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 DOMBROSKI

ON BEHALF OF AUSTIN ENERGY

AUSTIN ENERGY
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EXHIBITS

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Mark Dombroski. 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 and my current position is Interim General Manager and Chief Financial Officer of Austin Energy.

Q. ON WHOSE BEHALF ARE YOU TESTIFYING?

A. I am testifying on behalf of Austin Energy ("AE").

Q. DID YOU PREPARE THIS TESTIMONY?

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

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

A. I am currently the Chief Financial Officer for Austin Energy where I'm responsible for corporate accounting, financial planning and budget, financial risk management, internal audit, and rates and regulatory support. I had similar responsibilities while serving as the Director of Finance for Seattle City Light. In addition to my public power experience, I have nearly 20 years of experience in providing financial and economic advisory services, principally in the energy and utility industry, with the firms of Price Waterhouse LLP and KPMG LLP as well as a smaller consulting firm. I have a Bachelor of Arts degree from the University of Texas at Dallas and a

Master of Public Administration degree from Seattle University. I am a Certified Energy Manager with the Association of Energy Engineers.

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

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

II. SCOPE AND SUMMARY OF REBUTTAL TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. My rebuttal testimony presents Austin Energy's response to various revenue requirement, cost allocation, and rate design proposals contained in the intervenors' direct and cross-rebuttal testimony. In addition, I address certain policy recommendations made by the intervenors. Lastly, I explain two adjustments to AE's initial filing.

Q. HOW IS YOUR REBUTTAL TESTIMONY ORGANIZED?

A. My rebuttal testimony consists of eight sections. The first sections provide an introduction and summary of my testimony. Section II also provides a summary of AE's rebuttal witnesses. Section III discusses three adjustments to the rate filing package ("RFP"). Section IV responds to two policy recommendations suggested by intervenors. Section V addresses various operations and maintenance objections. Section VI provides AE's response on revenue allocation issues. Section VII responds to an assortment of rate design proposals. Lastly, Section VIII contains the conclusion to my testimony.

Q. PLEASE INTRODUCE THE OTHER AE REBUTTAL WITNESSES AND A SUMMARY OF THE TOPICS THEY ADDRESS.

A. In addition to myself, AE is presenting seven rebuttal witnesses. Below is a listing of the witnesses and a summary of the topics they address in their rebuttal testimony:

1. Mark Dreyfus – Mr. Dreyfus is the Vice President of Regulatory Affairs and Corporate Communications at AE. His rebuttal testimony discusses the distinction between the proposed rates for customers served by AE inside the city limits of Austin and customers served outside the city limits of Austin. Next, Mr. Dreyfus discusses piecemeal ratemaking, which was raised by several intervenors. He also discusses the Service Area Lighting component of the Community Benefit Charge and the City's policy for provision and remuneration for Service Area Lighting. Mr. Dreyfus also explains the recommendation to conclude the transition period leading up to the elimination of the rate cap for House of Worship customers. He also addresses the recommendation by Data Foundry to disallow Austin Energy's entire power production function from retail rates. Lastly, Mr. Dreyfus discusses plans for conducting studies prior to Austin Energy's next rate setting.

2. Kerry Overton – Mr. Overton is AE's Deputy General Manager. His testimony addresses the following policy issues addressed in intervenors' testimony and presentations: Paul Robbins' testimony related to the enrollment process for the Customer Assistance Bill Discount Program ("CAP"); Austin Energy Low Income Customer's ("AELIC's") assertion that AE should not charge residential customers late payment penalty fees; the J.D. Power customer satisfaction survey addressed in the Independent Consumer Advocate's ("ICA") testimony; the process used by Austin Energy to develop pilot programs, addressing comments made by AELIC and ICA in their initial presentations and testimony and by Public Citizen and the Sierra Club ("PCSC") in their cross rebuttal filing.

3. Deborah Kimberly – Ms. Kimberly is AE's Vice President of Customer Energy Solutions. Her rebuttal testimony discusses the issue of expanding the value of solar tariff to commercial customers as raised by PCSC in their position statement. She also discusses establishing a value of community solar tariff as raised by PCSC. Ms. Kimberly also addresses the concerns expressed by Jim Rourke related to the current value of solar rider. She then responds to PCSC's proposal to increase and expand the energy efficiency services fee. Lastly, Ms. Kimberly addresses some of the concerns raised by the ICA related to customer satisfaction.

4. Rusty Maenius – Mr. Maenius is AE's Finance Director. His testimony addresses witness Paul Robbins' recommendation to adjust debt service associated with the STP Nuclear Project. Mr. Maenius also addresses

recommendations by several intervenors to adjust retail transmission costs, wholesale transmission revenues, reserves, and financial policies.

5. Joe Mancinelli – Mr. Mancinelli is the General Manager and President of NewGen Strategies and Solutions, LLC ("NewGen"). NewGen is a consulting firm that specializes in utility rates, engineering economics, financial accounting, asset valuation, appraisals, and business strategy for electric, natural gas, water, and wastewater utilities. His rebuttal testimony addresses the following issues raised by the intervening parties: funding of non-nuclear decommissioning reserves, the proper functionalization of 311 Call Center expense and FERC 920 Administration and General Salaries, the proper classification of production costs, the proper classification of distribution costs, the proper allocation of AE production costs, the proper allocation of distribution substations, poles, and conductors, the proper allocation of customer costs associated with uncollectible accounts or bad debt, metering costs, meter reading, service connection fees, and marketing and advertising costs included in FERC account 908 - Customer Assistance Expense, FERC account 909 - Informational and Instructional Advertising Expense, and FERC account 910 - Miscellaneous Customer Service Expense, the proper allocation of the revenue decrease, and the proper use of billing adjustments in rate design.

6. Greg Canally – Mr. Canally is a Deputy Chief Financial Officer for the City of Austin. Mr. Canally responds to Paul Robbins' assertion that the City mismanaged the sale or transfer of property owned by the City and used by AE.

7. Ed Van Eenoo – Mr. Van Eenoo is the City of Austin's Deputy Chief Financial Officer and Budget Officer. His testimony addresses the recommendation of the Austin Regional Manufacturers Association ("ARMA") to reduce the General Fund Transfer.

III. ADJUSTMENTS

Q. ARE THERE ANY ADJUSTMENTS TO THE RFP THAT NEED TO BE ADDRESSED?

A. Yes. There are three adjustments that need to be made to the RFP: (1) a billing determinant adjustment related to the 20% load factor floor for Secondary 2 ("S2") and Secondary 3 ("S3") customer classes; (2) an adjustment to reflect revenues received through the Community Benefit Charge ("CBC") related to the CAP

discounts; and (3) Austin Energy will be modifying its initial proposal for the Energy Efficiency Service ("EES") charge.

A. Billing Determinant Adjustment

Q. WHAT IS THE ISSUE WITH RESPECT TO THE 20% LOAD FACTOR FLOOR ADJUSTMENT?

A. Through the discovery process, Austin Energy realized that within AE's initial filing the billing determinants for the S2 and S3 customer classes were reduced by a greater amount than what would likely be experienced in the rate year. The initial filing adjusted the demand billing determinates for the S2 and S3 customer classes for those customers with less than a 20% load factor. This adjustment was based on aggregated data rather than individual bills. The revised approximation is based on individual bills of customers with less than a 20% load factor. The demand for those bills was recalculated at a 20% load factor and summarized by customer class. The figure below shows the initial load factor adjustment used in the RFP and the revised percentages to be applied.

Percentage applied for 20% Load Factor Floor Adjustment

	Secondary 2			Secondary 3		
	Before	*After*		*Before*	*After*	
	Inside/Outside	Inside	Outside	Inside/Outside	Inside	Outside
Non-Summer						
HOWs	-22.0%	-22.6%	-17.0%	-15.8%	-12.0%	0.0%
ISDs	-5.9%	-2.7%	-7.3%	-5.8%	-1.3%	-2.7%
State	-3.9%	-3.8%	-4.2%	-1.1%	0.0%	0.0%
Military	-5.8%	-2.6%	0.0%	1.5%	0.0%	0.0%
Standard	-8.8%	-4.1%	-6.9%	-2.7%	-0.4%	-1.3%
Summer						
HOWs	-9.8%	-12.3%	-5.9%	-11.4%	-14.7%	0.0%
ISDs	-1.8%	-1.3%	-2.6%	-2.1%	-1.9%	-1.8%
State	-6.2%	-1.2%	-0.1%	-1.7%	0.0%	0.0%
Military	-0.4%	-0.1%	0.0%	0.0%	0.0%	0.0%
Standard	-1.6%	-1.8%	-3.4%	-2.2%	-1.1%	-1.0%

Q. WHAT IS THE IMPACT OF THIS RATE DESIGN ADJUSTMENT?

A. This adjustment reduces the rate year revenue that AE would have collected from the S2 and S3 customer classes, but it has no impact on AE's overall revenue requirement. The initially developed rates would have resulted in an over-recovery. This adjustment is being made to keep AE from over-collecting its proposed revenue requirement.

In AE's initial filing, the specific rate year billing determinants were inaccurate. When the proposed rates were applied to the proper billing determinants, it resulted in AE over-collecting its revenue requirement. Consequently, AE adjusted the energy charges for the S2 and S3 customer classes to receive their target revenue requirement and reduce the over-recovery produced. The new proposed rates are less than what was proposed in the COS Study.

