I noted the requirements for setting the Energy Efficiency Cost
21 Recovery Factor ("EECRF") are particularly instructive since Ms. Fox seems to focus
22 on energy efficiency as one of the "internal programs" that Austin Energy is

²⁵ Direct Testimony and Exhibits of Marilyn J. Fox at 11:15-17.

1 improperly seeking to exclude from this proceeding. Austin Energy's energy
2 efficiency services component of the CBC is an analogue of the EECRF. P.U.C.
3 SUBST. R. 25.181(f)(5) states: "If a utility is not recovering energy efficiency costs
4 through base rates, the EECRF may be adjusted only in an EECRF proceeding
5 pursuant to this subsection." The Commission's rule is silent to setting an EECRF in
6 a general rate proceeding, but specifically requires setting a utility's EECRF in an
7 EECRF proceeding.

8 **Q. WHAT IS THE SIGNIFICANCE OF THIS EXAMPLE?**

9 A. This specific example, as well as the other rule references listed above, points out that
10 the PUC has defined processes for setting rates to recover specific categories of cost
11 outside a general rate review. The PUC, acting as a governing and policy-making
12 body may make—and has in many instances made—exceptions to the single FOF
13 cited by Ms. Fox.

14 **Q. HAS THE AUSTIN CITY COUNCIL ACTING AS THE GOVERNING BODY**
15 **OF AUSTIN ENERGY ADOPTED ANALOGOUS EXCEPTIONS?**

16 A. Yes. The City Council has adopted—most recently in Ordinance No. 20120607-055
17 and in adopting the unanimous stipulation in Docket No. 40627—such exceptions for
18 the PSA, CBC and the Regulatory Charge. In each instance, the individual tariff
19 provides specific guidance on how that rate is to be adjusted. For example, the PSA
20 tariff states: "The PSA shall be determined as part of the City of Austin's annual
21 budgeting process, including a public hearing."²⁶

²⁶ The PSA tariff can be found at <http://austinenergy.com/wps/wcm/connect/15f08b08-adca-4050-93fb-e35897369d33/PowerSupplyAdjustment.pdf?MOD=AJPERES>.

1 **Q. DOES MS. FOX MAKE ANY ADDITIONAL POLICY ARGUMENTS**
2 **SUPPORTING HER POSITION ON THIS ISSUE?**

3 A. Yes. Ms. Fox argues that the City’s budget processes are inadequate for setting pass-
4 through charges as those processes lack the opportunity for discovery and the ability
5 to establish a protective order allowing the public to review confidential competitive
6 information, and that these procedures must be adopted to avoid piecemeal
7 ratemaking.²⁷

8 **Q. DO YOU AGREE WITH MS. FOX’S CONCLUSION THAT THE BUDGET**
9 **PROCESS IS INADEQUATE FOR SETTING THESE CHARGES?**

10 A. No. The City’s budget process is highly participative, and open to public
11 participation and input.²⁸ As well, members of the public have the right to submit
12 Requests for Information under the Texas Public Information Act (“PIA”). Most
13 importantly, AE’s budget and rates are determined by democratically elected
14 representatives of the ratepayers themselves, except for outside city ratepayers who
15 have a right of appeal to the PUC. A fundamental way in which public power entities
16 serve the public interest is by providing increased transparency as compared with
17 privately held utilities. I would note that in this proceeding, Austin Energy complied
18 with the requirements of the PIA in responding to discovery questions that were
19 otherwise deemed outside the bounds of the proceeding under the ruling of the
20 Impartial Hearings Examiner. By virtue of the public’s ability to request and review
21 information under the PIA, the City’s budget process is fully adequate for setting
22 these pass-through charges under the provisions of the utility tariff. More

²⁷ Direct Testimony and Exhibits of Marilyn J. Fox at 14.

²⁸ Approved FY 2015-2016 Budget, Volume II at 675-76.

1 fundamentally, Ms. Fox's argument boils down to an assertion that the process by
2 which virtually all municipal utilities set rates—the public legislative process—is
3 inadequate to the task.

4 **Q. WHAT ARE YOUR CONCLUSIONS WITH RESPECT TO MS. FOX'S**
5 **RECOMMENDATIONS REGARDING PIECEMEAL RATEMAKING?**

6 A. I have provided evidence in my testimony that while Ms. Fox correctly notes in
7 reference to FOF 257 in Docket No. 28840 a Commission finding on piecemeal
8 ratemaking from 2005, the Commission has adopted exceptions to that finding in
9 numerous instances. Ms. Fox herself asserts certain of those exceptions. The Austin
10 City Council, acting in the public interest as the governing body of Austin Energy,
11 has appropriately adopted several different pass-through charges and established the
12 methods for setting those charges in tariff language.

13 **V. SERVICE AREA LIGHTING**

14 **Q. PLEASE DESCRIBE THE CITY'S SERVICE AREA LIGHTING POLICY?**

15 A. Austin Energy's rate schedules include a tariff for SAL, a cost-based rate that
16 recovers the costs of providing electric service for illumination (*i.e.*, streetlights) and
17 traffic signals service on public streets and highways. The tariff applies uniformly to
18 these services whether those services are provided to accounts inside the City of
19 Austin or outside. For customers inside the City of Austin, the costs to fund SAL are
20 collected through the SAL component of the CBC. Austin Energy does not collect a
21 SAL component of the CBC from customers outside the City of Austin.

1 **Q. SEVERAL INTERVENORS HAVE ARGUED THAT COLLECTION OF**
2 **SERVICE AREA LIGHTING CHARGES FROM RETAIL ELECTRIC**
3 **CUSTOMERS IS UNUSUAL IN THE ELECTRIC INDUSTRY IN TEXAS**
4 **AND INAPPROPRIATE. DO YOU AGREE WITH THAT POSITION?**

5 A. Ms. Cooper on behalf of AE Low Income Customers (“AELIC”) states that charging
6 electric customers for SAL is “contrary to standard industry practices as evidenced in
7 rate cases before the Texas Public Utility Commission.”²⁹ Seton Healthcare Family
8 notes that the cost of municipal street lighting “is usually paid from a city’s General
9 Fund.”³⁰ Mr. Gary L. Goble on behalf of NXP/ Samsung asserts that “[Service Area
10 Lighting] is a non-utility service, which should not require a subsidy from the City of
11 Austin’s electricity consumers.”³¹ In summary, I do not agree that in the case of
12 Austin Energy that Service Area Lighting is a non-utility service and is fundamentally
13 inappropriate.

14 **Q. WHY DO YOU BELIEVE THAT CHARGING ELECTRIC CUSTOMERS**
15 **FOR SERVICE AREA LIGHTING MAY BE AN APPROPRIATE POLICY IN**
16 **AUSTIN?**

17 A. The City of Austin has a unique history with respect to lighting the community,
18 which makes street lighting a fundamental component of the services that Austin
19 Energy provides to the community. Austin Energy, then known as the Electric Utility
20 Department, was formed in the late 19th century for the purpose of providing lighting
21 and comfort to the citizens of Austin and surrounding areas. The Electric Utility

²⁹ AE Low Income Customers’ Statement of Position/Presentation at 6 (May 3, 2016).

³⁰ Seton Healthcare Family Presentation on the Issues at 2 (May 2, 2016).

³¹ Direct Testimony and Exhibits of Gary L. Goble at 37:20-21 (May 3, 2016).

1 Department first delivered power on June 6, 1895 to 31 tower lights now known as
2 the historic moonlight towers, which are still found lighting the streets around Austin.
3 Though Austin Energy was founded over 120 years ago, its core mission is the same
4 today as then, one component of which is to provide light and comfort to the public.
5 SAL provides a public benefit, which includes lighting and comfort to the public, but
6 also promotes public safety, crime reduction, and improved access and reduced
7 congestion on roadways. It is well within the Council's purview to assess customers
8 inside the City of Austin for the provision of this public benefit through the
9 unbundled CBC.

10 **Q. WHAT POLICY WITH REGARD TO FUNDING OF STREET LIGHTING**
11 **DID THE CITY COUNCIL ADOPT IN THE 2012 RATE PROCEEDING?**

12 A. Prior to 2012, street lighting within the City of Austin was funded by Austin Energy
13 as a transfer to the City. In the 2012 rate proceeding, City Council authorized Austin
14 Energy to collect those funds from customers as part of the CBC. This charge
15 improved the transparency of the source of the funding. The Council determined that
16 on balance it is in the public interest for Austin Energy to assess the SAL component
17 of the CBC to fund street lighting in the City.

18 **Q. WHAT IS YOUR CONCLUSION RELATED TO THE POLICY FOR**
19 **FUNDING SERVICE AREA LIGHTING?**

20 A. It is well within the purview of the City Council to assess the SAL charge on inside
21 city customers. In its balancing of evidence and policy, the Council determined in
22 2012 that such a policy is in the public interest. That policy remains valid today just
23 as in 2012, and I recommend that the Service Area Lighting charge be maintained as
24 in Austin Energy's rate filing recommendations.

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³³ A HOW account had the option to be served on an applicable commercial rate where that may have lowered the account's total bill.

1 **Q. WHAT ACCOUNTS FOR THE CHANGE FROM THE OLD E01C RATE TO**
2 **THE CURRENT TREATMENT OF HOW ACCOUNTS?**

3 A. There were two key factors, both discussed throughout the extended process leading
4 up to the adoption of new rates in 2012. The first was the recognition that due to the
5 characteristics of these facilities, HOW customers should be classified as commercial,
6 not residential customers. Thus, I believe there was general recognition and
7 agreement that HOW accounts should be moved to the appropriate commercial
8 customer classes. The second factor was the existence of differential rate treatment
9 for accounts of religious institutions. I believe that there was wide recognition in the
10 discussions throughout 2011 and 2012 that while so-called “church rates” may have
11 been common in Texas in the past, those rates are no longer common in Texas and
12 any such rate treatment would likely be disallowed by the PUC in a rate appeal. A
13 widely discussed precedent was the transition tariff adopted by El Paso Electric in its
14 then most recent rate proceeding before the PUC.³⁴

15 **Q. WHAT POLICY DID THE CITY COUNCIL ADOPT IN 2012?**

16 A. At the conclusion of the lengthy public process leading up to the adoption of the new
17 rates and rate structures in 2012, the City Council adopted a transition policy leading
18 to the eventual elimination of differential rate treatment for HOW accounts. In the
19 development of the transition policy, the discussion was informed by—though did not
20 identically follow—the transition policy adopted in the El Paso Electric case. The
21 Council phased in the elimination of the HOW discount upon the conclusion of the
22 next rate review, *i.e.*, the proceeding in which we are now involved. No new HOW

³⁴ *Application of El Paso Electric Company to Change Rates and to Recognize Fuel Costs*, Docket
No. 40094 (May 23, 2012).

