

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

RUSSELL H. MAENIUS

ON BEHALF OF AUSTIN ENERGY

AUSTIN ENERGY

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EXHIBITS

RHM-1	Resume
RHM-2	NXP/Samsung Response to AE RFI No. 2-1

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Russell H. Maenius. My business address is Town Lake Center, 721 Barton Springs Road, Austin, Texas, 78704.

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

A. I am employed by the City of Austin (“COA”) as Austin Energy’s (“AE”) Finance Director.

Q. ON WHOSE BEHALF ARE YOU TESTIFYING?

A. I am testifying on behalf of Austin Energy.

Q. PLEASE DISCUSS BRIEFLY YOUR EDUCATIONAL BACKGROUND, BUSINESS EXPERIENCE, AND PROFESSIONAL QUALIFICATIONS.

A. I received a Bachelor of Science degree in Agricultural Economics from Texas Tech University, Lubbock, Texas in May 1984 and have over 20 years of experience in the electric utility industry. I have attended various regulatory and non-regulatory programs and classes sponsored by national and state organizations. Since August 2000, when I joined AE, I have served as a Utility Regulatory Planner and as AE’s Finance Director. Prior to joining AE, I served in an analyst position at Pedernales Electric Cooperative from 1992 to 2000 and was responsible for cost of service, regulatory reporting, financial reporting, and bond financing. My resume is attached to this testimony as Exhibit RHM-1.

1 **Q. WHAT ARE YOUR RESPONSIBILITIES AS AE’S FINANCE DIRECTOR?**

2 A. As AE’s Finance Director, I am responsible for several areas within AE focusing on
3 the regulated services, forecasting, material and supplies, and fleet. I am responsible
4 for managing the preparation of the cost of service study including the revenue
5 requirement, functionalization, allocation, and rate development as well as the rate
6 filing schedules and work papers. I represent Austin Energy before state and
7 municipal regulatory authorities by providing testimony in support of such filings.
8 Additionally, I manage the development of the utility’s long-range financial forecast
9 which includes load and revenue forecasting and the five year financial forecast.
10 Finally, I manage the distribution warehouse operations, inventory, reclamation, and
11 fleet services.

12 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

13 A. The purpose of my rebuttal testimony is to address witness Paul Robbins’
14 recommendation to adjust debt service associated with the South Texas Nuclear
15 Project (“STP”). I will also address recommendations by Seton Healthcare Family
16 (“Seton”), Austin Regional Manufacturing Association (“ARMA”), and NXP
17 Semiconductor and Samsung Austin Semiconductor (jointly “NXP/Samsung”) to
18 adjust retail transmission costs and wholesale transmission revenues. Finally, I will
19 address the recommendations of NXP/Samsung, the Independent Consumer Advocate
20 (“ICA”), and Austin Energy Low Income Customers (“AELIC”) regarding AE’s
21 reserves and financial policies.

1 the scope of this proceeding.”¹ Therefore, transmission costs are precluded from
2 review in this proceeding and testimony and presentations of the issues bearing on
3 them are irrelevant. Accordingly, AE has filed a motion to strike intervenor
4 testimony related to transmission costs and revenues. Because that motion has not
5 been ruled upon, I am responding to the transmission related arguments raised by
6 intervenors in my rebuttal testimony.

7 **Q. WHAT RECOMMENDATIONS HAVE BEEN MADE REGARDING RETAIL**
8 **TRANSMISSION COSTS AND WHOLESALE TRANSMISSION**
9 **REVENUES?**

10 A. Seton, ARMA, and Gary Goble and Marilyn Fox on behalf of NXP/Samsung each
11 recommend an adjustment to retail transmission costs included in FERC Account 565
12 using the 2016 postage stamp rate approved in PUC Docket No. 45382² and based on
13 AE’s most recent average ERCOT 4 Coincident Peak (“CP”). In addition, the same
14 witnesses recommend increasing AE’s wholesale transmission revenues to the
15 amount noted in PUC Docket No. 45382.³

16 **Q. DO YOU AGREE WITH THE RECOMMENDATION TO ADJUST RETAIL**
17 **TRANSMISSION COSTS USING BILLING DETERMINANTS IN DOCKET**
18 **NO. 45382?**

19 A. No. Seton, ARMA, and Mr. Goble provide no evidence to support the adjustment
20 other than relying, either directly or indirectly, on Ms. Fox’s testimony. Ms. Fox

¹ Memorandum No. 11 Statement of Issues (Mar. 11, 2016).