B. <u>Cap Funding</u>

Q. WHAT IS THE SECOND ADJUSTMENT RELATED TO CAP FUNDING?

A. Austin Energy's initial filing did not account for revenues generated from a separate funding source under the CBC to reimburse the CAP discount expenses. This issue was raised by AELIC and the ICA.

Q. WHAT WILL BE THE IMPACT OF THIS CORRECTION?

A. This correction will add approximately $7.085 million to AE's projected base rate over-recovery. Therefore, AE's projected base rate over-recovery will be approximately $24.559 million, rather than $17.474 million initially reported.

Q. DOES THIS CHANGE THE BASE RATE DECREASE AUSTIN ENERGY IS PROPOSING IN THIS CASE?

A. Yes. As a result of this change, Austin Energy is proposing to *decrease* base rates by **$24.559** million. This compares to the $17.474 million decrease proposed in Austin Energy's initial filing.

Q. WHY DOES AE'S CAP FUNDING REVENUE DIFFER FROM AELIC'S AMOUNT?

A. AELIC miscalculated the CAP funding revenue and overstates it by approximately $1.876 million. AE's total CAP discount given within the test period equals approximately $9.615 million, which includes the discounts on pass-through rate components, rather than the $8.961 million adjustment AELIC is proposing.

Q. HOW DOES AE RECOMMEND SPREADING THIS ADDITIONAL REVENUE?

A. Austin Energy recommends the same revenue allocation approach that was applied to its initial filing. However, if a class reaches its class cost of service, the remaining amount is applied to the other classes.

C. Energy Efficiency Charge Adjustment

Q. PLEASE DESCRIBE THE THIRD ADJUSTMENT RELATED TO THE EES CHARGE

A. Austin Energy will be modifying its initial proposal for the EES charge to address cost causation concerns with the initial structure. This modification will be addressed in Ms. Kimberly's rebuttal testimony.

IV. POLICY

Q. PLEASE SUMMARIZE ANY POLICY ISSUES TO BE ADDRESSED.

A. In the following section of my testimony I will address two policy issues that were raised by intervenors. The first issue relates to AE's use of the cash flow methodology. As discussed below, this issue is outside the scope of this case. The second issue relates to how discounts should be funded.

A. Cash Flow Methodology

Q. WHAT IS NXP/SAMSUNG'S POSITION RELATED TO THE CASH FLOW METHODOLOGY?

A. NXP Semiconductors and Samsung Austin Semiconductors, LLC ("NXP/Samsung") seeks to require AE to use the debt service coverage ("DSC") method and claims use of the cash flow method is unreasonable.[1]

Q. DO YOU AGREE WITH NXP/SAMSUNG'S ASSERTIONS AND RECOMMENDATIONS?

A. No. First, AE's use of the cash flow methodology is outside the scope of this proceeding and NXP/Samsung's testimony on the cash flow methodology should be stricken from the record. Austin Energy's use of the cash flow method is reasonable because it complies with the City's Master Bond Ordinance regarding rate setting and Financial Policy No. 17, which states:

> Electric rates shall be designed to generate sufficient revenue, after consideration of interest income and miscellaneous revenue, to support (1) the full cost (direct and indirect) of operations including depreciation, (2) debt service, (3) General Fund transfer, (4) equity funding of capital investments, (5) requisite deposits of all reserve accounts, (6) sufficient annual

[1] Direct Testimony of Marilyn J. Fox at 43:8-11 (May 3, 2016).

> debt service requirements of the Parity Electric Utility Obligations and other bond covenant requirements, if applicable, and (7) any other current obligations. In addition, Austin Energy may recommend to Council in the budget directing excess net revenues for General Fund transfers, capital investment, repair and replacement, debt management, competitive strategies and other Austin Energy requirements such as working capital….;

In addition, the cash flow method is consistent with AE's budget process and was approved by the Austin City Council in AE's last rate case. The Public Utility Commission of Texas ("PUC") also approved the use of the cash flow method in AE's most recent wholesale transmission case.

B. <u>Funding Discounts</u>

Q. HOW DOES AUSTIN ENERGY FUND DISCOUNTS?

A. Austin Energy funds discounts by either a separate tracking mechanism, such as the CAP rate, or by rolling the discount amount back into its prospective customer class.

Q. WHAT IS YOUR RESPONSE TO THE INDEPENDENT CONSUMER ADVOCATE'S RECOMMENDATION TO IMPUTE REVENUES FOR RATE DISCOUNTS?

A. The extension of the outside city customer discount reflects Austin Energy's strategy to mitigate the risk of future litigation. If outside city customers were to appeal AE's rates to the PUC and if the PUC were to order a significant change to the rates of outside city customers, AE would not be able to fund the change out of its reserves. Therefore, AE's inside city customers would be forced to bear the cost of those changes.

If AE were an Investor-Owned Utility ("IOU"), then imputing revenues would result in shareholders absorbing this cost through a reduction in rate of

return. Because it is a municipally-owned utility ("MOU"), AE's shareholders are its customers. Therefore, any imputed revenue is paid out of AE's margin. This depletes its reserves and working capital and ultimately creates an inter-generational inequity. AE would need to recover depleted reserve revenues from all customers at a later date.

Because the strategy of sustaining the outside city customer discount is meant to protect AE's inside city customers from significant financial risk, it is reasonable to pass the cost of the risk mitigation strategy to its beneficiaries. Thus, AE does not agree with the Independent ICA's recommendation to impute revenues for the rate discounts.

V. OPERATION AND MAINTENANCE

A. Decommissioning

Q. WHAT INTERVENOR RECOMMENDATIONS HAVE BEEN MADE REGARDING DECOMMISSIONING EXPENSE?

A. Seton Healthcare Family ("Seton"), AELIC, NXP/Samsung, ARMA, and the ICA propose to either reduce or eliminate AE's non-nuclear decommissioning expense. Seton, AELIC, and NXP/Samsung recommend that the decommissioning cost not be recognized as an operating expense, or that existing reserves be moved to non-nuclear decommissioning reserves. Seton recommends creating non-nuclear reserves, but does not specify for which non-nuclear generating units. AE witness Joe Mancinelli will address AELIC's claim that AE has not met its burden of proof on its decommissioning expense request. Additionally, NXP/Samsung recommends AE establish a decommissioning reserve only for the Decker Power Plant.

Q. DO YOU AGREE THAT DECOMMISSIONING COSTS SHOULD NOT BE RECOGNIZED AS AN OPERATING COST?

A. No. Non-nuclear decommissioning costs should be recognized as an expense and used to fund a non-nuclear decommissioning reserve. An annual decommissioning cost appropriately assigns the costs to rate payers who benefit from the assets. NewGen's report on reserve funds states:

> [t]he annual contributions to the reserve would be secured as an annual operating expense and subsequently recovered from customers through rates. By doing so, there is better alignment between the customers benefiting from the power plants while they are in service and the customers paying for the eventual dismantlement of the facilities in the future.[2]

Q. WHAT IS INTERVENOR NXP/SAMSUNG'S POSITION?

A. In a letter to City Council dated April 6, 2016, NXP/Samsung stated that they agreed with NewGen that decommissioning costs should be collected from ratepayers over the life of the asset and that this is usually done through depreciation rates for investor owned utilities ("IOUs"). In the same letter, NXP/Samsung states, "[h]owever, the fact that AE did not include decommissioning or cost of removal in its prior depreciation rates does not mean that it should now be included in O&M." AE, not previously recognizing non-nuclear decommissioning expense for these units either as operation and maintenance ("O&M") or in its depreciation expense, does not preclude it from doing so now. In contrast, the appropriate test is whether the requested decommissioning expense is reasonable and should be recovered as an operating expense. As demonstrated in AE's direct case, AE has satisfied this test. It

[2] Austin Energy's 2015 Cost of Service Study and Proposal to Change Base Electric Rates at 487 (Appendix I) (Jan. 25, 2016) ("Tariff Package").

should be noted that AE did include decommissioning expense for the Holly Power Plant as an O&M expense.

Q. DOES NXP/SAMSUNG HAVE ANY CONFLICTING POSITIONS ON THIS ISSUE?

A. Yes. Ms. Fox states that O&M expense should be paid when the expense is incurred, and that since these expenses are not incurred until the units are decommissioned, the costs should not be recognized as an expense.[3] She goes on to state that decommissioning costs, recovered as an operating cost, should be included in AE's operating balance because AE has not incurred or paid the expense.

Q. DO YOU AGREE WITH EITHER OF NXP/SAMSUNG'S POSITIONS?

A. No. If NXP/Samsung agrees that decommissioning costs should be collected from ratepayers over the life of the assets, but declines to apply that theory, then it appears NXP/Samsung's recommendation to exclude decommissioning costs as an operating cost is arbitrary.

Recovering decommissioning expense as an annual operating cost is consistent with the cost causation theory since those customers who benefit from the production facilities should pay for them. It is also consistent with the matching principle since decommissioning costs are recognized during the same period as production revenues. In addition, non-nuclear decommissioning costs recovered as O&M would fund a non-nuclear decommissioning reserve.[4]

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[3] Direct Testimony of Marilyn J. Fox at 29:3-5.

[4] See *supra* note 2.

Q. DO YOU AGREE WITH NXP/SAMSUNG'S CLAIM THAT NEWGEN DOES NOT RECOMMEND RECOVERING DECOMMISSIONING COST AS AN OPERATING COST?