1 accounts would receive the discount after the date of the Council ordinance approved
2 June 7, 2012. And as I described above, during the transition period, qualifying
3 HOW accounts would be eligible for the rate cap and limited to measurement of
4 billing demand on weekdays only.

5 **Q. SUBSEQUENT TO THE ADOPTION OF THE 2012 RATES, DID THE**
6 **COUNCIL ADOPT CHANGES TO THE HOW DISCOUNT POLICY?**

7 A. Yes. As is discussed in Austin Energy's Tariff Package in this proceeding, and noted
8 in the direct testimony of Mr. Johnson, the Council later voted to extend the HOW
9 discount to new HOW accounts established after the adoption of the June 7, 2012
10 ordinance.³⁵

11 **Q. WHAT ACTIONS HAS AUSTIN ENERGY TAKEN TO INFORM HOW**
12 **CUSTOMERS OF THE TRANSITION POLICY AND TO ASSIST HOW**
13 **CUSTOMERS WITH THEIR ENERGY MANAGEMENT?**

14 A. Following the Council's 2012 rate action, Austin Energy's Key Account staff
15 dedicated to HOW customers actively reached out to the HOW accounts throughout
16 Austin Energy's territory. The purposes of this outreach included scheduling a meter
17 replacement from a non-demand to a demand meter, providing information about the
18 Council's transition policy, and offering support in energy management to assist the
19 HOW accounts in managing the impacts of the new billing structure. The outreach to
20 set up a time for the meter exchange gave our staff an opportunity to have a direct
21 conversation about energy management with every HOW account in the territory. In
22 addition, Key Accounts staff held a HOW open house with presentations on how to

³⁵ City of Austin Ordinance No. 20130909-003. *See also* Direct Testimony of Clarence Johnson at 86:4-5.

1 understand the components of the electric bill, the transition rate, offer free load
2 profiler service, and energy efficiency assistance. Key Accounts developed a HOW
3 email distribution list that remains in place today to send new flashes for key account
4 customers. HOWs received a letter about the free load profiled initiative. Staff
5 conducted approximately 70 onsite energy audits at the request of HOW customers,
6 and 78 accounts signed up for the free load profiler service.

7 **Q. WHAT IS AUSTIN ENERGY'S RECOMMENDATION WITH RESPECT TO**
8 **HOW ACCOUNTS IN THIS PROCEEDING?**

9 A. Following a four-year transition period, Austin Energy recommends that the City
10 Council discontinue the HOW discount as intended by the 2012 rate review.

11 **Q. WHICH WITNESSES IN THIS PROCEEDING OFFERED TESTIMONY OR**
12 **STATEMENTS/PRESENTATIONS ON THIS TOPIC?**

13 A. ICA witness Clarence Johnson addressed the HOW discount in his direct and cross-
14 rebuttal testimony. The HOW discount is also the subject of the Party Presentation of
15 Bethany United Methodist Church.

16 **Q. WHAT RECOMMENDATIONS DOES MR. JOHNSON MAKE WITH**
17 **RESPECT TO THE HOW DISCOUNT?**

18 A. Mr. Johnson has four recommendations. First, he recommends that the transition to
19 conclude the HOW discount be extended to avoid rate shock. He recommends that
20 the discount not be discontinued until Austin Energy completes certain studies of
21 commercial customer rates and characteristics. Also, he recommends that Austin
22 Energy continue outreach to HOWs while those studies are underway, and finally that

1 Austin Energy continue and prioritize outreach to the HOWs with the largest rate
2 impacts.

3 **Q. WHAT IS THE BASIS OF MR. JOHNSON’S RECOMMENDATION THAT**
4 **THE HOW DISCOUNT BE CONTINUED?**

5 A. Mr. Johnson argues that certain HOWs will experience “rate shock” if Austin
6 Energy’s recommendations are adopted. He notes in particular that HOWs in the rate
7 classes Secondary Voltage (Demand Less than 10 kW), commonly called “S1,” and
8 accounts in the lower end of Secondary Voltage (Demand Greater than 10 kW but
9 less than 300 kW), commonly called “S2,” will experience significant bill impacts,
10 amounting to rate shock. He cites four factors contributing to the potential for rate
11 shock: loss of the discount, inclusion of weekend demand, greater cost recovery of
12 fixed costs, and the expansion of the upper boundary of the S2 class.

13 **Q. DO YOU AGREE WITH MR. JOHNSON’S CONCLUSIONS ON RATE**
14 **SHOCK FOR CUSTOMERS IN S1 AND THE LOWER END OF S2?**

15 A. No. Consider first the S1 class. The rate cap as currently reflected in the tariff is not
16 binding on many HOW customers in that class. By my calculation, the rate cap has
17 no impact on a HOW in the S1 class with greater than 881 kWh in the summer or
18 greater than 494 kWh in the non-summer months.³⁶ S1 customers are not subject to
19 demand charges, so there is no impact of the change in the assessment of billing

³⁶ Under summer rates, the current totalized variable charge equals \$0.11009 per kWh and in non-summer months is \$0.09409 per kWh. The monthly fixed charge for S1 customers is \$18. Applying the most recently adopted PSA, at 881 kWh per month in the summer months, the total bill is \$114.99, which on an average kWh basis equals the rate cap. In the non-summer months, the total bill at 494 kWh per month is \$64.48, which also equals the rate cap. Usage higher than these limits falls below the rate cap. In the test year, an average S1 HOW bill after applying the discount equaled \$44.34 (see Austin Energy Response to Bethany United Methodist Church RFI No. 2-2 MKD-2).

1 demand measurement for these customers. Nor is Austin Energy recommending any
2 change in the fixed charge for the S1 class.

3 **Q. WHAT STEPS HAS AUSTIN ENERGY TAKEN TO ACCOMMODATE HOW**
4 **CUSTOMERS IN THE S2 CLASS IN ITS PROPOSAL?**

5 A. In addition to the steps that I discussed above to assist HOW accounts with energy
6 management, in its rates proposal Austin Energy recommended a 20 percent load
7 factor floor for secondary customers. This policy will provide relief to most of the
8 HOW accounts in S2. In his direct testimony, Mr. Johnson refers to Austin Energy's
9 Response to ICA RFI No. 1-10, bill frequency tables for customers in each secondary
10 class receiving the HOW discount.³⁷ The frequency tables demonstrate that for the
11 proposed expanded S2 customer class, 2,870 of 3,671 customer bills in Test Year
12 2014 (78 percent) reflect a load factor below 20 percent. In every instance, those
13 customers will receive rate mitigation under the proposed load factor floor.

14 **Q. HOW DO THE FOUR FACTORS MENTIONED BY MR. JOHNSON AS**
15 **CONTRIBUTING TO RATE SHOCK AFFECT HOWS IN THE S2 CLASS?**

16 A. While it is true that the first two factors—elimination of the rate cap and including the
17 weekend in billing demand—will affect the bills of some HOW customers in the S2
18 class, I do not agree that they implicitly lead to rate shock for the majority of HOW
19 accounts. In addition, I do not agree that the other two factors contribute at all to rate
20 shock. Mr. Johnson argues that “AE’s effort to place greater cost recovery on fixed
21 charges” contributes to rate shock. For the S2 class, Austin Energy is proposing an
22 increase in the customer charge of \$2.50 per month, from \$25.00 to \$27.50. This

³⁷ Direct Testimony of Clarence Johnson at 89, fn 85, citing to Austin Energy’s Response to ICA RFI No. 1-10 (Mar. 14, 2016) (MKD-3).

1 change should be more than offset for most customers by the elimination of the
2 seasonal differential in the demand charge, including the reduction in the demand
3 charge in the summer from \$6.15 per kW today to the proposed demand charge of
4 \$5.75 year-round. Mr. Johnson also argues that “expansion of the size of the S2 class
5 from 50 kW to 300 kW as the upper limit”³⁸ will contribute to rate shock for these
6 customers. This conclusion is not supported by the study conducted for Austin
7 Energy by its consultants NewGen Strategies & Solutions assessing the
8 characteristics of Austin Energy’s secondary voltage customers.³⁹ That study found
9 that customers between 10 kW and 50 kW had usage characteristics similar to
10 customers between 50 kW and 300 kW.⁴⁰ Secondary customers in the 10 kW to 50
11 kW interval have similar costs of service to secondary customers in the 50 kW to 300
12 kW interval. Thus, the expansion of the S2 class from 50 kW to 300 kW will not
13 significantly impact the cost of service results for the customers in the 10 kW to 50
14 kW group.

15 **Q. WHAT DO YOU CONCLUDE REGARDING MR. JOHNSON’S**
16 **RECOMMENDATION REGARDING RATE SHOCK?**

17 A. While it is true as Mr. Johnson points out that the impact on individual HOWs is not
18 uniform, I cannot agree that the impacts of Austin Energy’s rate proposals amount to
19 rate shock, a term that Mr. Johnson has not defined. As I have explained above, S1
20 customers are not subject to demand charges, do not incur additional fixed cost
21 recovery, and are unaffected by the change in the S2 class boundary. Only the

³⁸ *Id.* at 88:4-5.

³⁹ Tariff Package at 680, Appendix L.

⁴⁰ *Id.* at 688-70, see Figures 2-3, 2-4, and 2-5.

1 smallest S1 customers will be affected by the elimination of the rate cap, as the cap is
2 not binding on many S1 customers. Similarly for the S2 class, neither the \$2.50
3 monthly increase in the customer charge nor the expansion of the S2 class contributes
4 to rate shock. In addition, the load factor floor proposed by Austin Energy would
5 have mitigated the rate impact for 78 percent of HOW S2 bills had it been in effect in
6 the test year, and I anticipate a similar benefit if Austin Energy's rates proposals are
7 adopted.