² *Commission Staff’s Application to Set 2016 Wholesale Transmission Service Charges for the Electric Reliability Council of Texas*, Docket No. 45382 (Mar. 25, 2016).

³ Docket No. 45382, Final Order (Mar. 25, 2016).

1 states in her Direct Testimony on page 23 starting at line 14: “AE should use the
2 most recent PUC approved statewide postage stamp rate and that this rate should be
3 assessed against AE’s most recent 4CP.”⁴

4 **Q. WHY DO YOU DISAGREE WITH THIS RECOMMENDATION?**

5 A. Ms. Fox recommends that AE uses a statewide postage stamp rate approved in PUC
6 Docket No. 45382 on March 25, 2016, well after the rate filing package (“RFP”) had
7 been developed and released. Ms. Fox’s recommendation would create a rolling test
8 year as opposed to a historical test year. Ms. Fox also recommends applying the
9 postage stamp rate against AE’s most recent 4CP which would create a mismatch for
10 transmission cost bill determinants as compared with the determinants used in the
11 normalized 4CP included in the test year.

12 **Q. ON PAGE 24, LINE 16, MS. FOX RECOMMENDS INCREASING AE’S**
13 **TRANSMISSION SERVICE REVENUE TO \$76.6 MILLION. SHE THEN**
14 **RECOMMENDS OFFSETTING AE’S TRANSMISSION REVENUE**
15 **AGAINST AE’S TRANSMISSION EXPENSE (PAGE 17, LINE 8). DO YOU**
16 **AGREE WITH THESE RECOMMENDATIONS?**

17 A. No.

18 **Q. WHY?**

19 A. First, Ms. Fox’s recommendation results in a rolling test year as previously discussed.
20 Second, Ms. Fox confuses retail transmission expense with wholesale transmission
21 costs and revenues. Third, Ms. Fox’s recommendation results in subsidization by
22 using the wholesale transmission revenues AE receives from Distribution Service

⁴ Direct Testimony and Exhibits of Marilyn J. Fox at 23:14-15 (May 3, 2016).

1 Providers (“DSPs”) within ERCOT that were approved by the PUC to cover costs
2 properly incurred by AE’s retail customers.

3 **Q. PLEASE EXPLAIN THE DIFFERENCE BETWEEN RETAIL**
4 **TRANSMISSION EXPENSE AND WHOLESALE TRANSMISSION COSTS.**

5 A. AE’s retail transmission expense is the cost born by AE’s retail customers and paid to
6 other Transmission Service Providers in the ERCOT region. The retail transmission
7 expense is the product of the PUC-approved statewide transmission postage stamp
8 rate and AE’s average ERCOT 4CP. These costs are coded to FERC Account 565
9 and are recovered from AE’s retail customers through the Regulatory Charge.

10 AE’s wholesale transmission costs, on the other hand, are AE’s costs of
11 owning and operating its transmission assets as part of the ERCOT transmission grid.
12 AE recovers its wholesale transmission costs such as transmission Operations &
13 Maintenance (“O&M”) or transmission asset debt service from DSPs at AE’s
14 PUC-approved TCOS rate. Revenue received to cover AE’s wholesale transmission
15 is the product of AE’s TCOS rate and the average ERCOT 4CP.

16 **Q. IS IT YOUR POSITION THAT WHOLESALE TRANSMISSION COSTS AND**
17 **RETAIL COSTS ARE SEPARATE AND DISTINCT, RECOVERED FROM**
18 **TWO DIFFERENT CUSTOMER BASES, AND UNDER DIFFERENT**
19 **JURISDICTIONAL RATEMAKING REGULATORY BODIES?**

20 A. Yes. Consequently, the wholesale transmission function and the retail function
21 should not subsidize each other. Keeping retail costs and revenues separate from
22 those of AE’s wholesale transmission function ensures that each set of customers only
23 pays for the cost to provide the respective service.

1 **Q. HOW DID AE ENSURE THAT RETAIL CUSTOMERS ONLY INCURRED**
2 **THE RETAIL TRANSMISSION EXPENSE THAT WAS NECESSARY TO**
3 **PROVIDE SERVICE AND DID NOT INCLUDE ANY WHOLESALE**
4 **TRANSMISSION COSTS THAT SHOULD BE RECOVERED FROM ERCOT**
5 **LOAD SERVING ENTITIES?**

6 A. AE adjusted its wholesale transmission revenues shown on WP E-5.1.1 to equal the
7 wholesale TCOS.⁵ This was done so the only remaining transmission expense
8 included in the cost of service is the FERC Account 565 retail transmission expense.
9 This adjustment was necessary to avoid cross subsidization. It is verified by the
10 transmission function costs shown on Schedule A, column L, line 36 which are equal
11 to FERC Account 565 shown on Schedule D-1, column L, line 88.