A. No. NXP/Samsung's testimony directly contradicts NewGen's position that "annual contributions to the reserve would be secured as an annual operating expense and subsequently recovered from customers through rates."[5]

Q. HOW DID AE FUND THE HOLLY DECOMMISSIONING COSTS?

A. The Holly decommissioning costs were funded through an operating cost included in O&M.

Q. HOW DOES AE FUND ITS NUCLEAR DECOMMISSIONING RESERVE FUND?

A. AE's Nuclear Decommissioning Reserve Fund is funded through an operating cost included in O&M.

Q. DID NXP/SAMSUNG OBJECT TO AE RECOVERING DECOMMISSIONING COSTS THROUGH O&M TO FUND ITS NUCLEAR DECOMMISSIONING RESERVE?

A. No.

Q. WHAT IS THE ICA'S RECOMMENDATION REGARDING NON-NUCLEAR DECOMMISSIONING COSTS INCLUDED IN THE TEST YEAR?

A. The ICA disagrees with the amount of decommissioning expense, but agrees with AE's position of collecting non-nuclear decommissioning costs as O&M and that

[5] Tariff Package at 487.

recovery of that expense applies to the Decker Power Plant, the Fayette Power Plant ("FPP"), and the Sand Hill Power Plant.

Q. DOES NXP/SAMSUNG SUPPORT INCLUDING DECOMMISSIONING COSTS FOR THOSE SAME PLANTS?

A. No. NXP/Samsung recommends funding approximately $12.5 million as total decommissioning expense only for Decker Units 1 and 2 and that the cost be transferred from AE's current cash reserves.

Q. PLEASE CLARIFY AUSTIN ENERGY'S POSITION ON RECOVERY OF DECOMMISSIONING COSTS.

A. Austin Energy agrees with Seton, the ICA and, in part, with NXP/Samsung, that decommissioning costs should be recovered as an operating cost and that those costs fund a non-nuclear decommissioning reserve. Recovering decommissioning costs as O&M recovers costs from those ratepayers that benefit from those generating assets, in accordance with the cost causation principal. In addition, the cost causation principal applies to all of AE's non-nuclear generation (*i.e.*, Decker, FPP, and Sand Hill). Austin Energy's proposed methodology follows existing policy whereby AE recovers nuclear decommissioning costs as an O&M expense and the funds are held in a nuclear decommissioning trust until utilized.

B. <u>Internally Generated Funds For Construction</u>

Q. GENERALLY DESCRIBE INTERNALLY GENERATED FUNDS FOR CONSTRUCTION AND HOW IT IS DETERMINED?

A. Austin Energy finances its capital improvement program ("CIP") through a combination of debt and equity, with the equity portion derived from AE's current

year net revenues. Internally Generated Funds for Construction ("IGFC") is a function of CIP, contributions in aid to construction ("CIAC"), and the debt to equity financing ratio. Specifically, it is the sum of CIP, net of CIAC, financed with Net Revenues plus CIAC.

[(CIP – CIAC) x equity financing ratio] + CIAC = IGFC

Q. DOES AE HAVE A FINANCIAL POLICY GOVERNING IGFC?

A. Yes. Financial Policy No. 12 states, "Net Revenue generated by Austin Energy shall be used for General Fund transfers, capital investment, repair and replacement, debt management, competitive strategies, and other Austin Energy requirements such as working capital."[6]

Q. WHAT AMOUNT OF IGFC IS INCLUDED IN THE TEST YEAR?

A. Approximately $88 million ("M") is included in the test year, calculated as follows:

$158M CIP - $18M CIAC = $140M CIP net of CIAC.

$140M CIP net of CIAC x 50% equity financing = $70M net revenue funded.

$70M net revenue funded + $18M CIAC = $88M IGFC

Q. NXP/SAMSUNG PROPOSES $50 MILLION IN IGFC. DO YOU AGREE?

A. No.

Q. WHAT IS THE BASIS FOR NXP/SAMSUNG'S RECOMMENDED $50 MILLION IGFC?

A. NXP/Samsung's rationale is based on $125 million CIP and equity financing of 40%.[7]

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[6] Tariff Package at 369 (Appendix D).

[7] Direct Testimony of Marilyn J. Fox at page 19:15-17.

Q. WHY IS $125 MILLION CIP UNREASONABLE?

A. NXP/Samsung specifically excludes power production CIP. NXP/Samsung argues that although AE will incur power production CIP, none should be included because City Council has not determined AE's next incremental power supply, such as constructing a power plant or entering a power supply contract.[8] This is illogical because Austin Energy has existing power production that requires CIP investment, which AE demonstrated in WP C-3.4.1 of its cost of service ("COS") model. From Fiscal Year ("FY") 2012 through FY 2015, AE has invested an average of $21 million per year in CIP on its existing power plants. Austin Energy has shown that power production CIP is incurred annually and is not contingent upon whether City Council approves AE's next incremental power supply project. City Council approves the 5-year CIP, which includes the power production spending. Therefore, NXP/Samsung's recommendation to exclude power production CIP is unreasonable.

Q. WHAT IS THE TEST YEAR CIP AMOUNT?

A. The test year CIP is set at FY 2015 historical costs and equals $168 million, which includes $10 million in non-electric costs that are excluded from the IGFC calculation.

Q. IS THE TEST YEAR CIP REASONABLE?

A. Yes. The FY 2015 CIP is a reasonable proxy for AE's expected CIP. It is consistent with AE's historical CIP because it is within 3% of AE's average CIP amount for the years FY 2012 through FY 2014. In contrast, NXP/Samsung's $125 million

[8] *Id*. at 20:13-15.

recommended CIP is 24% below the average CIP level of $164 million experienced in the years FY 2012 to FY 2015. The table below shows AE's historical CIP.

	Millions of Dollars			
	FY 2012	FY 2013	FY 2014	FY 2015
Total Historical CIP (WP C-3.4.1, line 13)	$ 166	$ 155	$ 167	$ 168

The table shows a consistent pattern of total CIP spending, which is stable over the 4-year period. Therefore, the total CIP amount is consistent, while projects that AE works on vary by year, as noted in WP C-3.4.1.

Q. WHAT METRIC DOES NXP/SAMSUNG PROPOSE TO DETERMINE THE TEST YEAR CIP AMOUNT AND HOW DOES THIS COMPARE TO AE'S APPROACH?

A. NXP/Samsung proposes, "that AE look back several years in order to assess what AE's 'normal' level of construction expenditures is."[9] In selecting FY 2015 as the appropriate basis for establishing the CIP amount, AE reviewed the previous three years of expenditures in order to validate the test year amount.

Q. ARE THERE OTHER REASONS THAT SUPPORT USING FY 2015 CIP FOR THE TEST YEAR AMOUNT?

A. Yes. Austin Energy amended its line extension policy to recover the full cost of extensions based on estimated construction costs. The amended policy generated increased CIAC that reduces the revenue requirement. Fiscal Year 2015 was the first complete year the amended policy was in place. Consequently, AE found it

[9] *Id*. at 19:9-10.

reasonable to include the results from the policy and to match them to the same period, FY 2015, CIP costs.

Q. DO YOU AGREE WITH NXP/SAMSUNG'S RECOMMENDATION TO USE A 40% EQUITY FINANCING RATIO?

A. No. NXP/Samsung based the 40% ratio on the assumption that it corrects AE's use of cash funding in the prior years. NXP/Samsung recommends 40% but offers no evidence that it is reasonable or that historical equity funding is unreasonable. It is unreasonable to apply a system level debt to equity financing ratio to sub-level CIP because not all projects avail themselves to the same level of debt to equity financing. For example, certain types of capital projects, such as vehicles, are funded completely by IGFC, where it is not practical to incur 30-year bond debt for shorter life assets. Financial Policy No. 1 notes that the term of debt should generally not exceed the useful life of the asset.[10] As shown in AE's COS model on WP C-3.4.1, three-year average equity financing is 51%, which is calculated by dividing line 56 by line 13 for the respective years 2012 through 2014.

Q. WHAT PERCENTAGE OF EQUITY FINANCING DID AE USE TO CALCULATE THE TEST YEAR IGFC?

A. Austin Energy used 50% equity financing. This amount is reasonable because it is well within the range prescribed by Financial Policy No. 14 that states, "Capital projects should be financed through a combination of cash, referred to as pay-as-you-go financing (equity contributions from current revenues), and debt. An equity contribution ratio between 35% and 60% is desirable".[11] Additionally, 50% is

[10] Tariff Package at 368 (Appendix D).

[11] Tariff Package at 369 (Appendix D).

representative of AE's debt to equity ratio and historical average equity financing of 51% from FY 2012 through FY 2014. Finally, AE's recommended 50% equity financing complies with City Ordinance No. 20120607-055, which directs City Council to adopt a policy of targeting debt-to-equity ratio of 60/40 until October 1, 2014, and then reaffirms a 50/50 split thereafter.

Q. DO OTHER WITNESSES OBJECT TO THE TEST YEAR IGFC?

A. Yes. Seton recommends that CIP spending be limited to the 2016 spending plan rather than the four-year average for calculating the anticipated CIP spending, which would result in a $23 million reduction to the revenue requirement.

Q. DO YOU AGREE WITH SETON'S RECOMMENDATION?

A. No. Seton offers no evidence to support its recommendation, nor makes any arguments that the test year amount is unreasonable.