8 **Q. WHAT IS YOUR RESPONSE TO MR. JOHNSON'S RECOMMENDATION**
9 **THAT THE RATE CAP NOT BE LIFTED UNTIL AFTER THE**
10 **COMPLETION OF THE PROPOSED STUDIES OF THE RATE**
11 **STRUCTURE FOR THE S1 CLASS AND THE STUDY OF DEMAND**
12 **CHARGES FOR CUSTOMERS PEAKING OUTSIDE AUSTIN ENERGY'S**
13 **SYSTEM PEAK?**

14 A. I do not agree that lifting the rate cap should be deferred until after the completion of
15 these studies. It has been the policy of the City of Austin since 2012 that the HOW
16 discount would be eliminated in the current rate proceeding. In particular, I do not
17 believe that the study of the rate structure of the S1 class will resolve any perceived
18 concerns of those HOW customers. Appendix E to Austin Energy's Tariff Filing
19 describes the proposed the S1 class study as follows:

1 Unlike residential customers, with which S1 customers most
2 closely share usage characteristics, the S1 class is billed on a
3 simple uniform energy rate without the benefit of a demand
4 charge to incentivize efficiency. Austin Energy will study
5 alternative rate structures, including a tiered structure for the
6 S1 class that is more similar to the structure of the Residential
7 Class.⁴¹

8 I have articulated above my response to Mr. Johnson's concerns regarding rate shock
9 to HOW customers in the S1 class. I do not anticipate this study will weigh on the S1
10 HOW customers one way or another. The second study will more directly address an
11 issue that is particular, but not exclusive to HOW accounts. Many HOW accounts
12 today experience their peak demand during the week, not on the weekends. I do not
13 believe it is an appropriate public policy recommendation to sustain a benefit to
14 HOW accounts that have had years of warning of the impending policy change while
15 other similarly situated customers continue to pay demand charges based on their
16 monthly peak. The study will allow Austin Energy to assess and recommend, if it
17 finds appropriate, a policy that applies generally to all customers with weekend
18 peaking characteristics. It is not appropriate today to continue the subsidy by
19 delaying the shift to uniform rate treatment due to the characteristics of a subset of
20 HOW accounts.

21 **Q. WHAT IS YOUR RESPONSE TO MR. JOHNSON'S TWO FINAL**
22 **RECOMMENDATIONS REGARDING OUTREACH TO THE HOW**
23 **ACCOUNTS?**

24 A. Austin Energy is not opposed to these recommendations and believes that, under
25 current practices, these recommendations are being met today.

⁴¹ *Id.* at 372-73, Appendix E.

1 **Q. DID MR. JOHNSON MAKE ANY ADDITIONAL RECOMMENDATIONS?**

2 A. Yes. Mr. Johnson notes that should the discount be continued, “Austin Energy should
3 absorb the discount, instead of reallocating the cost to other customers, consistent
4 with the recommendation of AE’s consultant, NewGen.”⁴² However, I can find no
5 other discussion in support of this recommendation.

6 **Q. DO YOU AGREE WITH MR. JOHNSON’S RECOMMENDATION**
7 **REGARDING ABSORBING THE DISCOUNT?**

8 A. No. It is Austin Energy’s policy, as adopted by the City Council in the rate
9 proceeding in 2012, that whenever discounts are offered to a set of customers, those
10 discounts are passed back to the customers in the same rate class as the customers
11 receiving the discount. This is the policy found throughout Austin Energy’s rate
12 recommendations, with the exception of the Customer Assistance Program for which
13 the Council has approved a specific funding source. In addition, I believe the
14 references from consultants NewGen is drawn from a different context, and not
15 applicable to this general rate proceeding. The referenced NewGen study in part
16 looked at recommendations that could provide rate relief to certain customers in the
17 short-term outside of a general rates proceeding applying cost of service principle in
18 which full cost recovery of revenues would account for all policy changes/issues.
19 The referenced quote addressed a temporary measure that could be adopted between
20 general rate proceedings. The following paragraph notes that a long-term solution
21 “may result in a subsidy that must be borne by other customers in the class.”⁴³

⁴² Direct Testimony of Clarence Johnson at 90:15-16.

⁴³ Tariff Package at 286.

1 **Q. WHAT RECOMMENDATIONS DOES BETHANY UNITED METHODIST**
2 **CHURCH MAKE WITH RESPECT TO THE HOW DISCOUNT?**

3 A. Mr. Wells on behalf of Bethany United Methodist Church makes several
4 recommendations in his Party Presentation.⁴⁴ His primary recommendation is to
5 extend the transition to the lifting of the HOW rate cap and the inclusion of weekend
6 demand in billing demand be extended until a subsequent rate review. In addition, he
7 makes several other recommendations related to outreach by Austin Energy to the
8 worship community, provision of tools to HOW customers to assist in understanding
9 the impacts of demand, changes to Austin Energy's bill format, and independent
10 review and confirmation of Mr. Wells' rate impact calculations.⁴⁵

11 **Q. WHAT IS THE BASIS FOR MR. WELLS' RECOMMENDATION TO**
12 **EXTEND THE TRANSITION FOR THE WITHDRAWAL OF THE HOW**
13 **DISCOUNT AND THE SHIFT TO INCORPORATE WEEKEND DEMAND IN**
14 **BILLING DEMAND?**

15 A. Reading through his Party Presentation, it appears that Mr. Wells' recommendation is
16 based on several observations. He notes that many HOWs are unfamiliar with Austin
17 Energy's recommendations and that Austin Energy's outreach to the worship
18 community has been generally insufficient; that HOWs provide valuable outreach
19 services to the community; that demand charges are not well understood among
20 HOW customers; demand is difficult for HOWs to manage; the four year transition
21 period is inadequate; and that certain HOWs will experience high rate impacts from
22 the change.

⁴⁴ Bethany United Methodist Church's Initial Party Presentation (May 3, 2016).

⁴⁵ *Id.* at 6.

1 **Q. WHAT IS YOUR RESPONSE TO MR. WELLS' RECOMMENDATION TO**
2 **DEFER THE CONCLUSION OF THE RATE TRANSITION FOR HOW**
3 **ACCOUNTS?**

4 A. My response is much the same as my response to the similar recommendation of
5 Mr. Johnson. The HOW discount, like all discounts, is funded from customers in the
6 same class as the HOWs receiving the discount. The transition nature of the HOW
7 discount accommodation assured these customers of the temporary nature of the
8 subsidy they have been required to bear. In addition, Austin Energy has made a
9 significant effort to reach out to HOW accounts to inform them of the Council policy
10 and to provide assistance with energy management including tools and education to
11 help manage their energy use. Mr. Wells notes, "... part of the [communications]
12 problem is it is difficult to get churches' attention"⁴⁶ Mr. Wells also notes the
13 good works performed by many of the HOWs and the important contributions that
14 they make to the community. While all of us at Austin Energy recognize these
15 contributions, those efforts do not form a reasonable policy rationale for differential
16 rate treatment. Mr. Wells further notes that demand is not well understood by HOWs
17 and that many of them find demand difficult to manage. This may well be true, but
18 the challenges of understanding and managing demand are common to all similarly
19 situated commercial customers, not just HOW accounts. Challenges in managing
20 demand do not form a reasonable policy rationale for differential rate treatment.

⁴⁶ *Id.* at 1.

1 **Q. MR. WELLS NOTES THAT SOME HOW CUSTOMERS WILL HAVE**
2 **SIGNIFICANT RATE IMPACTS WHILE OTHERS WILL NOT. WHICH**
3 **HOW ACCOUNTS DOES HE SUGGEST WILL HAVE THE LARGEST**
4 **IMPACTS?**

5 A. Mr. Wells notes that some HOW customers will not be adversely affected by
6 dropping the HOW discount. He states in particular that large churches with
7 sanctuaries combined into large buildings will not be adversely affected.⁴⁷ He also
8 notes that certain HOWs with multiple accounts or higher load factors will not be
9 adversely affected due to the anticipated reduction in bills from their non-sanctuary
10 accounts. Mr. Wells points in particular to smaller accounts in S2 with lower load
11 factors that will be adversely affected.

12 **Q. HAS AUSTIN ENERGY TAKEN STEPS TO MITIGATE RATE IMPACTS**
13 **ON THESE SMALLER S2 CUSTOMERS WITH LOW LOAD FACTORS?**

14 A. Yes. As I discussed above in response to the comments of Mr. Johnson, Austin
15 Energy recommends that a 20 percent load factor floor be offered to all secondary
16 customers facing demand charges. This policy will provide rate mitigation to the
17 specific customers that Mr. Wells is discussing, smaller S2 customers with low load
18 factors.

⁴⁷ *Id.*

1 **Q. MR. WELLS PRESENTED IN HIS PARTY PRESENTATION AN ANALYSIS**
2 **OF THE BILLS OF 16 HOW ACCOUNTS. DO YOU HAVE ANY**
3 **COMMENTS ON THAT ANALYSIS?**

4 A. While I have not independently recreated all of the rate impact calculations presented
5 by Mr. Wells, I did review responses provided by Mr. Wells to Austin Energy's
6 discovery requests. Mr. Wells admitted in discovery that he did not take into account
7 the proposed load factor floor in his calculations.⁴⁸ The load factor floor will provide
8 rate mitigation to the HOWs that Mr. Wells is most concerned will incur the greatest
9 impacts.

10 **Q. WHAT IS YOUR CONCLUSION REGARDING THE RECOMMENDATION**
11 **TO EXTEND THE TRANSITION PERIOD FOR THESE RATE CHANGES**
12 **FOR HOW ACCOUNTS?**

13 A. In 2012, Council established a policy extending the HOW discount until the next rate
14 proceeding, the proceeding in which we are now involved. Austin Energy has made
15 significant efforts in the interim to extend to HOW accounts information and
16 opportunities to assist in managing their energy costs. There is no cost-of-service
17 basis for distinguishing HOWs from other similarly situated customers with respect to
18 the discount policy. Consequently, at the conclusion of this transition period, it is
19 now appropriate to sunset the special rate treatment for HOW accounts.

⁴⁸ Bethany United Methodist Church's Response to Austin Energy RFI No. 1-5 (MKD-4).

1 **Q. WHAT IS YOUR RESPONSE TO THE RECOMMENDATION OF MR.**
2 **WELLS THAT AUSTIN ENERGY ENHANCE OUTREACH TO THE HOW**
3 **COMMUNITY?**

4 A. Austin Energy has been engaged in an enhanced outreach program to HOW
5 customers through our Key Accounts program. Austin Energy intends to continue
6 this outreach to help provide information and opportunities for energy management
7 services to HOW customers.

8 **Q. WHAT IS YOUR RESPONSE TO THE RECOMMENDATION OF**
9 **MR. WELLS THAT AUSTIN ENERGY PROVIDE A TOOL THAT**
10 **ADDRESSES DEMAND AND PROVIDES CLEAR UNDERSTANDING OF**
11 **THE EFFECT OF DEMAND ON CUSTOMER BILLS?**

12 A. Austin Energy is in the process of rolling out just such a tool. In fact, during a
13 presentation that I made to a number of HOW customers organized by the Faith
14 Energy Action Team on March 29, 2016, several of my colleagues demonstrated that
15 tool.

16 **Q. WHAT IS YOUR RESPONSE TO THE RECOMMENDATION FOR**
17 **MODIFICATION OF AUSTIN ENERGY'S BILLING FORMAT?**

18 A. Should the Council approve the proposed load factor floor for secondary customers
19 subject to demand charges, I anticipate that Austin Energy will modify the billing
20 format to report customers' monthly load factor.