12 **Q. IF MS. FOX’S RECOMMENDATION TO INCREASE AE’S WHOLESALE**
13 **TRANSMISSION TO \$76.6 MILLION IS APPROVED, WHAT WILL THE**
14 **IMPACT BE TO RETAIL COSTS?**

15 A. It depends. If the appropriate reasoning is applied, wholesale transmission revenues
16 have no impact on retail rates because those revenues are dedicated to the wholesale
17 transmission function and meant to offset wholesale TCOS. AE’s wholesale
18 transmission costs and revenues are under PUC jurisdiction and outside the scope of
19 this case. If wholesale transmission revenues were increased, AE would
20 appropriately adjust those revenues so that only retail transmission costs coded to
21 FERC 565 would be included in the retail revenue requirement. However, if
22 wholesale transmission revenues were allowed to reduce the retail transmission

⁵ Austin Energy’s 2015 Cost of Service Study and Proposal to Change Base Electric Rates at 904, WP E-5.1.1 (Jan. 25, 2016) (“Tariff Package”).

1 expense, that would create a cross subsidization. In effect, AE would not recover all
2 of its retail transmission costs from its retail customers and, thus, violate the cost
3 causation concept.

4 **Q. DOES MS. FOX CONCUR THAT AE APPROPRIATELY ACCOUNTS FOR**
5 **ITS RETAIL TRANSMISSION EXPENSE?**

6 A. Yes, in her Direct Testimony on page 23, line 9.

7 **Q. DOES AE PROPOSE RECOVERING ONLY RETAIL TRANSMISSION**
8 **COSTS?**

9 A. Yes, since these are the only transmission costs incurred to provide electric service to
10 AE's customers.

11 **Q. IS THIS THE APPROPRIATE VENUE TO REVIEW WHOLESALE**
12 **TRANSMISSION COSTS AND REVENUES?**

13 A. No. Wholesale transmission costs and revenues are outside the scope of this
14 proceeding. Austin City Council does not have jurisdiction over AE's wholesale
15 transmissions costs and the revenues to pay those costs. Wholesale transmission
16 costs and revenues are in the exclusive jurisdiction of the PUC and should be
17 reviewed in a separate PUC proceeding.

1 IV. RESERVES

2 A. Reserve Funding

3 Q. DOES AE HAVE ESTABLISHED FINANCIAL POLICIES THAT GOVERN
4 AE'S CASH RESERVES?

5 A. Yes. For the purpose of this discussion, the City of Austin's Financial Policies
6 Nos. 11, 15 and 16 govern the type and funding requirements of AE's cash reserves.⁶

7 Q. HAS AE INCLUDED AN AMOUNT IN ITS COST OF SERVICE TO FUND
8 THESE RESERVES?

9 A. Yes. AE has included \$11,590,703 as shown in Schedule C-3.⁷ This schedule details
10 the amount of reserves AE should have based on its cost of service and current
11 financial policies. The reserve requirements are measured against unaudited FY 2015
12 balances. Decommissioning reserves are not included on the schedule since these
13 reserves are restricted to a specific purpose.

14 Q. HAVE ANY STUDIES BEEN PREPARED TO ANALYZE AE'S RESERVES
15 AND RELATED FINANCIAL POLICIES?

16 A. Yes. In the 2012 rate ordinance, City Council directed AE to undertake a study to
17 review AE's reserve fund policies and target funding levels. In response, Austin
18 Energy retained NewGen Strategies & Solutions, LLC ("NewGen") to review and
19 examine AE's reserve funds, including an overview of supporting financial policies,
20 and to provide recommendations for adjustments as needed.⁸

368. ⁶ Austin Energy's financial policies are found in AE's Tariff Package, Appendix D, Bates Stamp

⁷ Tariff Package at 822.

⁸ The study is included in AE's Tariff Package as Appendix I.

1 **Q. WHAT WERE THE RESULTS OF THE STUDY?**

2 A. NewGen recommended a number of changes, many of which AE included in its
3 Tariff Package on Bates Stamp page 98. However, until City Council acts on these
4 recommendations, AE must seek to comply with the current financial policies.