C. FPP Debt Defeasement

Q. ARE THERE ANY PROPOSALS FOR NEW DECOMMISSIONING OR RESERVE FUNDS?

A. Yes. PCSC has proposed establishing a fund to defease the debt for AE's share of the FPP. Adoption of this recommendation would increase rates by $31 million, thereby eliminating the entire rate decrease in this case. To date, City Council has not approved a definitive date for closing the FPP. Additionally, any decision on FPP would be subject to the City's affordability goals. Moreover, FPP Units 1 and 2 are jointly owned with the Lower Colorado River Authority ("LCRA") and operated by the LCRA. Therefore, neither AE, nor the City Council, has the authority to decommission the facility without cooperation from LCRA. For these reasons, it is

premature to develop a defeasement fund at this time and the adjustment does not meet the known and measureable criteria.

Q. ARE THERE ANY RISKS ASSOCIATED WITH THE EARLY DECOMMISSIONING OF AE'S SHARE OF FPP?

A. Yes. An early decommissioning or ramp down of operations at FPP could result in financial, legal, and operational risks to AE. The proposed FPP Debt Defeasement Fund would require a significant increase in Austin Energy's annual revenue requirement, and base electric rates. In addition to the pre-payment of current debt associated with FPP, AE is responsible for 50% of costs directly attributable to Units 1 and 2, and 33% of costs attributable to FPP as a whole (a third unit at FPP is solely owned by LCRA). Assuming AE decommissioned, or otherwise shutdown, half of the capacity of the FPP Units 1 and 2, significant and ongoing costs would continue, without any offsetting revenue from power and energy sales.

Operationally, the closure of AE's share of FPP would increase the unhedged market risk of AE's customers, exposing customers to future volatile market prices. Assuming that one FPP unit was shut down, LCRA's customers would also be exposed to greater reliability risk, due to the decreased operational diversity of operating only one plant. Any agreement with LCRA would likely require compensation for this risk.

Finally, defeasement of the bond debt prior to the date the debt actually becomes callable would also pose legal risks. This action would likely face a legal challenge because AE does not have the legal right to redeem or defease the bonds until the call date.

D. Uncollectable Expense

Q. DO ANY INTERVENORS RECOMMEND ANY CHANGES TO UNCOLLECTABLE EXPENSE?

A. Yes. Recommendations were made by AELIC, NXP/Samsung, and the ICA. Each party recommends reducing the amount of uncollectable expense. AELIC also recommends moving uncollectable expense from the customer charge to the energy charge.[12]

Q. DO YOU AGREE WITH AELIC'S RECOMMENDATION REGARDING TREATING UNCOLLECTABLE EXPENSE AS VARIABLE?

A. No. Uncollectable expense should be treated as a fixed cost due to the lag in time between when a customer consumes energy and when that customer's non-payment becomes uncollectable.

Q. DO YOU AGREE WITH AELIC'S RECOMMENDATION REGARDING REDUCING UNCOLLECTABLE EXPENSE?

A. No. AELIC is recommending uncollectible expense be reduced to match the bad debt recorded in FY 2015. AELIC concludes that the bad debt in the test year was a result of implementing a new billing system. This is incorrect. As stated in AE's Response to ICA RFI 2-5,[13] the amount of bad debt experienced in 2014 is also attributed to more lenient payment arrangement policies approved in Fall 2013. These policy changes led to an increase in the total number of payment arrangements and a decrease in the number of successfully completed payment arrangements. As evidence of bad debt returning to normal levels, AELIC references the decrease in

[12] AELIC's Statement of Position/Presentation at 4 (May 3, 2016).

[13] AE Response to ICA RFI No. 2-5 (Mar. 24, 2016) (MD-2).

bad debt expense from FY 2014 to FY 2015. However, a single year decrease does not represent a trend. As stated in the AE's Response to ICA RFI 2-30,[14] bad debt expense experienced year-to-year decreases in FY 2007 and 2008, but was followed by year-to-year increases in FY 2009 and FY 2010. AELIC does not appear to consider that consumer debt has continued to increase. In a presentation to the Austin Energy Utility Oversight Committee, it was shown there were 2.7 times as many customers on payment arrangements in April 2015 than in April 2013, and that the amount due in payment arrangements has increased by 72%.

Q. DO YOU AGREE WITH THE ICA'S RECOMMENDATION REGARDING REDUCING UNCOLLECTABLE EXPENSE?

A. No. The ICA develops a normalized bad debt expense using the bad debt expense from FY 2010 through 2014. While the aforementioned change in policy is captured at the tail end of the period, the use of the five-year period ignores the impact the change in policies had on consumer debt. Although the policies have since been revised, there is still a large amount of consumer debt. Therefore, it is incorrect to assume that the level of bad debt will soon return to the levels experienced prior to FY 2014.

Q. DO YOU AGREE WITH NXP/SAMSUNG'S RECOMMENDATION REGARDING REDUCING UNCOLLECTABLE EXPENSE?

A. No. NXP/Samsung also recommends reducing uncollectable expense to the level experienced in FY 2015. I do not agree with this recommendation for the same reasons laid out in response to the same recommendation from AELIC.

[14] AE Response to ICA RFI No. 2-30 (Mar. 24, 2016).

E. Economic Development

Q. DO ANY INTERVENORS RECOMMEND CHANGING HOW ECONOMIC DEVELOPMENT IS FUNDED?

A. Yes. NXP/Samsung and the ICA make recommendations to change how economic development is funded.

Q. WHAT WAS THE RECOMMENDATION OF NXP/SAMSUNG?

A. NXP/Samsung recommends removing the transfer to the Economic Development Department from the Cost of Service.[15]

Q. WHAT WAS THE RECOMMENDATION OF THE ICA?

A. The ICA recommends the funding of the Economic Development Department be included in the General Fund Transfer.[16]

Q. DOES NXP/SAMSUNG FIND ECONOMIC DEVELOPMENT PROGRAMS TO BE WORTHWHILE EXPENDITURES?

A. Yes. NXP/Samsung finds economic development program expenditures to be worthwhile.[17]

Q. WHY DO NXP/SAMSUNG AND THE ICA RECOMMEND CHANGING THE FUNDING FOR THE ECONOMIC DEVELOPMENT?

A. NXP/Samsung and ICA both believe that the economic development programs are not necessary for providing utility service.[18]

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[15] Direct Testimony of Marilyn J. Fox at 29.

[16] Direct Testimony of Clarence Johnson at 28 (May 3, 2016).

[17] Direct Testimony of Marilyn J. Fox at 30:13.

[18] Direct Testimony of Marilyn J. Fox at 30:13. Direct Testimony of Clarence L. Johnson at 29.

Q. DO YOU AGREE THAT ECONOMIC DEVELOPMENT IS NOT NECESSARY TO AUSTIN ENERGY?

A. No. Economic development programs are necessary to develop a diverse system load. A diverse system load benefits all customers by reducing regulatory costs, due to an improved system load factor. Additionally, economic development programs lead to a stable and more predictable system load. Finally, it provides a growing customer base to share AE's fixed costs.

F. Loss On Disposal

Q. WHAT AMOUNT OF LOSS ON DISPOSAL IS INCLUDED IN THE TEST YEAR?

A. The test year loss on disposal is approximately $7 million.

Q. DID AE MAKE A KNOWN AND MEASURABLE ADJUSTMENT TO THE TEST YEAR LOSS ON DISPOSAL?

A. No. Austin Energy did not make a known and measurable adjustment to the test year loss on disposal. The test year amount is the historical FY 2014 book amount, as shown on line 6 in AE's WP E-4.3 and confirmed in the direct testimony of NXP/Samsung witness Fox.[19]

Q. DID ANY INTERVENORS RECOMMEND CHANGING THE LOSS ON DISPOSAL?

A. Yes. NXP/Samsung recommends excluding loss on disposal from the test year.

[19] Direct Testimony of Marilyn J. Fox at 33:9-34:2.

Q. WHAT SUPPORT DOES NXP/SAMSUNG OFFER FOR THIS ADJUSTMENT?

A. NXP/Samsung's testimony recommends removing the loss on disposal expense from the test year "because it is not known and measurable"[20] and "since AE is using a cash flow method to determine return, the book loss should not be included."[21]

Q. DO YOU AGREE WITH NXP/SAMSUNG?

A. No. As previously noted, NXP/Samsung admits that the test year amount is the actual FY 2014 loss on disposal. However, they seek to remove it because the historical amount is not known and measureable. This is unreasonable. The historical test year amount is a known quantity. NXP/Samsung cannot assert that the loss is non-recurring because their testimony states that losses occur yearly.[22] In addition, AE did not make a known or measurable adjustment to the test year amount, therefore, NXP/Samsung's adjustment is inappropriate.

Q. DO YOU AGREE THAT THE LOSS ON DISPOSAL SHOULD BE DISALLOWED BECAUSE AE USED THE CASH FLOW METHOD TO DETERMINE ITS RETURN?

A. No. Loss on disposal is not an element of the return function. Therefore, the method used to determine AE's return is irrelevant to the loss on disposal, just as it would be irrelevant to any O&M cost. The cash flow method only pertains to those elements noted in the return function and listed in Schedule C-3. NXP/Samsung has not presented any evidence that loss on disposal is a return element.

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[20] *Id*. at 34: 2-3.

[21] *Id*. at 34:5-6.

[22] *Id*. at 34:11-13.