1 **VII. POWER PRODUCTION COSTS AND RATE TREATMENT**

2 **Q. WHICH INTERVENORS ADDRESSED THE TREATMENT OF AUSTIN**
3 **ENERGY’S POWER PRODUCTION COSTS IN THEIR TESTIMONY?**

4 A. This issue is discussed in the direct testimony of Mr. Goble on behalf of
5 NXP/Samsung⁴⁹ and in the Presentation of Mr. McCollough on behalf of Data
6 Foundry, Inc.⁵⁰ Additionally, Mr. Johnson responded to the testimony of
7 Mr. McCollough and Mr. Goble in his cross-rebuttal testimony.

8 **Q. WHAT CONCLUSIONS DID MR. GOBLE ON BEHALF OF NXP/ SAMSUNG**
9 **DRAW ON AUSTIN ENERGY’S PRODUCTION COSTS?**

10 A. Mr. Goble critiques Austin Energy’s performance in the ERCOT market to draw an
11 assumption that Austin Energy’s generation fleet is far less efficient than the ERCOT
12 market.⁵¹ As a result, he recommends that the rates for the class Primary Voltage
13 greater than or equal to 20 MW, commonly called “P3,” be set below cost of
14 service.⁵² He makes a second recommendation that the Austin City Council direct
15 Austin Energy to release information regarding Austin Energy’s wholesale market
16 performance and provide the City Council quarterly updates.⁵³

⁴⁹ Direct Testimony and Exhibits of Gary L. Goble.

⁵⁰ Data Foundry, Inc.’s Presentation on Revenue Requirements (May 3, 2016).

⁵¹ Direct Testimony and Exhibits of Gary L. Goble at 42:22 - 43:3.

⁵² *Id.* at 43:10-12.

⁵³ *Id.* at 43:13-18.

1 **Q. DO YOU AGREE WITH MR. GOBLE’S CRITIQUE ASSUMPTION**
2 **REGARDING THE POOR PERFORMANCE OF AUSTIN ENERGY’S**
3 **GENERATION FLEET IN THE ERCOT MARKET?**

4 A. No. Mr. Goble’s critique of Austin Energy’s performance is based on a fundamental
5 mischaracterization of the operation and underlying economics of the ERCOT
6 wholesale power market.

7 **Q. PLEASE EXPLAIN HOW MR. GOBLE MISCHARACTERIZES THE**
8 **OPERATION AND UNDERLYING ECONOMICS OF THE ERCOT**
9 **MARKET.**

10 A. Mr. Goble cites to a discussion in Austin Energy’s Tariff Package that cost recovery
11 of power production costs occurs in part through energy sales into the ERCOT market
12 and in part from base rates. He also cites discussion in the tariff package explaining
13 that generators in the ERCOT wholesale market offer their resources at marginal
14 operating cost. Mr. Goble then states, “The ERCOT wholesale market is designed
15 such that all of the competitive generators must recover **100%** of the cost through
16 sales or providing ancillary services in the wholesale market, thus they cannot recover
17 costs in any other manner.”⁵⁴ (emphasis in original) This statement is incorrect. First,
18 Mr. Goble does not reference this statement to either the ERCOT Protocols or any
19 rule or order of the PUC. Indeed, no such reference can be drawn. Austin Energy
20 discussed the operation of the ERCOT market, and Austin Energy’s role in the
21 market, in Austin Energy’s Tariff Package.⁵⁵ The ERCOT centralized wholesale
22 market is designed to dispatch efficiently the entire generation fleet operating in

⁵⁴ *Id.* at 41:18-20.

⁵⁵ Tariff Package at 30-81 (Chapter 3).

1 ERCOT. It is an energy-only market, where dispatch of the last unit in ERCOT
2 occurs at marginal cost of the last unit. However, the operation of the centralized
3 wholesale market does not limit any generator from pursuing additional generation
4 revenue in the bilateral market. Thus, while independent generators derive revenue
5 from the dispatch of their resources in the ERCOT market and from the sale of
6 ancillary services, those revenues are supplemented by bilateral market revenues. By
7 striking contracts with Retail Electric Providers (“REPs”) and other market
8 participants, independent generators may receive additional revenues that help to
9 offset their fixed costs.

10 **Q. HOW DO THESE BILATERAL ARRANGEMENTS OF INDEPENDENT**
11 **GENERATORS RELATE TO AUSTIN ENERGY’S RETAIL**
12 **ARRANGEMENTS?**

13 A. Through their REPs or other suppliers, the bilateral arrangements of independent
14 generators indirectly provide revenue to the generators and pricing certainty to retail
15 customers. By owning and operating generation resources, Austin Energy provides
16 pricing certainty to retail customers, who fund those resources through retail rates.

17 **Q. ARE THERE OTHER MISCHARACTERIZATIONS OF MARKET**
18 **OPERATIONS IN MR. GOBLE’S TESTIMONY?**

19 A. Yes. Mr. Goble’s testimony states, “AE is able to utilize the revenue from its captive
20 retail customers to underbid competitive generators. As a result, AE uses its retail
21 operations to subsidize its participation in the wholesale market to the detriment of
22 the retail customers.”⁵⁶ However, Mr. Goble provides no evidence or analysis to

⁵⁶ Direct Testimony and Exhibits of Gary L. Goble at 41:23-25.

1 support his claim that Austin Energy underbids competitive generators. Additionally,
2 the economic incentive structure of the ERCOT market is designed to drive
3 generators to offer their resources at marginal cost. The underlying economics of
4 auction markets is clear and has been optimized now for a decade and a half in
5 improving the design of the centralized ERCOT wholesale market to ensure efficient
6 outcomes. Neither Austin Energy nor any market participant has an incentive to
7 deviate from efficient market behavior. If a generator were to offer its resources to
8 the market above marginal cost, then the generator would risk not being dispatched
9 when it could earn back its marginal cost plus excess revenues. If a generator were to
10 offer its resources at below its marginal cost, then the generator would risk
11 unrecoverable losses if the resource were dispatched and would be unable to fully
12 recover even its marginal cost. Austin Energy has no incentive to operate sub-
13 optimally in the centralized ERCOT wholesale market because in either instance,
14 below- or above-cost offers increase the risk of higher costs through the PSA Austin
15 Energy's customers face. In addition, offering generation resources into the ERCOT
16 market at below cost could subject the generator to investigation and enforcement by
17 the PUC for abuse of market power or violation of applicable codes of conduct. It is
18 my testimony that, in fact, Austin Energy does not underbid competitive generators in
19 the wholesale market. Such behavior would be economically irrational, to the
20 detriment of our customers, and potentially illegal under the Public Utility Regulatory
21 Act ("PURA").

1 **Q. DOES MR. GOBLE MAKE ANY OTHER MISCHARACTERIZATIONS**
2 **ABOUT THE OPERATION OF THE CENTRALIZED ERCOT WHOLESALE**
3 **MARKET?**

4 A. Yes. Mr. Goble’s testimony appears to suggest that retail customers can simply
5 receive power directly from the ERCOT wholesale market. He states that “Primary
6 Voltage >= 20 MW customers...are paying approximately \$16.5 million per year
7 more to AE than they would pay by purchasing their power on the ERCOT market
8 directly.”⁵⁷

9 **Q. HOW DOES THIS CLAIM MISCHARACTERIZE THE ERCOT**
10 **WHOLESALE MARKET?**

11 A. This statement presumes that P3 customers could take their power and be priced
12 directly from the market, or at least that an appropriate pricing benchmark for retail
13 service is the wholesale spot market. This is a mischaracterization because retail
14 customers in ERCOT must receive power from a REP or other retail power provider.
15 Retail providers price their retail service based upon their costs of power supply, the
16 costs of providing other retail services, and their return for operations. Taking power
17 directly from the wholesale market—if it were even possible—would also expose the
18 customer to additional operational costs and potentially extreme pricing volatility. In
19 my experience in the ERCOT market and working with REPs and customers in the
20 competitive market, it is my understanding that one of the services offered by REPs is
21 to package service offerings into a fixed price or a blend of fixed and market prices.
22 These fixed priced or blended offerings are developed at a cost above the wholesale
23 spot market that reflects the risk profile of the specific offering. Fixed price products

⁵⁷ *Id.* at 42:5-7.

1 will have a greater mark up to reflect the greater risk accepted by the REP. Thus, the
2 comparison of the production costs embedded in Austin Energy's rates with the spot
3 price of energy in the SCED is a meaningless construct because it ignores the costs
4 incurred by the REP or other power provider to manage market risk and provide retail
5 service.

6 **Q. ARE THERE ANY EXCEPTIONS TO THE LIMITATIONS ON A RETAIL**
7 **CUSTOMER FROM TAKING POWER DIRECTLY FROM THE MARKET?**

8 A. Yes, in a sense. In the competitive market, a retail customer can become what is
9 commonly referred to as a "self-serve REP." In this case, the customer forms its own
10 REP, self-providing REP services, and sourcing its power resources itself. In that
11 case, the REP could participate more directly in the spot market for energy.
12 However, this would involve other costs. The self-serve REP would incur significant
13 costs to develop the staff, systems and processes to operate in the ERCOT market and
14 comply with its rules. The self-serve REP would also take on all of the risks
15 associated with operating in the market. Typically, retail customers share some
16 degree of market risk with their REP, but in the case of a self-serve REP, the retail
17 customer bears all of the market risk itself.

18 **Q. WHAT DO YOU CONCLUDE WITH RESPECT TO MR. GOBLE'S**
19 **ASSUMPTION THAT AUSTIN ENERGY'S GENERATION FLEET IS LESS**
20 **EFFICIENT THAN THE ERCOT MARKET?**

21 A. Mr. Goble presented no evidence to support his assumption that Austin Energy's fleet
22 is inefficient. His assumption is drawn from a fundamentally flawed picture of
23 operation of the ERCOT market. His conclusion should be completely rejected.

1 **Q. WHAT IS YOUR RESPONSE TO MR. GOBLE’S RECOMMENDATION**
2 **THAT THE P3 CLASS BE PRICED AT BELOW COST OF SERVICE?**

3 A. Mr. Goble’s request that this rate class be priced below cost of service is not
4 substantiated in this testimony on any cost of service basis. It is simply based on his
5 assumption of inefficiency that is built upon a faulty foundation. This
6 recommendation should be rejected as without merit or support.