5 **Q. HAS ANY WITNESS PROPOSED RECOMMENDATIONS TO CHANGE**
6 **THE LEVEL OF RESERVE FUNDING?**

7 A. Yes. Lanetta Cooper with AELIC, Clarence Johnson on behalf of the ICA, and
8 Marilyn Fox on behalf of NXP/Samsung, have all proposed changes to AE's reserve
9 funds.

10 **Q. WHAT RECOMMENDATIONS DOES MS. COOPER MAKE?**

11 A. Ms. Cooper proposes lowering reserve funding levels due to her recommended
12 reductions to non-nuclear decommissioning expense and bad debt expense.
13 According to Ms. Cooper, these O&M reductions flow through to reserve calculations
14 and ultimately reduce the overall level of needed reserves. The Rebuttal Testimony
15 of AE witness Mark Dombroski addresses these proposed O&M reductions.

16 **Q. DOES MS. COOPER HAVE ANY OTHER RECOMMENDATIONS THAT**
17 **MIGHT IMPACT RESERVES?**

18 A. Yes. Ms. Cooper recommends that AE's operating balance be increased by \$29
19 million due to the recovery of reserves in FY 2016 that were used to fund the under-
20 collection of transmission-related costs in its FY 2015 Regulatory Charge.
21 Additionally, Ms. Cooper proposes to increase AE's operating balance by \$14.5
22 million due to the sale of land related to the retirement of the Seaholm power plant.

1 **Q. DO YOU AGREE WITH MS. COOPER'S RECOMMENDATIONS?**

2 A. No. Ms. Cooper's theory is that AE has increased its FY 2016 Regulatory Charge in
3 an effort to recover a prior period expense and that the adjusted Regulatory Charge
4 will result in \$29 million in revenue in excess of FY 2016 costs. She rationalizes that
5 those excess funds will be added to the reserve balances. Ms. Cooper assumes that
6 the adjusted regulatory rate will generate \$29 million but offers no evidence that the
7 rate will in fact generate any excess revenues, much less \$29 million. In theory, AE's
8 adjusted Regulatory Charge should recover revenue in excess of the current period
9 expense, but it is unknown until the completion of FY 2016. As such, Ms. Cooper's
10 recommendation does not meet the criteria required to make a known and measurable
11 adjustment. Also, it appears that Ms. Cooper arbitrarily applies her concept since she
12 does not extend the same rationale to any over-recovery in other pass-through charges
13 such as power supply costs which are being passed back and could consequently
14 reduce the operating balance. At the end of FY 2015, power supply costs were
15 approximately \$60 million over-recovered and rates were lowered in FY 2016, the
16 same period Ms. Cooper relied on in her analysis.

17 **Q. DO YOU AGREE WITH MS. COOPER'S RECOMMENDATION TO**
18 **INCREASE AE'S OPERATING BALANCE BY \$14.5 MILLION?**

19 A. No. AE received funds for the sale of property associated with the Seaholm power
20 plant after the end of the test year period. In addition, because the revenue was due to
21 a one-time event, the funds must be considered to be non-recurring and thus fail a
22 threshold test for making a post-test year adjustment. Therefore, the \$14.5 million
23 should not be included in the normalized test year.

1 **Q. ARE THERE ANY OTHER RECOMMENDATIONS TO RESERVE**
2 **FUNDING?**

3 A. Yes. Both Mr. Johnson and Ms. Fox make recommendations based on the
4 assumption that NewGen's recommendation has been adopted by City Council,
5 which it has not. The test year revenue requirement includes reserve funding based
6 on AE's existing financial policies approved by City Council. Consequently, any
7 change to test year reserve funding based on either NewGen's recommendation
8 violate existing financial policies and should be rejected until such time Council
9 chooses to adopt and implement any changes to AE's financial policies.

10 **Q. NOTWITHSTANDING YOUR CONCERNS ON EXISTING FINANCIAL**
11 **POLICIES, WHAT CHANGE HAS MR. JOHNSON MADE TO NEWGEN'S**
12 **PROPOSAL?**

13 A. NewGen's reserve fund study proposed a reserve balance range of between 90 days
14 and 120 days of power supply costs and proposed that AE use power supply
15 adjustment ("PSA") over-recoveries as a funding mechanism for the Power Supply
16 Stabilization Reserve. In Section 4 of the Tariff Package, AE recommended that the
17 Power Supply Stabilization Reserve be funded based on the midpoint of NewGen's
18 proposed range, 105 days of power supply costs. In contrast, Mr. Johnson
19 recommends reducing the level of Power Supply Stabilization Reserve to 90 days of
20 power supply costs and that over-recovery in the PSA not be used to fund that
21 reserve.