G. Customer Care

Q. DO ANY INTERVENORS PROPOSE DISALLOWANCES RELATED TO AE'S CUSTOMER CARE FUNCTIONS?

A. Yes. NXP/Samsung recommended a disallowance related to the Utility Customer Center ("UCC"). NXP/Samsung proposes changes to the City of Austin's allocation model. The following table identifies the organizations and allocator changes recommended by NXP/Samsung:[23]

Organization	AE Allocation Method	NXP Allocation Method
Customer Complaint	100% Electric	Service Revenue by Utility
Customer Billing	Bills by E, W, WW only	Bills by Utility
Customer Billing - CIS	Service Revenue by Utility	Bills by Utility
Revenue Measurement and Control	Bills by E, W, WW only	Bills by Utility
Call Center	Bills by E, W, WW only	Bills by Utility
Call Center - Base Telephone	100% Electric	Bills by Utility
Consumer Services	100% Electric	Bills by Utility
Quality Mgmt	Bills by E, W, WW only	Bills by Utility

Q. HOW DOES NXP/SAMSUNG PROPOSE TO ALLOCATE THE UCC?

A. NXP/Samsung recommends reallocating some of AE's Customer Care Expenses to other City departments. NXP/Samsung proposed that costs solely allocated to AE, or only allocated to AE and the water utilities, be allocated to all users of the UCC.

[23] *Id*. at 33.

Q. HOW WAS AUSTIN ENERGY'S CUSTOMER CARE ALLOCATION DEVELOPED?

A. Austin Energy hired the consulting firm KPMG to determine the most appropriate way to allocate the costs associated with the UCC. Austin Energy adopted the 'Customer Care Allocation Model' recommended by KPMG in 2002. This model was utilized during AE's prior rate case.

Q. DO YOU AGREE WITH NXP/SAMSUNG'S PROPOSED REALLOCATION?

A. No. The Customer Care Allocation Model appropriately assigns costs among COA departments. Austin Energy operates the UCC on behalf of the COA. The UCC serves the departments and customers of Austin Water Utility ("AWU"), Austin Resource Recovery ("ARR"), Transportation Department, Watershed Protection Department, and other smaller departments. Austin Energy's UCC provides and maintains the automated utility customer management call center, meter reading, and billing system. This system captures account information, premise information, and generates customer bills for electric, water and wastewater, and solid waste services as well as transportation and drainage fees. Austin Energy is responsible for producing utility statements that reflect charges for all COA utility services. The charges included on the utility bill reflect metered consumption for electricity (managed by AE), water and wastewater (managed by AWU), and garbage carts based on size (managed by ARR). The AE bill also includes miscellaneous fees and charges, such as initiation-of-service fees, late payment fees, and extra garbage bag fees. Finally, the bill includes pre-determined monthly fees for "non-metered" services provided by the COA.

NXP/Samsung's reallocation ignores the cost drivers underlying the specific allocation factors. For example, NXP/Samsung asserts that the "Customer Billing" and "Revenue Measurement and Control" organizations should be allocated based on the total number of bills, rather than only the bills for electric, water, and wastewater. However, "Customer Billing" and "Revenue Measurement and Control" costs are appropriately attributed directly to metered utilities because of the need to validate bills against the myriad utility rates and tariffs. Therefore, it would be inappropriate to allocate these costs to non-metered utilities as NXP/Samsung recommends.

NXP/Samsung's proposed allocations also inappropriately shift electric costs to other City departments, but NXP/Samsung does not provide any specific support for the adjustments. The Customer Care Allocation Model, developed by KPMG, appropriately allocates costs to the various City departments and should be followed.

Q. DOES THE CITY RELY ON KPMG'S ALLOCATION MODEL TO BUDGET COSTS FOR OTHER CITY DEPARTMENTS?

A. Yes. KPMG's allocation model is utilized by the City of Austin to allocate costs to the appropriate city departments. The changes proposed by NXP/Samsung would flow through directly to those departments and lead to inappropriate increases to the customer bills those departments.

Q. REGARDLESS OF THE IMPACT ON OTHER CITY DEPARTMENTS, ARE NXP/SAMSUNG'S ALLOCATIONS APPROPRIATE?

A. No. As an example, selecting the "Bills by Utility" allocator, which NXP/Samsung has done,[24] implies that ARR and Austin Energy are responsible for a similar share of

[24] *Id*.

the costs, including the costs of the billing system. In fact, the complexity of the electric billing system is significantly greater than the billing system for solid waste disposal. Therefore, NXP/Samsung's suggestion is inconsistent with cost causation principles. NXP/Samsung suggests that Solid Waste and Austin Energy are equally responsible for the operation and maintenance of the Customer Care and Billing ("CC&B") system.

H. Rate Case Expense

Q. DO ANY INTERVENORS RECOMMEND CHANGES TO RATE CASE EXPENSE?

A. Yes. NXP/Samsung recommends changing the amortization of rate case expense from three years to five years.

Q. DO YOU AGREE WITH NXP/SAMSUNG'S RECOMMENDATION?

A. No. Typically, within the utility industry, rate case expense is amortized over three years so rate case expenses from one case do overlap with the rate case expense for a subsequent COS study. In addition, AE has a financial policy to conduct a COS study every five years, at a minimum,[25] but does not prohibit AE from conducting a COS study in a shorter time frame. Also, other intervenors are recommending more frequent COS studies than the five years prescribed by financial policy.[26]

[25] Tariff Package at 371 (Austin Energy Financial Policy No. 17).

[26] Direct Testimony of Clarence L. Johnson at 101.

I. Outside Services

Q. DOES NXP/SAMSUNG RECOMMEND AN ADJUSTMENT TO OUTSIDE SERVICES (FERC ACCOUNT NO. 923)?

A. Yes. NXP/Samsung recommends a $6,762,767 adjustment associated with IT Staff Augmentation.

Q. WHAT IS THE BASIS FOR THIS ADJUSTMENT?

A. The basis is AE's response to NXP/Samsung RFI 4-29,[27] where AE stated it has not estimated the cost for IT Staff Augmentation during the time that base rates from this proceeding will be in effect, beginning in January 2017. Consequently, NXP/Samsung posits that the amount should be removed because it is not known and measureable.

Q. DO YOU AGREE WITH NXP/SAMSUNG'S ADJUSTMENT?

A. No. Austin Energy has historically relied upon outside consultants and experts to assist it with projects where it either does not have the specific expertise to complete the project or requires additional personnel. Instead of incurring the permanent cost of hiring such individuals, AE engages outside experts to supplement their staff. In this manner, AE reduces overall costs and does not duplicate effort.

NXP/Samsung has recommended eliminating a portion of those costs because AE has not adopted its FY 2017 budget, which Council typically approves in September of the preceding year. The estimated cost will be included in Austin Energy's FY 2017 budget. The test year amount of $8.9 million for outside staff, which included the amount disallowed for outside IT staff, was the FY 2014 historical

[27] AE Response to NXP/Samsung RFI No. 4-29 (Mar. 28, 2016).

amount. AE incurred $10.1 million in costs for outside IT staff in FY 2015. This indicates a recurring pattern of IT spending on Federal Compliance Initiatives, Maintenance Activities, IT Security, and Supplemental Technology Operations. Known future projects include an upgrade of the CC&B billing system as well as a transition from IBM to Oracle as the system administrator of the billing system. Austin Energy will strategically hire outside assistance with these projects. NXP/Samsung's argument that the amount is not known and measureable is not reasonable. In summary, a review of the past several years and well as the current approved budget demonstrates that IT Staff Augmentation costs are continuing and increasing. As such, the historical test year amount is not only representative and recurring, but also less than what AE expects to spend on these services in the future.

VI. REVENUE ALLOCATION

Q. ARE YOU ADDRESSING ANY ISSUES RAISED BY INTERVENORS RELATED TO REVENUE ALLOCATION?

A. Yes. I will address the revenue allocation (also referred to by the parties as the "revenue adjustment" or "revenue spread") issues raised by AELIC, the ICA, NXP/Samsung, and jointly Data Foundry and Austin Chamber of Commerce ("DF-ACC") from a policy perspective. Mr. Mancinelli will address implementation of the policy and respond to the specific revenue allocation issues raised by the intervenors in his rebuttal testimony.

Q. HOW HAVE INTERVENORS RECOMMENDED ALLOCATING REVENUE?

A. The differences among the intervenors concerning the revenue allocation highlight the controversy of this subject. Each intervenor recommends a revenue allocation

method most advantageous to their interest. DF-ACC proposes that all classes below COS receive a 2% increase, and classes above COS receive rate reductions proportionate to how far above COS the class is served. DF-ACC's proposal attempts to match AE's affordability goal limit of a maximum 2% annual system-wide rate increase. Austin Energy is proposing that no rate class, except TRANS-2, which is required by tariff and contract to be served at unity COS receive a base rate increase. DF-ACC's proposal is not consistent with this goal.

NXP/Samsung proposes that all rate classes be immediately moved to unity COS. This would result in the residential class receiving a significantly larger rate increase and would be contrary to Austin Energy's goal of gradual, moderate moves to COS. Gradualism is one of the six rate setting principles that Austin Energy describes in its Tariff Package.[28]

Finally, due to drastically different COS results compared to unity, the ICA recommends that the revenue decrease be allocated among all classes based on kWh consumption. The ICA argues this would assign a higher percentage of the reduction to high load factor customers compared to an across-the-board rate reduction. The ICA's proposal would move the residential class even further from unity COS and result in the residential class receiving the largest rate reduction, despite the class already being the furthest below COS, on a total revenue basis.