7 **Q. WHAT IS YOUR RESPONSE TO MR. GOBLE’S RECOMMENDATION**
8 **THAT THE COUNCIL DIRECT AUSTIN ENERGY TO PROVIDE FULL**
9 **DISCLOSURE OF ITS POWER SUPPLY COSTS IN FUTURE FILINGS AND**
10 **THAT AUSTIN ENERGY PROVIDE QUARTERLY UPDATES ON**
11 **GENERATION PERFORMANCE TO THE COUNCIL?**

12 A. As discussed earlier, the disclosure issue presented by Mr. Goble is a legal issue
13 related to Austin Energy’s compliance with the PIA. That issue has been addressed
14 in this proceeding by the Impartial Hearings Examiner and is beyond the scope of my
15 expertise and testimony. As for providing quarterly updates on generation
16 performance to the City Council, Austin Energy is prepared to provide the Council
17 the operational information that the Council deems appropriate in its role in the
18 oversight of the operational performance of Austin Energy.

19 **Q. WHAT CLAIMS DOES MR. MCCOLLOUGH ON BEHALF OF DATA**
20 **FOUNDRY MAKE ON THE SUBJECT OF RATE TREATMENT OF**
21 **PRODUCTION COSTS?**

22 A. Data Foundry argues that Austin Energy’s base revenue requirement should be
23 reduced by \$784,030,818, or alternatively \$442,455,280, which represents Austin

1 Energy's entire revenue requirement attributable to the production function and the
2 variable cost component of the production function, respectively.⁵⁸

3 **Q. WHAT IS THE BASIS FOR DATA FOUNDRY'S RECOMMENDATION TO**
4 **DISALLOW THESE SUMS?**

5 A. Data Foundry argues that since Austin Energy sells all of its generation into the
6 ERCOT wholesale market and its load is served from the ERCOT wholesale market,
7 those costs should all be disallowed from retail rates.

8 **Q. WHAT IS YOUR UNDERSTANDING OF THE SPECIFIC DOLLAR VALUES**
9 **THAT DATA FOUNDRY RECOMMENDS BE EXCLUDED?**

10 A. The numbers that Data Foundry recommends be excluded from base rates are
11 inaccurate. The net revenue requirement for Austin Energy's power production
12 function is restated accurately from Austin Energy's Tariff Filing as \$784,030,818.
13 That is composed of demand and energy components, as Data Foundry also
14 reproduced from the tariff filing. However, the secondary number that Data Foundry
15 cites for exclusion from base rates, \$442,455,280, is not included in the base rate.
16 This number, labeled "energy" in the tariff filing, represents for the test year the net
17 Power Supply Adjustment and ERCOT fees collected via the Regulatory Charge.⁵⁹
18 This number is not a component of the base rate, and thus, could not be excluded
19 from base rate recovery. This fundamental misunderstanding cascades throughout
20 Data Foundry's presentation, undermining a number of its specific arguments and

⁵⁸ Data Foundry, Inc.'s Presentation on Revenue Requirements at 1.

⁵⁹ See Tariff Package at 108; 991 (Schedule G-6 at lines 21, 24, 26); 992 (Schedule G-7 at lines 5, 24).

1 rendering its calculations about Austin Energy’s performance without foundation. On
2 this point alone, Data Foundry’s entire argument could be rejected.

3 **Q. PLEASE EXPLAIN DATA FOUNDRY’S ARGUMENT LINKING**
4 **PARTICIPATION IN THE WHOLESALE MARKET TO THE EXCLUSION**
5 **OF PRODUCTION COSTS FROM RETAIL RATES.**

6 A. Data Foundry states that Austin Energy’s participation in the ERCOT wholesale
7 market has resulted in a condition where “... much of AE’s generation was originally
8 dedicated to serving its native retail load but that is no longer the case. **All** of AE’s
9 generation is now entirely and inescapably dedicated to servicing the ERCOT
10 wholesale market. **None** of the production costs are presently dedicated to directly or
11 indirectly serving AE’s native retail load,”⁶⁰ (emphasis in original). Data Foundry also
12 claims, “AE’s generation fleet is for wholesale services only and does not support its
13 retail service. AE’s generation now has absolutely no direct relationship to, and does
14 not in any way relate to, the power actually consumed by AE’s retail customers.”⁶¹
15 Data Foundry links these statements to Austin Energy’s Tariff Package in which
16 Austin Energy described the basic operations of the ERCOT market for energy and
17 Austin Energy’s participation in that market.⁶² Based on this analysis of Austin
18 Energy’s participation in the ERCOT wholesale market, Data Foundry concludes that
19 Austin Energy’s production function is not “‘used by’ or ‘useful’ to AE’s retail
20 customers.”⁶³

⁶⁰ Data Foundry, Inc.’s Presentation on Revenue Requirements at 2.

⁶¹ *Id.*

⁶² See Tariff Package at 36 (Section 3.1.7) and 40 (Section 3.2).

⁶³ Data Foundry, Inc.’s Presentation on Revenue Requirements at 2.

1 **Q. DO YOU AGREE WITH DATA FOUNDRY'S LINKAGE OF ERCOT**
2 **MARKET PARTICIPATION WITH EXCLUSION FROM RETAIL RATES?**

3 A. No. Data Foundry is correct that Austin Energy does indeed dispatch its production
4 resources into the ERCOT market, as is required under state law⁶⁴ and the ERCOT
5 Protocols. But, Austin Energy also functions as a Load Serving Entity, providing its
6 retail customers with energy procured from the wholesale market. Data Foundry's
7 argument is flawed in its failure to understand these two separate but intrinsically
8 linked roles Austin Energy's customers play in the creation, sale, purchase, and
9 consumption of electricity. Taken to its logical conclusion, Data Foundry's argument
10 leads to the conclusion that *no* municipal utility in ERCOT may recover production
11 costs in its base retail rates and implementation of the nodal market superseded the
12 rights of MOUs under PURA.⁶⁵ Obviously, this strained argument is at odds with
13 both the clear language and intent of the law.

14 **Q. WHY SHOULD AUSTIN ENERGY'S RETAIL CUSTOMERS PAY FOR**
15 **RESOURCES THAT ARE USED TO SERVE THE ERCOT MARKET?**

16 A. Austin Energy's resources provide inherent value to the retail customers, who are also
17 in some sense the owners of Austin Energy. As explained in Chapter 3.2 of Austin
18 Energy's Tariff Package, prior to the implementation of ERCOT's centralized
19 wholesale market pursuant to Senate Bill 7, Austin Energy dispatched its resources
20 directly to provide retail electric service to its customers. The resources also provided

⁶⁴ See PURA § 39.151(j), "A ... municipal utility ... shall observe all scheduling, operating, planning, reliability, and settlement policies, rules, guidelines, and procedures established by the independent system operator in ERCOT."

⁶⁵ PURA § 40.052(b): A municipal utility [that has not chosen to participate in customer choice] retains the right to offer and provide a full range of customer service and pricing programs to the customers within its certified area, and to purchase and sell electric energy at wholesale without geographic restriction.

1 customers other benefits, such as pricing certainty, which is sometimes referred to as
2 hedging value, option value, and financial return to the customer-owners of Austin
3 Energy. Today, nearly 17 years since the passage of Senate Bill 7, the market
4 construct has evolved, but the purpose of the resources is the same—to provide value
5 to Austin Energy’s customer-owners. The ERCOT market as it has evolved since the
6 passage of Senate Bill 7 changed the construct in which physical generation assets are
7 dispatched to serve a utility’s own customers. But the resources continue to provide
8 value through pricing certainty, optionality, and rate of return to those customer-
9 owners. These are real benefits that provide value to Austin Energy’s customers.
10 And I should note that Austin Energy’s provision of these benefits is no different in
11 this regard than any other customer-provider relationship in the ERCOT market.

12 **Q. PLEASE EXPLAIN HOW AUSTIN ENERGY IS SIMILAR TO OTHER**
13 **PROVIDERS IN THE MARKET.**

14 A. Austin Energy is an “integrated” or “bundled” utility. Austin Energy hosts retail
15 electric service and generation resources under one organization. Austin Energy
16 invests the capital of its owners, operates its resources to provide return to the owners,
17 and delivers electricity to its retail customers, providing those customers a fixed
18 rate.⁶⁶ By providing a fixed retail rate, Austin Energy assists the retail customer by
19 mitigating the risks of the otherwise potentially volatile ERCOT spot market for
20 power. Ownership of long-lived resources provides options for future system
21 optimization. In the competitive market, the unbundled market structure changes the
22 relationships and transaction flows, but the components are the same. A REP

⁶⁶ Austin Energy’s base rates are fixed for multi-year periods until reviewed by the City Council. The Power Supply Adjustment and other pass-through charges can be adjusted only according to the tariffs adopted by the Council.

1 receives retail power from the ERCOT wholesale market, just as does Austin Energy,
2 and that REP will typically fix all or part of the price of its retail power supply by
3 entering into a contract with an independent generator. That contract arrangement
4 resulting in a fixed, or sometimes partially fixed, retail price helps the parties to the
5 transaction mitigate their risks to the ERCOT spot market. The generator invests
6 capital from its owner/investors and operates its resources to provide return to those
7 investors.

8 **Q. WHAT DO YOU CONCLUDE REGARDING DATA FOUNDRY'S**
9 **ARGUMENT THAT AUSTIN ENERGY'S PRODUCTION REVENUES**
10 **SHOULD BE EXCLUDED FROM BASE RATES?**

11 A. I believe Data Foundry is relying on a semantic distinction that is not a true reflection
12 of the physical or financial operations of the ERCOT market. While Austin Energy—
13 as does every other similarly situated entity operating in the centralized wholesale
14 market in ERCOT—procures all of its power from ERCOT, and offers all of its
15 resources through the ERCOT market, those resources remain used by and useful to
16 Austin Energy's retail customers. This conclusion is also supported by Mr. Johnson
17 in his cross-rebuttal testimony. Mr. Johnson notes that Data Foundry's position is
18 inconsistent with regulatory practice in Texas, and that El Paso Electric Co. and
19 Southwestern Public Service Co., bundled, investor-owned utilities operating in
20 Texas but outside of the ERCOT market, operate similarly to Austin Energy. They
21 recover production costs through both retail rates and dedication of wholesale market
22 revenue to offset retail revenue requirements.⁶⁷

⁶⁷ Cross-rebuttal Testimony of Clarence Johnson on Behalf of Independent Consumer Advocate at 14-15 (May 10, 2016).