1 **Q. WHAT IS THE BASIS FOR MR. JOHNSON’S RECOMMENDATION?**

2 A. Mr. Johnson purports that the range of 90 to 120 days is based on worst case
3 scenarios and that funding at the minimum level balances the benefits of the fund
4 with affordability.

5 **Q. DO YOU AGREE WITH MR. JOHNSON’S RATIONALE?**

6 A. Mr. Johnson’s recommendation falls within NewGen’s proposed range of a minimum
7 of 90 days to a maximum of 120 days. However, an average between the minimum
8 and maximum is reasonable based on the NewGen study, which states, “given that the
9 accumulation of reserves takes time, and the risk mitigation benefit associated with
10 reserves is substantial, we recommended looking at extreme circumstances when
11 evaluating appropriate funding levels.”⁹

12 **Q. DO YOU AGREE WITH MR. JOHNSON THAT THE POWER SUPPLY**
13 **STABILIZATION RESERVE SHOULD NOT BE FUNDED FROM NET**
14 **CREDIT BALANCES IN THE PSA?**

15 A. No. Mr. Johnson recommends not using PSA over-recoveries to strike a balance
16 between the goals of a stabilized PSA and affordability.¹⁰ Mr. Johnson assumes if the
17 approach were in effect, it would be unlikely that ratepayers would have received an
18 11.3% reduction to their PSA rate in April 2016. However, Mr. Johnson offers no
19 evidence or support of this statement. Additionally, I agree with NewGen’s
20 comments that the approach ties the funding source to the use of the funds and is

⁹ Tariff Package at 475, Appendix I.

¹⁰ Direct Testimony of Clarence Johnson at 25:18 (May 3, 2016).

1 consistent with cost causation principals.¹¹ Any amount of funding that would come
2 from the PSA would be limited by policy to a 120 day maximum amount.

3 **Q. PLEASE COMMENT ON AELIC'S CLAIM THAT AE WOULD NOT BE**
4 **REQUIRED TO ADJUST ITS RATES DOWNWARD WHEN IT**
5 **EXPERIENCES AN OVER RECOVERY OF ITS COSTS.**

6 A. AELIC's claim is incorrect. Austin Energy's current and proposed electric tariffs
7 state:

8 [i]f, at any time, the balance of PSA costs recovered since the
9 date of the last PSA adjustment is more than 110 percent of
10 PSA costs actually incurred during such period, and such over-
11 recovery is projected to remain above 110 percent after 12
12 months from the date of the last PSA adjustment, the PSA shall
13 be adjusted to eliminate the over-recovery balance within the
14 next 12 months.

15 This tariff language ensures that AE does not accumulate large over-recoveries of
16 PSA costs indefinitely. In fact, to prevent over-recovery of PSA costs, AE recently
17 reduced its PSA just five months after it was set during the normal budget process.
18 The PSA went from a system rate of \$0.03124, with an effective date of November 1,
19 2015, to a system rate of \$0.02769 with an effective date of April 1, 2016.

20 Furthermore, it appears AELIC misunderstands how the net credit balance
21 would fund the PSA stabilization reserve. The PSA stabilization fund is intended to
22 help mitigate unpredictable fluctuations in PSA costs, therefore keeping the PSA
23 stable and not rising as quickly in future years. Given the fact that the ERCOT
24 market is currently reflecting historical lows for power costs it is particularly

¹¹ Tariff Package at 477, Appendix I.

1 important to have this protection from large increase in PSA costs.¹² Although the
2 PSA stabilization reserve is funded with over-collections of PSA costs, AE does not
3 retain the over-collections. Instead, AE continues to track the PSA balance and
4 reconciles it when setting the PSA annually. In this way, AE is able to mitigate large
5 oscillations in the PSA while still reconciling fuel costs in an equitable manner.

6 **Q. WHAT RECOMMENDATIONS DOES MS. FOX MAKE RELATED TO**
7 **RESERVE FUNDS?**

8 A. Ms. Fox seeks to eliminate the entire reserve funding in the revenue requirement
9 based on the concept that AE already has sufficient reserves.