VII. RATE DESIGN

Q. ARE YOU ADDRESSING ANY ISSUES RAISED BY INTERVENORS RELATED TO RATE DESIGN?

A. Yes. I will address rate design issues raised by AELIC, ICA, PCSC, and DF-ACC.

[28] Tariff Package at 133.

A. Customer Counts

Q. DO ANY INTERVENORS RECOMMEND CHANGES TO THE CUSTOMER COUNT?

A. Yes. AELIC recommends a change to the residential customer count.

Q. DO YOU AGREE WITH AELIC'S RECOMMENDATION?

A. No. There are two problems with AELIC's recommendation. First, the customer count that AELIC recommends is based on the average number of residential customers during FY 2014 rather than the year-end number of customers. Second, the customer count is skewed because it includes multiple customers per premise during typical transition periods. The residential customer count is especially high during the late summer as the student population transitions into and out of housing before school starts. The customer count then decreases in October. Austin Energy uses a premise count for all customer classes to eliminate skewing of the customer count. Using an abnormally high customer count, as AELIC recommends, would result in customer charge revenue that would not be realized, and it would lead to a higher estimate of the residential customer class contribution to system peak.

B. Power Supply Adjustment

Q. ARE THERE ANY ISSUES RAISED BY INTERVENORS RELATED TO POWER SUPPLY ADJUSTMENT?

A. Yes. I will be addressing the issues raised by AELIC and PCSC related to the Power Supply Adjustment ("PSA") charge.

1. Seasonal PSA

Q. IS A SEASONAL PSA APPROPRIATE?

A. Yes. Both AELIC and PCSC support AE's recommendation for a seasonal PSA.

Q. PLEASE EXPLAIN HOW BOTH PARTIES SUPPORT AE'S RECOMMENDATION FOR A SEASONAL PSA.

A. AELIC states "unplanned events don't always occur in the summer but in the winter as well."[29] PCSC states "looking at the last five years of data, summer prices in general, and summer peak prices specifically, are higher."[30] PCSC also states, "the four summer months had, on average, about a 20 percent increase in prices compared to winter prices," and provides multiple tables showing peak, summer, and winter-prices.[31] Although both parties make arguments for different seasonal periods, their argument support AE's tariff package filling as to why a seasonal PSA is needed.

Q. PLEASE COMMENT ON PCSC'S CONCERN ABOUT BETTER PLANNING FOR SUMMER REDUCTION AND BEING ABLE TO CALCULATE A RETURN ON ENERGY EFFICIENCY INVESTMENTS.

A. AE is not proposing a change in the process for setting the PSA. It will still be done annually during the budget process. AE plans to simultaneously set the summer and non-summer PSA rates during the normal budget process, using historical PSA costs. As such, customers will still be aware of the rates in advance of when they will go into effect. This will allow them to plan for summer reductions and calculate a return on any investment they choose to make in anticipation of the rates going into effect as

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[29] AELIC's Statement of Position/Presentation at 6.

[30] Public Citizen's and Sierra Club's Position Statement/Presentation at 10 (May 3, 2016).

[31] *Id*. at 10-13.

they have in the past. Additionally, a seasonal PSA improves calculations on return on investment for energy efficiency, due to a possible higher summer rate compared to an annual PSA. The process of setting the PSA has not changed; the PSA component is simply being split into summer and non-summer PSA rates.

Q. DO ANY PARTIES NOT OBJECT TO THE CREATION OF A SEASONAL PSA?

A. Yes. The ICA does not object to the proposal and provides additional reasoning for why adopting a seasonal PSA and removing seasonal base rates is appropriate.[32]

2. Black Start Revenue

Q. DOES AUSTIN ENERGY HAVE ANY CONCERNS WITH AELIC'S RECOMMENDATION OF RECOGNIZING 'BLACK START' REVENUES FROM ERCOT TO OFFSET DECKER POWER PLANT COSTS?

A. Yes. AELIC's proposal violates the current tariff, which directs "charges and credits from ERCOT, other than the Administrative and Nodal Fees"[33] to be recovered through the PSA. Reflecting Black Start revenues through the PSA, as opposed to a base rate offset, provides transparency and ensures that all Austin Energy customers benefit from AE's wholesale market operations more rapidly. This is because, unlike base rates, the PSA is set annually.

[32] Direct Testimony of Clarence Johnson at 82:9-19 and 83:1-3.

[33] Tariff Package at 651.

C. Residential

Q. DID ANY INTERVENORS RAISE ISSUES RELATED TO THE RESIDENTIAL CUSTOMER CLASS?

A. Yes. AELIC, PCSC, and the ICA raised issues related to customer charges, the level of the tiered energy rates, the removal of seasonality from base rates, and treatment of fairness of outside city customers. I will address each of these issues in the following sections of my testimony. Mr. Dreyfus will also address the outside city customer issue in his rebuttal testimony.

1. Customer Charge

Q. WHAT ARE THE ISSUES RELATED TO RESIDENTIAL CUSTOMER CHARGE?

A. The first issue is the level of the residential customer charge. The second issue is whether multifamily residences should pay a reduced residential customer charge.

Q. WHAT IS THE ISSUE WITH RESPECT TO THE LEVEL OF THE RESIDENTIAL CUSTOMER CHARGE?

A. The ICA claims that AE's residential customer charge of $21.68 derived in the COS study is too high. The ICA's COS study shows a residential customer charge of $14.35.[34] However, both COS studies support a residential customer charge that is higher than the current $10.00 per month. Regardless, AE did not propose a change to the Residential customer charge.

[34] Direct Testimony of Clarence Johnson at 77:5-17.

Q. PLEASE COMMENT ON THE ASSERTION THAT AE'S CUSTOMER CHARGE IS HIGHER THAN OTHER BUNDLED ELECTRIC UTILITIES REGULATED BY THE PUBLIC UTILITY COMMISSION OF TEXAS?

A. AE's residential customer charge of $10.00 is less than half the charge of utilities that surround AE's service territory, Pedernales Electric Cooperative and Bluebonnet Electric Cooperative. Each of these utilities has a monthly residential customer charge of $22.50. Other bundled utilities, such as the small sampling relied upon by the ICA, likely have different cost structures for labor and materials and, therefore, do not provide accurate comparisons.

Q. WHAT IS THE PROPOSAL FOR MULTIFAMILY RESIDENCES?

A. The PCSC proposes that multifamily residences have a lower residential customer charge of $6.00 per month, but the current residential tiered rates be maintained to encourage conservation. PCSC "believe[s] that the utility's cost of service for multifamily dwellings is significantly lower (on both a per-customer and a per-kilowatt-hour basis)."[35] Significantly, PCSC presented no evidence to support a $6.00 customer charge. Moreover, none of the cost data supports such a low customer charge. As such, there is no basis for a $6.00 residential customer charge.

Q. WHAT IS AUSTIN ENERGY'S POSITION ON PCSC'S MULTIFAMILY PROPOSAL?

A. In its initial tariff filing, AE recommends conducting a study on multifamily dwellings to determine any cost and usage differences to serve these customers

[35] Public Citizen's and Sierra Club's Position Statement/Presentation at 15.

compared to single-family housing customers.[36] Therefore, AE recommends conducting such a study before considering PCSC's proposal

2. Tiered Energy Rates

Q. PLEASE DISCUSS PCSC'S AND AELIC'S CLAIMS THAT LEVELING TIERED ENERGY RATES REDUCES THE INCENTIVE TO CONSERVE?

A. Both PCSC's and AELIC's proposals claim to support conservation. AELIC's position is based on opinions or general knowledge, not any specific documentation or study.[37] Regardless, AE's residential inclining tiered rate structure already incorporated conservation signals.[38] Therefore, PCSC's and AELIC's proposals simply shift costs from low users to high users, with residential customers who consume more than 2,500 kWh per month (the highest tier, tier 5) also paying tier 1 and 2 rates.

In addition, AE's proposed adjustment to tiered rates does precisely what AELIC states they are encouraging "[u]nder an inverted block rate design the average price to a customer is smoothed because each price tier is incrementally added to the bill."[39] The current design is not 'smooth,' nor 'incrementally' adds to the bill since the tier 1 rate in the summer is set at 3.3 cents and jumps to 8.0 cents (tier 2), a 142% increase. This 'smooth' and 'incremental' addition to the bill is even worse for the

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[36] Austin Energy's 2015 Cost of Service Study and Proposal to Change Base Electric Rates, Appendix E states: "Study customer-related cost recovery charges for multi-family, single-family, and solar-installed residences: Austin Energy will investigate whether certain components of the Cost of Service vary by type of residence to improve allocation of costs within the residential sector."

[37] AELIC Response to AE's RFI 1-2 (May 10, 2016) (MD-5).