1 **Q. WHAT OTHER COMMENTS DID DATA FOUNDRY MAKE REGARDING**
2 **AUSTIN ENERGY’S PRODUCTION FUNCTION COSTS?**

3 A. Data Foundry asserts that Austin Energy is engaged in double recovery of its
4 production costs by collecting costs via the base rate, the PSA, and in the ERCOT
5 market itself. Data Foundry bases this conclusion on the following statement: “AE
6 Admits That It’s Variable (Energy-Related) Production Costs Are Already Assigned
7 to Wholesale and Are Recovered Through ERCOT Settlements, So Base Rate
8 Inclusion Would Constitute a Double Recovery.”⁶⁸ Data Foundry further supports
9 this assertion by noting that “AE is trying to book or treat its variable (energy-related)
10 production costs as if they are a base rate item and then flow them through to retail
11 ratepayers in the form of per-KWH energy charges.”⁶⁹

12 **Q. DO YOU AGREE THAT AUSTIN ENERGY IS DOUBLE COUNTING ITS**
13 **VARIABLE (ENERGY-RELATED) PRODUCTION COSTS?**

14 A. No. Data Foundry’s conclusion is based on a misinterpretation of Austin Energy’s
15 classification of production costs. Figures 5.8 and 5.13 of Austin Energy’s Tariff
16 Filing show the share of the production portion of the revenue requirement classified
17 to “Energy” at \$442,455,280. As I noted above, those energy costs are not recovered
18 through base rates. Those costs make up the net PSA, though a small subset related
19 to ERCOT fees is recovered in the Regulatory Charge. Per the PSA tariff, one
20 component of the PSA includes “ERCOT Settlements – charges and credits from
21 ERCOT, other than the Administrative and Nodal Fees.”⁷⁰ Thus, the booking of

⁶⁸ Data Foundry, Inc.’s Presentation on Revenue Requirements at 8.

⁶⁹ *Id.*

⁷⁰ See Rate Schedule for PSA at <http://austinenergy.com/wps/wcm/connect/15f08b08-adca-4050-93fb-e35897369d33/PowerSupplyAdjustment.pdf?MOD=AJPERES>.

1 energy-related production costs is clear. Austin Energy receives a settlement from
2 ERCOT for the net costs of ERCOT settlement, which may be a charge or a credit.
3 That charge or credit is passed through to retail customers in the PSA as referenced in
4 the tariff. Additional variable energy-related production costs are also collected
5 through the PSA. The total test year recovery of the PSA equals the energy-related
6 production costs in Figures 5.8 and 5.13 referenced by Data Foundry of \$422,455,280
7 less \$6.8 million in ERCOT administration fees collected through the Regulatory
8 Charge. The remaining production costs in Figure 5.8 that are classified as
9 “Demand” costs are recovered through base rates.

10 **Q. ARE AUSTIN ENERGY’S FINANCIAL ACCOUNTS AND REPORTS**
11 **AUDITED BY OUTSIDE FINANCIAL AUDITORS? HAVE THOSE**
12 **AUDITORS MADE ANY FINDINGS OF DOUBLE COUNTING ENERGY**
13 **CHARGES?**

14 A. The City Charter requires an annual audit by an independent Certified Public
15 Accountant. I have reviewed audit reports for the last five years. In each of the audit
16 reports, auditor Deloitte & Touche LLP made no material findings and found Austin
17 Energy fairly presented its financial statements in all material respects.⁷¹

18 **Q. WHAT IS YOUR CONCLUSION WITH REGARD TO DATA FOUNDRY’S**
19 **ASSERTION OF DOUBLE RECOVERY OF ENERGY-RELATED COSTS?**

20 A. Data Foundry has provided no substantive evidence to support its claim of double
21 recovery of energy-related costs. The tariff governing the PSA and the referenced

⁷¹ See The City of Austin Comprehensive Annual Financial Report (“CAFR”) for fiscal years 2011-2015.

1 schedules show that all costs are recovered once, energy-related costs are recovered
2 through the PSA, and demand related costs are recovered in base rates.

3 **Q. WHAT IS DATA FOUNDRY’S COMMENT REGARDING THE**
4 **ACCOUNTING STANDARDS COMMONLY KNOWN AS THE MATCHING**
5 **PRINCIPLE AND CONSISTENCY PRINCIPLE?**

6 A. Data Foundry argues that Austin Energy has purposefully violated “the accounting-
7 based ‘matching-principle’ and the accounting based ‘consistency principle’” because
8 variable energy-related production costs are included in the retail base revenue
9 requirement. Data Foundry claims that “the cost causer is wholesale ... but AE
10 wrongly dumps the costs in the *retail* base requirement.”⁷²

11 **Q. DO YOU AGREE WITH THIS ASSESSMENT?**

12 A. No. This argument is simply a variation on the incorrect claim that I have already
13 addressed regarding energy-related costs being booked to base rates. The variable,
14 energy-related costs of production and wholesale energy sales revenues are recovered
15 in the PSA, not the base rate as asserted repeatedly by Data Foundry. Energy costs
16 and revenues are recovered in the PSA and demand-related costs are recovered
17 through base rates. There is no accounting mismatch.

18 **Q. DOES DATA FOUNDRY HAVE ANY OTHER COMMENTS ON AUSTIN**
19 **ENERGY’S RECOVERY OF PRODUCTION COSTS?**

20 A. Yes. Data Foundry presents a blizzard of numbers in its assertion that Austin Energy
21 is “losing a ton of money in the wholesale market since it recovers variable costs only

⁷² Data Foundry’s Presentation on Revenue Requirements at 5.

1 part of the time.” As a result, Data Foundry concludes that Austin Energy rates are
2 not reasonable.⁷³

3 **Q. DO YOU AGREE WITH DATA FOUNDRY’S CONCLUSION THAT AUSTIN**
4 **ENERGY’S RATES ARE NOT REASONABLE DUE TO SIGNIFICANT**
5 **FINANCIAL LOSSES IN THE WHOLESALE MARKET?**

6 A. No. Austin Energy is not losing a ton of money in the wholesale market as claimed
7 by Data Foundry. I have addressed this concern in part above in my response to the
8 testimony of Mr. Goble. This conclusion reflects an incomplete understanding of the
9 operation of the wholesale market, the value of generation assets, and current market
10 conditions. Austin Energy’s market participation is conducted optimally on behalf of
11 retail ratepayers, with results similar to other generators supplying power to the
12 ERCOT market.

13 **Q. PLEASE EXPLAIN WHAT YOU MEAN BY THE STATEMENT THAT**
14 **AUSTIN ENERGY’S MARKET PARTICIPATION IS CONDUCTED**
15 **OPTIMALLY. WHAT DO YOU MEAN BY “OPTIMALLY”?**

16 A. In this context I am using the term “optimal” to refer to economically optimal
17 performance in the market. First principles of economics are very clear on a key
18 point: it is economically optimal to operate capital such that the marginal cost of
19 operations equals marginal revenues.⁷⁴ In the context of Austin Energy and every

⁷³ Data Foundry, Inc.’s Presentation on Revenue Requirements at 13.

⁷⁴ See for example Varian, Hal R. *Microeconomic Analysis*, Chapter 1, “Theory of the Firm,” New York: W.W. Norton & Company, 1984. Varian explains in the Theory of the Firm that profit maximization requires the following short-run behavior (where the term “labor” could be a reference to any specific factor of production): “The fundamental condition for profit maximization tells us that the firm should hire an amount of labor such that the marginal revenue from employing one more unit of labor should be equal to the marginal cost of hiring that additional unit of labor.” (p. 7)

1 other generator participating in the ERCOT market, this first principle boils down to
2 the following: it is economically optimal to operate a generator such that energy
3 costs (*i.e.*, marginal cost of operation) equal the ERCOT market price (*i.e.*, marginal
4 revenues). To do otherwise, as I noted in my response to Mr. Goble, would be
5 inefficient. To understand the market, it is critical to understand that ERCOT
6 aggregates offers to supply resources of all of the generators in ERCOT. All of the
7 resources with offers below the marginal cost of the last unit selected are dispatched.
8 For that last unit dispatched, the price is equal to the generator's marginal cost, that
9 unit recovers no more or no less than marginal costs. But all the other resources in
10 the dispatch stack have marginal costs lower than the last unit dispatched. In
11 economics terms, these are referred to as "infra-marginal" units. Each one of the
12 infra-marginal units recovers greater than its energy costs. The difference between
13 the market price and the energy costs of an infra-marginal unit are excess revenues
14 that can then be applied to offset fixed costs or otherwise reward the owners of the
15 generation units for their investment of capital.

16 **Q. DOES THE EXCESS REVENUE TO INFRA-MARGINAL GENERATORS**
17 **NECESSARILY OFFSET ALL OF THE FIXED COSTS OF THE OWNERS**
18 **OF THE GENERATION UNITS?**

19 A. No. Because ERCOT is an energy-only market with no explicit capacity valuation,
20 there can be no guarantee of full cost recovery for generation owners. The objective
21 of any investor is that over the long-run, market revenues will recover capital
22 investments plus a reasonable rate of return. That is, after all, the financial incentive
23 for making such an investment.

1 **Q. IS THE ERCOT MARKET TODAY CONSISTENTLY COMPENSATING**
2 **INVESTORS FOR THEIR CAPITAL INVESTMENTS PLUS A**
3 **REASONABLE RATE OF RETURN?**

4 A. No. This is well-known in the ERCOT market today, and has been the subject of
5 extensive policy discussions over the last decade at ERCOT, before the PUC and the
6 Texas Legislature, as well as other jurisdictions across the country.

7 **Q. WHAT DO YOU BELIEVE IS THE CHIEF CONCERN RAISED IN THOSE**
8 **DISCUSSIONS?**

9 A. The issue under discussion is how to assure that investors in costly, lumpy, long-lived
10 capacity resources will be compensated for their investments in the ERCOT energy
11 market. This is sometimes called “the missing money problem.” It is an issue that
12 ERCOT policy makers have grappled with for years.

13 **Q. WHAT IS THE IMPLICATION OF THIS INVESTMENT CHALLENGE FOR**
14 **AUSTIN ENERGY?**

15 A. Austin Energy owns a diverse portfolio of production resources. These are long-lived
16 assets purchased with ratepayer dollars on behalf and for the benefit of ratepayers.
17 Note that Data Foundry is not challenging the prudence of these investments.⁷⁵ The
18 resources exist in Austin Energy’s portfolio, and it is Austin Energy’s objective every
19 day to operate them optimally in the ERCOT energy market, as I have discussed.
20 Each time Austin Energy’s generation resources are dispatched infra-marginally,
21 Austin Energy earns excess revenues that are passed back to its customer-owners.
22 But market conditions today are challenging for Austin Energy and for all the

⁷⁵ Data Foundry, Inc.’s Presentation on Revenue Requirements at 1.