10 **Q. WHAT IS THE BASIS FOR HER RECOMMENDATION?**

11 A. Ms. Fox accepts NewGen's recommendation to eliminate the Emergency Fund but
12 suggests eliminating the Rate Stabilization Reserve and reducing the Working Capital
13 Fund from 60 to 45 days of O&M. In addition, Ms. Fox reduces reserve balances
14 based on her recommendations to reduce operating costs.

15 **Q. DO YOU AGREE WITH MS. FOX'S PROPOSAL TO ELIMINATE**
16 **RESERVE FUNDING?**

17 A. No. Because AE's proposed changes to reserve funds have not been approved by
18 City Council and incorporated in AE's financial policies, Ms. Fox's recommendations
19 would cause AE to violate Council's reserve policies. The test year revenue
20 requirement includes reserve funding based on AE's existing financial policies
21 approved by City Council.

¹² The ICA supports the PSA stabilization reserve, as noted in the Direct Testimony of Clarence Johnson at 23:2-17.

1 **Q. DO YOU AGREE WITH MS. FOX’S MODIFICATIONS TO NEWGEN’S**
2 **PROPOSAL IF CITY COUNCIL WERE TO ADOPT IT?**

3 A. No. Under NewGen’s recommendation, the individual reserves funds act together as
4 a comprehensive, overall policy. Altering the number of days on the Working Capital
5 Fund and eliminating the Rate Stabilization Reserve renders the reserve policy
6 ineffective.

7 **Q. HOW WOULD MS. FOX’S RECOMMENDATION REDUCE THE**
8 **EFFECTIVENESS OF NEWGEN’S RESERVE PROPOSAL?**

9 A. Ms. Fox recommends reducing the Working Capital Fund from 60 days to 45 days.
10 Sixty days is more appropriate since 45 days O&M does not recognize the impact of
11 transfers such as the general fund transfer (“GFT”). Currently AE does not consider
12 transfers to the City in calculating working capital. However, increasingly rating
13 agencies are viewing these transfers as a firm obligation and are beginning to
14 consider these in their evaluations. This reflects the fact that these transfers are not
15 optional costs for the utility. Use of a 60 day standard is also supported by the
16 NewGen recommendations.¹³

17 **Q. DO YOU AGREE WITH MS. FOX’S PROPOSAL TO ELIMINATE THE**
18 **RATE STABILIZATION RESERVE?**

19 A. No. Ms. Fox states that the Rate Stabilization Reserve is “... unreasonable
20 considering the fact that almost half of AE’s total revenue requirement will be
21 recovered from pass-through rates, effectively guaranteeing that more than half of
22 AE’s costs will be recovered as they are not subject to a full review.”¹⁴ In effect,

¹³ Tariff Package at 461, Appendix I.

¹⁴ Direct Testimony of Marilyn J. Fox at 41:3-6.

1 Ms. Fox implies that pass-through rates “guarantee” timely recovery of costs. This is
2 an erroneous conclusion for two primary reasons: (1) cost recovery limitations are
3 imposed by Council’s Affordability Goals that system rates should not increase more
4 than 2% per year; and (2) Council has the authority and has recently exercised that
5 power to delay full cost recovery in order to minimize bill impacts on AE’s retail
6 customers. As noted in Appendix I, Bates Stamp 471, the proposed Power Supply
7 Stabilization Reserve could be a crucial tool to help AE comply with the affordability
8 goal. The PSA cannot address urgent, short-term needs for cash caused by volatile
9 market conditions because adjustments to the PSA will not yield increased cash for
10 AE for approximately 90 days. In order to absorb these high impact financial events
11 for AE’s retail customers, the Power Supply Rate Stabilization Reserve can delay or
12 even eliminate AE’s need to recover costs immediately from its customers and can
13 help AE amortize those costs over longer periods of time. In short, the Power Supply
14 Stabilization Reserve could be a powerful tool for affordability at the retail customer
15 level.

16 **Q. HAS AE NOT RECOVERED COSTS THROUGH PASS THROUGH RATES**
17 **DUE TO THE AFFORDABILITY GOAL?**

18 A. Yes. Evidence of Council’s willingness to delay AE’s cost recovery out of
19 affordability concerns can be found in their direction to delay pass through of
20 approximately \$25 to \$30 million in incremental regulatory charges in FY 2015. This
21 fact refutes Ms. Fox’s logic as it relates to pass through rates “guaranteeing” timely
22 recovery.