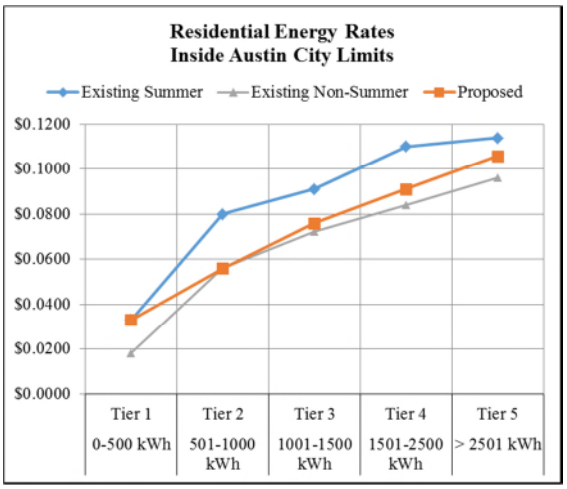
[38] Lazar, J. and Gonzalez, W. (2015). *Smart Rate Design for a Smart Future.* Montpelier, VT: Regulatory Assistance Project. Available at: http://www.raponline.org/document/download/id/7680.

[39] AE Low Income Customers' Statement of Position/Presentation at 6.

non-summer rate, which is set at 1.8 cents and jumps to 5.6 cents (tier 2), a 211% increase.

Q. DO THE PROPOSED TIER ENERGY RATES PROVIDE CONSERVATION PRICE SIGNALS?

A. Yes. As demonstrated in the chart below, the adjusted tiered energy rates AE proposes provide significant signals to encourage energy conservation by having each additional tier rate higher than the previous tier rate. To the extent that customers modify their behavior by using more or less power during the month, their average rate goes up or down. Moreover, the adjusted rates provide for recovery of costs more closely from the customers that cause the costs to occur. This is consistent with cost causation principals.



Design	Tiers	Rates	Multiple of T1 Rate
Proposed	Year-around		
	T1	$0.03300	1.0
	T2	$0.05600	1.7
	T3	$0.07595	2.3
	T4	$0.09100	2.8
	T5	$0.10595	3.2
Current	Summer		
	T1	$0.03300	1.0
	T2	$0.08000	2.4
	T3	$0.09100	2.8
	T4	$0.11000	3.3
	T5	$0.11400	3.5
	Non-Summer		
	T1	$0.01800	1.0
	T2	$0.05600	3.1
	T3	$0.07200	4.0
	T4	$0.08400	4.7
	T5	$0.09600	5.3

Q. DO ANY INTERVENORS NOT DISAGREE WITH ADJUSTING TIERED ENERGY RATES?

A. Yes. The ICA does not "disagree with the objective of producing more revenue stability in the rate structure" and provides additional reasoning for why adjusting tiered energy rates could be beneficial for customers.[40]

3. Seasonal Base Rates

Q. PLEASE COMMENTS ON PCSC'S RECOMMENDATION TO MAINTAIN SEASONAL BASE RATES.

A. AE disagrees with PCSC's recommendation because it is not cost based to keep seasonality within base rates. In addition, as discussed earlier, PCSC supports AE's reasoning to have a seasonal PSA and, therefore, remove seasonality from base rates. PCSC's position statement does not provide support for maintaining seasonality within base rates or that they are cost based. However, PCSC does seem to recommend "separate summer and winter energy rates, both to encourage summertime conservation and to avoid unexpectedly high bills for customers.

[40] Direct Testimony of Clarence Johnson at 80:5-81:2.

Summer rates for residential customers that are approximately 20 percent higher than winter rates are appropriate."[41]

Q. DO ANY INTERVENORS NOT OBJECT TO THE REMOVAL OF SEASONAL BASE RATES?

A. Yes. The ICA does not object to the proposal and provides additional reasoning in support of removing seasonal base rates and adopting a seasonal PSA.[42] AELIC "takes no position on whether the seasonal rate adjustment should be abolished."[43]

4. <u>Treatment For Outside City Customers</u>

Q. PLEASE RESPOND TO INTERVENOR ARGUMENTS RELATED TO THE TREATMENT OF OUTSIDE CITY CUSTOMERS.

A. Both PCSC and the ICA make arguments regarding the treatment of outside city customers versus inside city customers. PCSC discusses the number of tiers applied (*i.e.*, 3- vs. 5-tiers), while the ICA discusses how discounts to outside city customers should be recovered.

Q. DO YOU AGREE WITH PCSC'S CLAIM THAT OUTSIDE CITY LIMIT CUSTOMERS ARE BENEFITING FROM THE 3 TIERED STRUCTURE COMPARED TO THE 5 TIERED STRUCTURE FOR INSIDE CITY LIMIT CUSTOMERS?

A. No. AE proposed the 3 tiered structure for outside city customers to maintain the terms of the settlement in PUC Docket No. 40627. Outside city customers pay higher tier rates than inside city customers during the summer for the first three tiers,

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[41] Public Citizen and Sierra Club's Position Statement/Presentation on the Issues at 10.

[42] Johnson, supra note at 37.

[43] AE Low Income Customer's Statement of Position/Presentation at 6.

therefore, lower usage customers are paying a higher amount compared to inside city customers for similar usage.

PCSC states "overall and energy peak use is declining more than overall growth coming from new users."[44] This statement does not take into account that over half of the overall growth percentage of new customers coming from outside city limits, which contradicts that the decline in energy is driven by inside city customers and the 5-tier rate structure. Further, the ICA recommends that AE consider reducing the number of tiers for inside city customers from five to three or four.[45]

Q. PLEASE RESPOND TO THE ICA'S RECOMMENDATION TO IMPUTE REVENUES FOR RATE DISCOUNTS.

A. As discussed in the Policy section of this testimony, if AE were an IOU, then imputing revenues under PURA § 36.007(d) so shareholders absorb this cost through a reduction in rate of return, would be appropriate. However, since AE is a municipally owned utility ("MOU"), AE's shareholders are its customers and any imputed revenue is paid out of AE's margin, which depletes its reserves and working capital. This creates regulatory lag and delays recovery happens, while establishing both inter-generational and inter-class inequities. Therefore, AE would need to recover depleted reserve revenues from all customer classes in future years.

In addition, the ICA's application of the $5.817 million in imputed revenues is incorrect, since these perceived discounts are fully applied to base rate revenues. Instead, only approximately $3.683 million should be applied to base rate revenues as rate reductions for inside city customers when deriving the rate year revenues. The

[44] Public Citizen and Sierra Club's Position Statement/Presentation on the Issues at 15.

[45] Direct Testimony of Clarence Johnson at 81:12-21.

rest of the discount is from the CAP and Service Area Lighting ("SAL") rate reductions that are pass-through charges, as part of the CBC.

Q. HOW IS THE OUTSIDE CITY DISCOUNT FOR SAL RECOVERED IN THE CURRENT CASE?

A. For outside city customers, there is no SAL collected in the CBC. Austin Energy has a Service Area Lighting tariff, which is assessed to other municipalities.

Q. HOW IS THE OUTSIDE CITY DISCOUNT FOR CAP RECOVERED IN THE CURRENT CASE?

A. For outside city customers, the CAP is at a reduced amount compared to inside city residential customers. However, the CAP rate amount is unchanged from prior cases for both inside and outside city customers. The CAP discount benefit received by outside city residential customers is approximately $472,000.

D. <u>Non-Residential</u>

Q. DO ANY INTERVENORS RAISE ISSUES RELATED TO NON-RESIDENTIAL CUSTOMER CHARGES?

A. Generally, there is no issue or objection to the current treatment proposed by AE of Non-Residential customer charges. However, the ICA states "AE should avoid raising the small commercial customer charge…[and]… refrain from shifting costs from energy rates to demand charges in the next rate case."[46]

[46] *Id.* at 85:13-17.

Q. DOES AE AGREE WITH ICA'S RECOMMENDATION FOR FUTURE TREATMENT?

A. No. Austin Energy declines to commit to future handling of individual rate components, since cost elements could change significantly in a future rate case, therefore influencing how treatment should be implemented.

E. <u>Regulatory</u>

Q. DO ANY INTERVENORS RAISE ISSUES RELATED TO THE REGULATORY CHARGES?

A. Yes. Data Foundry raised an issue related to the level of the regulatory charge to the Primary 3-20 MW ("P2") customer class.

Q. IS THE P2 REGULATORY CHARGE EXCESSIVE?

A. No. The illustrative rate contained in the RFP based on the new voltage level approach, is consistent with what the other primary customer classes, Primary <3MW ("P1") and Primary >20MW ("P3"), will be paying. Although the expected P2 charge is going from $0.69 per kW to $3.16 per kW this is not a disproportionate increase on a percentage basis, because the P2 class has been artificially low. This is due to corrections being made from early schedule switching after the 2012 rate case and the expiration of Long-Term Contracts last year.

Q. PLEASE EXPLAIN WHY THE P2 RATE WAS ARTIFICIALLY LOW.

A. Shortly after AE's 2012 rate case, many customers switched classes. This migration caused the P2 regulatory rate to go from $2.92 per kW to $0.38 per kW. This change was compounded after the expiration of the Long-Term Contracts last summer, which was not corrected in AE's budget process last year.

Q. FOR P2, IS THE REGULATORY CHARGE RATE AT COST?

A. No. This was done so that when customer moved from P1 to P2 the would not experience significant rate impacts.

Q. WHY DID DATA FOUNDRY SAY AUSTIN ENERGY IS PROPOSING $3.61 PER KW OR A 423%INCREASE?

A. The $3.61 per KW rate and 423% increase found at page of Date Foundry's testimony is based on the COS results for the P2 class. Subsequently, DF-ACC discovered they had the wrong regulatory charge amount and incorrectly calculated the percentage increase.[47]

F. Load Shifting Voltage Rider

Q. PLEASE EXPLAIN THE ISSUES RELATED TO THE LOAD SHIFTING VOLTAGE RIDER.

A. Although PCSC states that they "fully support the new…Rider,"[48] they also propose three additional modifications or additions: (1) add clarity to the purpose of the Load Shifting Voltage Rider in order to incent load shifting and not a reduction in energy; (2) create a special discount for residential users that shifts peak demand using storage technologies; and (3) develop a Demand Response tariff.