1 generators operating in the ERCOT market. Prices in the market are at historic lows,
2 which creates a challenging market for all generators and their investors, including
3 Austin Energy.⁷⁶ Nevertheless, maintaining resources across the ERCOT market is
4 essential for the adequacy and reliability of the power supply. Other generators
5 across the market recover costs where possible—*e.g.*, bilateral contracts and hedging
6 mechanisms—but many generators have been incurring substantial investment losses.
7 Some are able to fund these losses through equity investments but, Austin Energy’s
8 “investors” are its customer-owners. While Austin Energy’s objective in operation of
9 its diverse generation fleet is economically optimal performance, Austin Energy faces
10 the same challenges as other generators in the current market conditions. Thus, Data
11 Foundry’s contention that Austin Energy is somehow mis-operating its system or
12 “playing the market to derive executive joy”⁷⁷ is without merit.

13 **Q. DATA FOUNDRY QUESTIONS THE VALUE OF THE “HEDGING”**
14 **BENEFIT OF OWNING PHYSICAL ASSETS. WHAT IS YOUR RESPONSE**
15 **TO THAT ISSUE?**

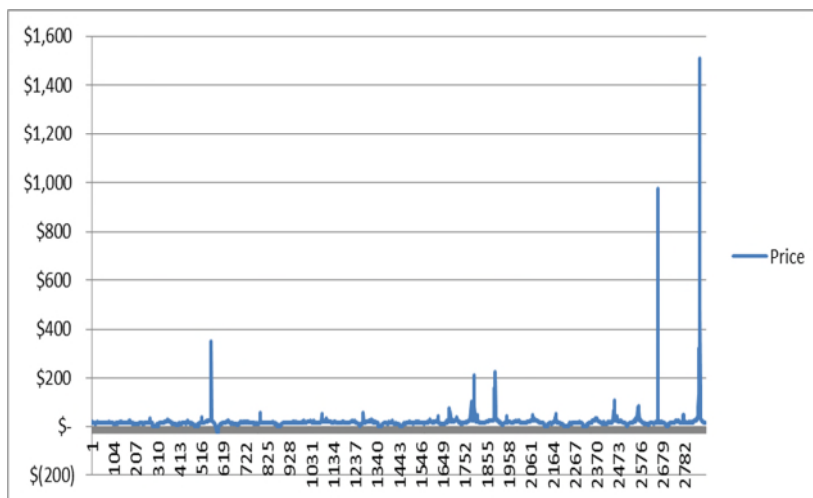
16 A. The hedging value of Austin Energy’s physical assets is fundamental to the value
17 proposition Austin Energy provides its customers. As has been widely discussed, all
18 retail supply in the ERCOT region is supplied out of the centralized ERCOT
19 wholesale market. Prices arising from the ERCOT market can be volatile. Though
20 power recently has been trading at or below \$20 per MWh, the offer cap in ERCOT is
21 \$9,000 per MWh, meaning that as system conditions dictate, prices in ERCOT can

⁷⁶ The last seven months have seen the lowest prices in Austin Energy’s load zone since the opening of the ERCOT nodal market in 2010. Over these seven months, monthly load zone prices have averaged from as low as \$14.94 per MWh in February to \$20.04 per MWh last October.

⁷⁷ Data Foundry, Inc.’s Presentation on Revenue Requirements at 12.

spike to as high as \$9,000 per MWh.⁷⁸ Ownership of physical resources provides Austin Energy's customers protection from the risks of this potentially volatile market. Price spikes can and do occur in the ERCOT market. The figure below shows the Austin Energy Load Zone price for the 2,880 15 minute intervals in the month of April. Note that at the end of the month, the load zone price jumped to over \$1,500. This is the price to which Austin Energy's retail customers were exposed. Because Austin Energy's resource fleet was available for dispatch by ERCOT during these intervals, Austin Energy was able to offset the costs of the price excursion, limiting the impact of the price spike to the marginal cost of Austin Energy's own fleet.

Locational Marginal Prices at Austin Energy Load Zone (April 2016)



By owning physical resources, the price for Austin Energy's customers is effectively capped by the costs of Austin Energy's dispatched resources. We sometimes refer to this as a "physical hedge" that protects our customers from pricing volatility. These physical resources also provide options for Austin Energy's customers in the future.

⁷⁸ P.U.C. SUBST R. 25.505(g)(6)(B).

1 While the ERCOT market may be relatively stable today, there is no guarantee of
2 stability in the future due to many factors, including the dependence of the market on
3 intermittent resources, pricing pressures on generation units that I have discussed, and
4 the potential shut down of resources due to environmental regulations. Thus, future
5 reserve margins may be much tighter than today and the market could exhibit greater
6 volatility. By maintaining a diverse portfolio of physical resources, Austin Energy
7 maintains options for operating in an uncertain future.

8 **Q. WHAT DOES DATA FOUNDRY ARGUE WITH REGARD TO MARKET**
9 **VOLATILITY?**

10 A. Data Foundry questions the value of “hedging” benefit. Referring to Austin Energy’s
11 Filing Package, Data Foundry states in its presentation that as “ ... there were not
12 many spikes during the test period that allowed AE to race in and achieve huge
13 margins over its variable costs, and there is no indication that the wholesale market
14 will be anymore ‘spiky’ during the rate effective period.”⁷⁹ First, Data Foundry’s
15 dismissal of pricing risk contradicts the cited statement in Austin Energy’s Rate
16 Filing. That statement notes that while prices have been “relatively stable” from 2011
17 to 2014, market prices rose to above \$100 during 1,000 hours over that interval.
18 Without Austin Energy’s physical resources available during these 1,000 hours,
19 customers would have been exposed to higher costs for power supply.

⁷⁹ Data Foundry, Inc.’s Presentation on Revenue Requirements at 12.

1 **Q. IN EXTREME PRICING CONDITIONS, WHAT IS THE POSSIBLE EXTENT**
2 **OF FINANCIAL EXPOSURE OF AUSTIN ENERGY'S CUSTOMERS TO**
3 **THE ERCOT WHOLESALE MARKET?**

4 A. Assuming an extreme pricing event where the Austin Energy Load Zone price spiked
5 to the \$9,000 per MWh offer cap while Austin Energy's load hovered near peak of
6 2,500 MW, Austin Energy would incur \$22.5 million in power supply costs per hour.
7 Over an eight hour event, Austin Energy would incur \$180 million to provide power
8 to its retail customers.

9 **Q. DATA FOUNDRY PRESENTS CALCULATIONS THAT PURPORT TO**
10 **SHOW THAT AUSTIN ENERGY'S PRODUCTION COSTS ARE**
11 **UNREASONABLE DUE TO HAVING INCURRED EXTRAORDINARY**
12 **LOSSES. WHAT IS YOUR RESPONSE TO THESE ESTIMATES?**

13 A. Frankly, though I have attempted to work through the loss calculations in Data
14 Foundry's presentation, I am not able to follow any of the conclusions. As I noted
15 earlier in my testimony, most of these calculations are flawed from the beginning
16 because Date Foundry incorrectly concludes that \$442,455,280 in energy expenses
17 recovered primarily through the PSA are instead recovered through base rates. Data
18 Foundry's presentation also fails to accurately recognize how wholesale market costs
19 and credits contribute to energy costs. These fundamental errors flow through Data
20 Foundry's calculations and render them meaningless.

21 **Q. WHAT ARE YOUR CONCLUSIONS WITH REGARD TO DATA**
22 **FOUNDRY'S PRESENTATION?**

23 A. Data Foundry's recommendation to exclude all production costs from Austin
24 Energy's revenue requirement should be rejected. The entire supporting argument is

1 based on a misreading of the ERCOT market construct and on a faulty claim that
2 Austin Energy is recovering energy costs in base rates. Austin Energy performs
3 sound, economically optimal market operations of its diverse generation portfolio.
4 Operation of that fleet provides value to Austin Energy's customer-owners. That
5 value includes pricing certainty or "hedge" value, option value, and return on
6 investment. Data Foundry dismisses the value proposition based on its incomplete
7 understanding of the ERCOT market. Though Austin Energy is a vertically
8 integrated municipal utility, it faces the same market risks, operates essentially the
9 same in the market, and incurs the same financial market challenges as every other
10 generator operating in ERCOT. While Data Foundry may be dismissive of market
11 risk, Austin Energy understands the nature of the market risks and the importance of
12 risk mitigation on behalf of its customers.

13 **VIII. STUDIES SUPPORTING FUTURE COST OF SERVICE**

14 **Q. HAS AUSTIN ENERGY RECOMMENDED THAT CERTAIN STUDIES BE**
15 **CONDUCTED PRIOR TO AUSTIN ENERGY'S NEXT COMPREHENSIVE**
16 **RATE REVIEW?**

17 A. Yes, those studies are outlined in Appendix E of Austin Energy's Filing Package.

18 **Q. WHAT COMMENTS DID MR. JOHNSON REPRESENTING THE ICA**
19 **MAKE WITH RESPECT TO THESE STUDIES?**

20 A. Mr. Johnson noted that the four studies addressing residential issues would be
21 beneficial to residential customers in the next comprehensive rate review and that the
22 studies addressing the secondary classes are needed to address disparities among
23 certain secondary customers.

1 **Q. DOES AUSTIN ENERGY INTEND TO CONDUCT THESE STUDIES IN THE**
2 **INTERIM PRIOR TO ITS NEXT COMPREHENSIVE RATE SETTING**
3 **PROCEEDING?**

4 A. Yes. Of course, complete of any or all of these studies may be contingent on future
5 approval by City Council of budgets and procurements.

6 IX. CONCLUSION

7 **Q. DOES THIS COMPLETE YOUR TESTIMONY?**

8 A. Yes.

Mark K. Dreyfus

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PROFESSIONAL EXPERIENCE

Austin Energy

Vice President of Regulatory Affairs & Corporate Communications (2012 to current)

Director of Regulatory & Government Affairs (2008 to 2012)

Active member and participant in Austin Energy's Executive Leadership Team.
Direct Austin Energy staff in the areas of Market Policy and Planning, Local Government Issues, Governmental Relations, Public Information, and Marketing Communications.

Primary Responsibilities:

- Develop and execute Austin Energy's strategic regulatory program, covering federal, state, and city regulatory policies.
- Manage Austin Energy's participation and advocacy before the Texas Legislature.
- Manage Austin Energy's participation in state regulatory agency proceedings and before the Electric Reliability Council of Texas (ERCOT).
- Oversee Austin Energy's support of and preparation for City Council meetings, Council requests, and in the coordination and facilitation of the Electric Utility Commission and the Resource Management Commission.
- Develop and execute Austin Energy's corporate communications strategy.
- Oversee Austin Energy's marketing outreach, including customer assistance, energy efficiency and distributed solar programs.
- Frequent public speaking before civic groups, city commissions and the Austin City Council.