1 **Q. DO OTHER WITNESSES SUPPORT MS. FOX’S POSITION THAT THE**
2 **RATE STABILIZATION RESERVE IS UNNECESSARY?**

3 A. No. In fact, Mr. Johnson disagrees with Ms. Fox’s recommendation. Mr. Johnson
4 addresses the issue directly and agrees that it is reasonable for AE to have a Power
5 Supply Stabilization Reserve.¹⁵ According to Mr. Johnson, the ERCOT market can
6 be volatile and a power supply stabilization fund insulates ratepayers from market
7 volatility.

8 **Q. DO YOU AGREE WITH MR. JOHNSON’S REASONING REGARDING THE**
9 **POWER SUPPLY STABILIZATION RESERVE?**

10 A. Yes.

11 **Q. DO YOU AGREE WITH MS. FOX’S RECOMMENDATION TO REDUCE**
12 **RESERVES BASED ON O&M REDUCTIONS.**

13 A. Certain reserves are based on days of O&M and reductions to O&M would have an
14 impact on reserves. AE witness Mark Dombroski’s testimony addresses Ms. Fox’s
15 proposed changes to O&M. However, I will address Ms. Fox’s \$70 million reduction
16 to power supply costs.

17 **Q. IS THE REDUCTION TO POWER SUPPLY COSTS UNREASONABLE?**

18 A. Yes. Ms. Fox indicates in her response to Austin Energy’s Request for Information
19 No. 2-1 that the \$70 million reduction is based on AE’s April 1, 2016 adjustment to
20 the PSA.¹⁶ The PSA reduction is beyond the scope of this base rate review test year.
21 Moreover the reduction is based on a prior period over-recovery and is non-recurring.

¹⁵ Direct Testimony of Clarence Johnson at 23:13.

¹⁶ NXP/Samsung Response to AE RFI No. 2-1 (May 10, 2016).

1 For all of these reasons, the PSA reduction should not be included in the test year.
2 The adjustment is not reflective of a normalized test year.

3 **B. Policies**

4 **Q. A SUMMARY OF MS. FOX'S RECOMMENDATION TO CHANGE AE'S**
5 **FINANCIAL POLICY, FOUND ON PAGE 43, LINES 1-14, IS THAT AE**
6 **SHOULD INCORPORATE DIRECT LANGUAGE TO GOVERN THE USE**
7 **OF THE RESERVES, EXPLICITLY REQUIRE A DEBT SERVICE**
8 **COVERAGE TO SET RATES AND, IN TURN, EXPLICITLY DENY THE**
9 **USE OF THE CASH FLOW APPROACH, AND INCORPORATE RATING**
10 **AGENCY METRICS SUCH AS DAYS OF CASH ON HAND, DEBT RATIO**
11 **AND DEBT SERVICE COVERAGE. DO YOU AGREE WITH HER**
12 **RECOMMENDATIONS?**

13 A. In part. Austin Energy's current financial policies already address Ms. Fox's
14 recommendations such as how reserves are used, debt service coverage ratio and debt
15 ratios. Austin Energy's RFP includes NewGen's analysis of reserves, however, no
16 witnesses recommended adopting it in whole as a replacement to the existing policies.
17 City Council initiated an action plan on reviewing reserves by requesting a study.
18 City Council has not considered NewGen's reserve policy, therefore, Ms. Fox's
19 recommendations are unreasonable at this point. Austin Energy's financial policies
20 are reviewed annually by City Council through the budget process. Current policies
21 address rating agency metrics such as debt service and debt/equity funding of capital
22 projects. AE monitors its performance against utilities with like credit ratings on a
23 yearly basis.

1 **Q. DO YOU AGREE WITH MS. FOX’S RECOMMENDATION TO USE THE**
2 **DEBT SERVICE COVERAGE METHOD TO SET RATES AND TO**
3 **EXPLICITLY DENY THE USE OF THE CASH FLOW METHOD?**

4 A. No. AE witness Mark Dombroski discusses this issue in his rebuttal testimony.

5 V. CONCLUSION

6 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

7 A. Yes.

RESUME OF RUSSELL H. MAENIUS

Profile

Over thirty years of finance experience in the electric utility and banking industries. Concentrations in accounting, finance, analysis, economics and regulatory functions with positions in management and project leadership.

Professional Experience

Austin Energy, Austin, Texas: (August 2000 – Present)

Austin Energy Finance Director (Mar 2011- Present)

- Plan, organize, direct and control activities of Austin Energy's financial services division including the Rates and Forecasting function, the Materials Management function, including warehouse inventory and reclamation, and Fleet function.
- Manage the cost of service process that includes developing a revenue requirement allocated across functions, classified to cost types and assigned to customer classes. Recovery mechanisms and rates are designed to recover the class specific costs. Managed or prepared retail and transmission costs of service and provided testimony in utility rate proceedings before regulatory bodies.
- Manage economic, load, revenue and financial forecasting for Austin Energy. Closely align and assure forecast is intertwined into the budget process. Responsible for the preparation of budget documents and annual five year forecast in accordance with financial policies.
- Manage the supply chain function with four sites, multi-million inventories and over \$20 million in annual inventory issues. Function includes warehouse, planning, materials control and contract compliance and supervisory staff.
- Manage fleet function responsible for acquisition and management of approximately 700 units, and coordination with City of Austin Fleet Services.
- Provide strategic advice on capital structure, financial analysis and debt funding to Austin Energy's executive team.

Utility Regulatory Planner/Team Lead (Aug 2000- Mar 2011)

- Supported retail rate proceedings with focus on return methodology, revenue requirement and treatment of wholesale transmission costs.
- Prepared two Transmission Cost of Service (TCOS) studies. Developed cost of service model, schedules and work papers. Assisted in the preparation of direct and rebuttal testimony and responded to requests for information.
- Responsible for regulatory filings such as the Earnings Monitoring Report.
- Prepared technical and financial analysis.

Pedernales Electric Cooperative, Johnson City, Texas: (June 1992 – August 2000)

Analyst

- Prepared two transmission costs of service and assisted with retail rate case.
- Prepared regulatory reporting including Form 7.
- Responsible for financial reporting.
- Responsible for reconciling and unitizing CWIP to fixed assets.

- Developed and monitored corporate O&M and CIP budgets.
- Developed corporate budget process.
- Prepared financial and asset analysis, forecasts, benchmarking, cost-benefit, and break-even analysis.
- Prepared supporting documentation for bond issues.

Team Bank (fka Texas American Bank), Fredericksburg/Austin Texas: (1984 – 1992)
Lender/Analyst (July 1990 – June 1992)

- Analyzed and extended credit to new and existing customers.
- Administered multi-million dollar loan portfolio including collections in accordance with regulatory guidelines.
- Prepared financial and asset analysis, forecasts, benchmarking, cost-benefit, regulatory and break-even analysis.

Assistant Vice President (January 1986 – June 1990)

- Member of executive team responsible for overall bank operations, company policies and procedures, corporate budgets, and recommendations to the Board of Directors. Responsible for the full range of supervisory activities including selection, training, evaluation, counseling, and recommendation for dismissal. Analyzed employee and business needs and developed short and long range strategies, goals, and action plans to meet those goals.
- Developed and presented monthly review of loan portfolio to Board of Directors, holding company management and federal regulators. Recommended credit quality scores and loan loss provisions consistent with FDIC and Office of Comptroller of the Currency (OCC) regulations and guidelines.
- Managed credit department with \$100 million portfolio. Developed, prepared, reviewed and presented technical financial information in oral and written communication to the executive team, Board of Directors, and governmental and regulatory agencies.
- Prepared financial and asset analysis, forecasts, benchmarking, cost-benefit, regulatory, and break-even analysis.

Credit Analyst (June 1984 – December 1985)

- Prepared financial and asset analysis, forecasts, benchmarking, cost-benefit, regulatory, and break-even analysis.

Education

Bachelor of Science – Agricultural Economics, Summa Cum Laude (1984)
Texas Tech University, Lubbock, Texas

Summary of Qualifications

1. Bachelor's degree in economics.
2. Over thirty years of experience in regulatory functions, accounting, analysis, finance and economics.
3. Over ten years in a managerial or executive capacity.

AE 2-1 Please provide all data sources, calculations, and assumptions utilized in developing Table 3: Recommended Reserves and Table 4: Excess Reserve Balance included in the Direct Testimony and Exhibits of Marilyn J. Fox on Behalf of NXP Semiconductor, Inc. and Samsung Austin Semiconductor, Inc.

Answer: For data sources and calculations, please see attached worksheet.

Assumptions:

1. AE's claimed decrease in the PSA implemented in April 2016 was approximately correct.
2. AE's reserves balances at September 15, 2015 shown on AE Work Paper C-3.2.1 were correct.

Prepared by: Marilyn J. Fox

Sponsored by: Marilyn J. Fox