Primary Accomplishments:

- Successfully led three year effort before City Council and on appeal before the Public Utility Commission of Texas for approval of first electric base rate change in 18 years.
- Led Austin Energy through multiple legislative sessions in which legislation directly addressed the City of Austin's ability to manage its utility locally.
 - Delivered live testimony before committees of the Texas House of Representatives and the Texas Senate.
- Represented the municipal utility market segment as a member of the ERCOT Board of Directors (2010 to 2014).
 - Finance and Audit Committee (2010 to 2011).
 - Human Resources and Governance Committee (2012 to 2014).
 - Key participant in hiring ERCOT CEO (2010).
 - *Ad hoc* Emergency Communications Committee following February 2011 outages.

Mark K. Dreyfus

- Represent Austin Energy on the Texas Public Power Association Board of Directors.
 - Chair of the Government Relations and Legal Committee (2005 to current).
 - Honor Roll Award (2007).
 - Industry Achievement Award (2010).
- Driving modernization of external and internal communications.
 - Consistent/reliable emergency and outage communications presence and messaging.
 - Over 16,000 followers on social media.
 - Initiated expanded presence in local Spanish language media.
 - Integrating corporate communications across all enterprise functions.
- Texas Reliability Entity (TRE) Board of Directors (2010).

Director of Market Policy and Planning (2001 to 2008)

Utility Strategic Policy Analyst (1999 to 2001)

Develop policy initiatives and advise the General Manager and Executive Leadership Team on market and regulatory issues before the Public Utility Commission of Texas and the Electric Reliability Council of Texas.

Primary Responsibilities:

- Coordinate staff participation and policy activities at the Public Utility Commission and ERCOT.
- Represent Austin Energy on ERCOT committees and task forces and before the Public Utility Commission.
- Collaborate with stakeholders from across the Texas electric utility industry on behalf of Austin Energy.
- Conceptualize, draft, and coordinate comments submitted to the Public Utility Commission on proposed rules and contested issues.
- Research and draft documents and make oral presentations to Austin Energy management, regulatory bodies, customers, and the City Council of Austin.

Primary Accomplishments:

- Managed/directed Austin Energy's effort to prepare for and convert systems and processes to participate in the competitive wholesale market, which opened in summer of 2001.
- Led Austin Energy's participation in the 1999-2001 ERCOT Protocols development task forces and subsequent ERCOT nodal market redesign process.
- Chair of ERCOT's Technical Advisory Committee (Chair 2007 – 2008; Vice Chair 2004 – 2006).
- Member of the Board of Directors of the Texas Renewable Energy Industry Association (2007 – 2010).
- Member of ERCOT's Retail Markets Subcommittee (2002).
- Extensive public speaking and community outreach on electricity competition and market redesign.

Mark K. Dreyfus

PUBLIC UTILITY COMMISSION OF TEXAS

Advisor to Commissioner Judy Walsh (1998 to 1999)

Advisor to Commissioner Pat Curran

Advised the Commissioner on all electric and telecommunications policy issues before the Public Utility Commission.

Primary Responsibilities:

- Served as the Commissioner's liaison with stakeholders from the electric and telecommunication industries, cooperatives, municipalities, new market entrants, and environmental and consumer organizations.
- Designed legislative strategies, tracked legislation, and coordinated with legislative staff, including work on Senate Bill 7, which led to the adoption of open access and retail competition in Texas.
- Analyzed the future structure and character of the electric and telecommunications industries.
- Reviewed and commented on staff work products, rules, and reports.
- Prepared the Commissioner for speeches, public hearings, and open meetings.

Chief Economist, Office of Policy Development (1996 to 1998)

Briefed and advised the commissioners on matters of policy and economics in contested cases and rulemakings affecting the electric and telecommunications industries; directed team members on special projects and report preparation.

Primary Accomplishments:

- As team leader and lead author, managed an interdisciplinary team of over 15 staff members in preparing a year-long analysis of electric industry restructuring, culminating in a three-volume report to the 75th Texas Legislature: *Electric Power Industry, Scope of Competition and Potentially Strandable Investment (ECOM) Report*.
- Organized numerous public workshops on electric industry restructuring, wholesale electric markets, low-income programs, and affiliate relationships.
- Co-lead (until shift to the Commissioner's office) on three reports to the Interim Senate Committee on Electric Restructuring: *1998 ECOM Update; Low-income and Environmental Programs of Texas Electric Utilities; 1999 Scope of Competition in the Electric Utility Industry in Texas*.
- Extensive public speaking, instruction, and outreach on competition issues.

NATIONAL ECONOMIC RESEARCH ASSOCIATES, INC.

Senior Analyst (1993 to 1996)

Drafted testimony for senior consultants. Researched and prepared reports on economic issues affecting the electric utility industry, including: electricity competition, emissions trading programs, the social costs of energy consumption, the economics of climate change, economic and environmental consequences of electric utility planning, and the economics of demand-side management. Responsible for day-to-day client contact on consulting projects. Supervised analysts and researchers in studies and testimony preparation.

Mark K. Dreyfus

U.S. ENVIRONMENTAL PROTECTION AGENCY, OFFICE OF TOXIC SUBSTANCES

Section Chief/Supervisory Economist (1987 to 1989)

Managed staff economists in all existing chemical programs under the Toxic Substances Control Act.

- Supervised senior policy analysts, economists, and support staff.
- Managed multi-year, mission-support contracts.
- Trained junior economists and regulatory impact analysts.
- Planned annual budget for existing chemicals programs.
- Served as acting Branch Chief/Supervisor.

Economist (1984 to 1987)

Analyzed chemical industry markets to assess the effects of regulations on competitiveness and to identify the differential impacts of regulations on market segments and firms. Conducted benefit-cost and regulatory impact analyses for existing chemical actions under the Toxic Substances Control Act, including information collection requirements, chemical testing programs, manufacturing controls, and product use restrictions.

U.S. DEPARTMENT OF TRANSPORTATION, TRANSPORTATION SYSTEM CENTER

Program Analyst (1983)

Performed econometric analyses for auto safety programs and provided policy support for waste disposal, spill, and transportation issues. Designed and implemented a seatbelt enhancement pilot program that achieved greater than a 100 percent improvement—over the long-term—in seatbelt usage.

EDUCATION

DUKE UNIVERSITY

Ph. D. in Economics, 1993

Fields: Public Finance and Environmental Economics

Dissertation: *Consumer Discounting Behavior and the Value of a Statistical Life Revealed in Household Automobile Holdings.*

HARVARD UNIVERSITY, JOHN F. KENNEDY SCHOOL OF GOVERNMENT

M.P.P. (Master of Public Policy), 1984

Concentration: Transportation Policy and Planning

UNIVERSITY OF TEXAS

B. A. in Economics (Plan II), 1982

Austin Energy's Response to Bethany United Methodist Church's 2nd RFI

Bethany Church 2-2. Referring to ICA 1-10 and ICA 3-26, Attachment 1: Houses of Worship Discount Summary, provide the number of HOW's by rate Class Sanctuary Si (<10KW), Sanctuary S2 (>10KW<50KW), Sanctuary S3 (>50KW. For each Class provide the number of HOW's, KWH Used, Calculated Income \$\$ and the Discount \$\$ credited. Provide this for your FY 2014 and FY 2015. Of the S3's how many had average demands >200KW and <300KW? What were their values from the ones requested above?

ANSWER:

Please refer to tables below.

FY: 2014				
Description	Bills	kWh	Total Revenue	Discounts
Secondary Voltage < 10 KW	744	238,853	32,991	-7,453
Secondary Voltage 10 - 49 KW	2,446	5,454,719	730,480	-356,911
Secondary Voltage ≥ 50 KW	1,318	17,062,238	2,240,416	-575,785
Totals	4,508	22,755,810	\$3,003,887	-\$940,149
Sec Volt ≥ 50 KW. 200 - 300 KW.	78	2,235,800	296,418	-51,635

FY: 2015				
Description	Bills	kWh	Total Revenue	Discounts
Secondary Voltage < 10 KW	695	188,557	24,634	-9,932
Secondary Voltage 10 - 49 KW	2,885	5,781,933	792,268	-377,543
Secondary Voltage ≥ 50 KW	1,657	19,605,047	2,637,220	-694,003
Totals	5,237	25,575,537	\$3,454,123	-\$1,081,478
Sec Volt ≥ 50 KW. 200 - 300 KW.	58	1,994,700	267,624	-37,134

In FY 2014, of the 1,318 S3 (Secondary Voltage ≥ 50 KW) bills, a total of 78 bills were on accounts where the summer average demand was between 200 and 300 KW.

In FY 2015, of the 1,657 S3 (Secondary Voltage ≥ 50 KW) bills, a total of 58 bills were on accounts where the summer average demand was between 200 and 300 KW.

Please note that the 'Total Revenue' shown above includes all billed charges net of the discount given to House of Worship accounts.

Prepared by: JL
Sponsored by: Mark Dombroski

ICA 1-10. Provide a bill frequency table for customers which receive the HOW discount.

ANSWER:

The annual bill frequency for House of Worship customers during Fiscal Year 2014 is as follows.

Secondary Voltage (< 10 kW)				
Load Factor Boundary		Bills	% of Total	
0%	10%	507	72%	
11%	20%	156	22%	
21%	30%	24	3%	
31%	40%	10	1%	
41%	50%	5	1%	
51%	60%	4	1%	
61%	70%	2	0%	
71%	80%	1	0%	
81%	90%	0	0%	
91%	100%	0	0%	
Total		709	100%	

Secondary Voltage (≥ 10 < 300 kW)				
Load Factor Boundary		Bills	% of Total	
0%	10%	1,207	33%	
11%	20%	1,663	45%	
21%	30%	745	20%	
31%	40%	50	1%	
41%	50%	3	0%	
51%	60%	1	0%	
61%	70%	0	0%	
71%	80%	0	0%	
81%	90%	1	0%	
91%	100%	1	0%	
Total		3,671	100%	

Secondary Voltage (≥ 300 kW)				
Load Factor Boundary		Bills	% of Total	
0%	10%	4	10%	
11%	20%	22	56%	
21%	30%	13	33%	
31%	40%	0	0%	
41%	50%	0	0%	
51%	60%	0	0%	
61%	70%	0	0%	
71%	80%	0	0%	
81%	90%	0	0%	
91%	100%	0	0%	
Total		39	100%	

Prepared by: JL
Sponsored by: Mark Dombroski

Bethany United Methodist Church's Response to Austin Energy's First RFI

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AE 1-5 State "yes" or "no" whether you took into account the "20% load factor floor" for all calculations and tables within the testimony. If so, please provide all supporting calculations.

ANSWER: No

Prepared by: Clifford G. Wells

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