Additional storage discount programs are worthwhile, especially residential. However, any new programs will take time and resources to develop and will not be properly developed within the timeframe of the current rate process. This is particularly true if the rate design constraints proposed by intervenors are adopted. These constraints are discussed in the following section of my testimony.

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[47] Date Foundry's Response to AE's RFI 1-5 (May 10, 2016) (MD-6).

[48] Public Citizen and Sierra Club's Position Statement/Presentation on the Issues at 33.

G. Pilots Programs

Q. ARE THERE ANY ISSUES RAISED BY INTERVENORS RELATED TO PILOT PROGRAMS?

A. Yes. Both AELIC and the ICA raised concerns related to the process for pilot programs, along with expiration dates within the tariff filing.

Q. DOES AE PROPOSE TO INCLUDE THE COSTS ASSOCIATED WITH THESE PILOT PROGRAMS IN RATES AT THIS TIME?

A. No. These pilots were designed and implemented outside of the test year, for which, City Council already approved during the FY 2016 Budget process.

Q. WHAT IS THE CURRENT PROCESS FOR IMPLEMENTING THE PILOT PROGRAMS THAT ARE AT ISSUE?

A. City Council has established certain renewable energy goals for AE. It is then AE's responsibility to determine the best practices to achieve those goals. Flexible pilot programs provide vital information to AE for meeting these goals. For example, pilot programs allow AE to ascertain limitations with programs and internal software configurations, research best practices learned from the temporary pilots, and determine which programs provide the best results to achieve City Council's goals.

Q. WILL AUSTIN ENERGY INCORPORATE STAKEHOLDER FEEDBACK AND OTHER RECOMMENDATIONS TO DEVELOP PERMANENT PROGRAMS?

A. Yes. After a pilot program is completed, AE reviews the data to see how cost effective the program was, determine the feasibility of the program, and its acceptance by customers. Once a program is determined to be appropriate to achieve

City Council's goals, it is submitted to the Electric Utility Commission and City Council to review, discuss, and approve.

Q. WHY NOT INCORPORATE THIS PROCESS ON THE FRONT-END?

A. Having this approach on the back-end compared to the front-end allows AE to develop programs quickly and test and evaluate them at the cheapest cost. In addition, it supplies AE with answers that would likely come up during a vetting process. Furthermore, a vetting process will hinder the time from development to testing pilots, which is likely to increase the cost to customers.

Q. PLEASE DISCUSS THE PILOT PROGRAM EXPIRATION DATES?

A. The pilot program expiration dates are appropriate, since some of the pilots go for 12 months from inception. The pilots are temporary in nature, therefore, a simple indication that the pilots are 'closed' to new customers is sufficient to end the pilot.

Q. IS THERE ANYTHING ELSE YOU WOULD LIKE TO SAY ABOUT THE PILOT PROGRAMS?

A. Yes. They are entirely voluntary, 'opt-in' programs.

VIII. CONCLUSION

Q. DOES THIS COMPLETE YOUR TESTIMONY?

A. Yes.

Mark V. Dombroski

PROFESSIONAL EXPERIENCE

Interim General Manager
Austin Energy, Austin, TX: Jan 2016 – Present

I was appointed as the Interim General Manager of Austin Energy by the Austin City Manager. Austin Energy is the nation's eighth largest publicly-owned electric utility and a department of the City of Austin with a mission is to safely deliver clean, affordable, reliable energy and excellent customer service. I am responsible for 1,700 employees and more than 500 contractors working to provide electricity to over than 450,000 customers in the City of Austin, several neighboring cities, unincorporated areas of Travis County, and a portion of Williamson County.

Austin Energy is recognized for achieving some of the highest performance standards in the industry. These standards include aggressive renewable and reliability goals and demonstrated efforts to promote new clean energy technologies and a sustainable environment. Our operations are funded entirely through energy sales and services, and the utility operates within the Electric Reliability Council of Texas statewide market. By responsibilities include:

- Direct management of all utility functions to assure adequate generation and system resources are available to meet customer demands.
- Responsible for strategic development of Austin Energy's policies and procedures to include managing the portfolio includes nuclear, coal, natural gas, and renewable energy sources.
- Oversee the renewable energy programs to include the green building program and residential and commercial energy efficiency programs.
- Plan, negotiate, organize, directs and control activities of utility services.
- Analyze business needs and develop short and long range strategies, goals, and action plans to meet those needs.
- Develop and monitor the assigned operations, maintenance and capital improvement program budgets.
- Represent Austin Energy's interests before state and national level on policy, energy, and environmental issues including, governmental and regulatory agencies, boards, council and commissions.
- Ensure the reliability of the Austin Energy electric system and develop systems to minimize outage duration and outage frequency.
- Provide leadership in developing and maintaining the standards of the City's energy code for residential and commercial buildings.
- Participate as a member of the City Manager's Executive Team.
- Serve as an active member of the Large Public Power Council's CEO Committee

Sr. Vice President, Chief Financial Officer
Austin Energy, Austin, TX: Oct 2014 – Present

I am a direct report to the General Manager and with nominal direction execute the responsibilities as Chief Financial Officer for Austin Energy. This position has the fiduciary responsibility for administering all financial proceedings of the electric utility that has a $1.4 billion annual budget. Oversees the operations of the Austin Energy's Financial and Corporate Services Business Unit including Risk Control and those business services managed by the Vice President of Austin Energy Finance and Corporate Services.

- Plans, negotiates, organizes, directs, audits and controls activities of finance and corporate services.
- Analyzes employee and business needs and develops short and long range strategies, goals, and action plans to meet those needs.
- Develops and monitors the department and business unit operations, maintenance and capital improvement program budgets and responds to any deviations.
- Communicates legislative issues and industry trends impacting Austin Energy.
- Develops and implements Austin Energy business plans that promote completion of the overall City of Austin business/strategic plans and initiatives.
- Prepares and reviews reports as part of the process of monitoring and communicating performance results.
- Implements policies and procedures to ensure financial transactions originating in Austin Energy are handled timely and appropriately. Establishes and maintains internal controls that provide cost-effective assurance that City funds are safeguarded and handled appropriately.
- Communicates financial and other corporate information to management and others.
- Presents to City Council, Boards, commissions, vendors and the general public
- Serve as an active member of the Large Public Power Council's Tax and Finance Workgroup

Vice President for Energy and Utilities
The Rehancement Group, Inc., Washington, DC: Nov 2009 – Sep 2014

I served as the VP for Energy and Utilities for a consulting firm based in the Washington, DC metro area. The company's main business areas included Energy Security Services, Real Property Services, Financial & Cost Management and Supply Chain Management. As the practice leader I was responsible for all business development, client relations and technical services for the company in the energy and utility sector. My focus was in the area of energy and utility economics, rate making and intervention, capital planning, asset management and regulatory analysis. Primary market was federal agencies and military installations.

- Served as the subject matter expert to the Deputy Under Secretary of Defense (Installations and Environment), Facilities Energy Directorate for energy initiatives with responsibilities related to policy formation and analysis, utility operations, and energy and utility economics.
- Assisted the Department of Defense, Congress Joint Committee on Taxation, and Senator Begich Office (AK) in preparing legislation on the exemption of Contribution in Aid of Construction tax on federal utility privatization transactions.
- Developed the methodology and policy for post transaction analysis for utility conveyance for the Department of Defense. Utility systems conveyed to local utility providers are based upon a life cycle cost analysis conducted prior to conveyance. The post transaction analysis is designed to determine if operational and economic benefits are achieved. The focus of the analysis includes capital improvements, asset management, technology (Smart Grid and distributed energy), and commodity costs.
- Served as a principal author for the 2012 Energy Report to Congress regarding the use of 3rd party financing and privatization to meet future renewable energy and water conservation goals at military installations.

- Managing the United States Army's Facilities Assessment Support Services requirements for the Office of the Assistant Secretary for Installation Management (OACSIM). Services include analytical support to the Sustainment, Restoration and Modernization Program, The Base Operations Support Program, The Installation Status Report Program and The Military Construction Program. Tasks include installation assessments, real property analyses and reporting, facility recapitalization, forecasting and budget development.

City Manager
City of Bainbridge Island, WA: Apr 2008 – Oct 2009

I served as both a City Administrator and City Manager for a full-service municipal corporation. I was responsible for the operations of the public works, utilities, finance, human resources, planning, information technology and public safety departments with over 150 employees and an annual budget of $55M.

- Guided the City in the transition from Mayor/Council form of government to a Council/Manager serving as the first City Manager in a highly charged political environment.
- Retained to provide leadership to the municipal corporation during an extraordinary economic crisis during which recurring revenues declined more than 30%.
- Wrote the City's first comprehensive financial and budgeting policy legislation the utilized best practices and procedures and was adopted by City Council.
- Developed the city's first cash flow management system to assist in implementing a sustainable 6-year financial plan to avoid insolvency.
- Reduced labor costs 15% through targeted workforce reductions and renegotation of labor contracts with labor unions reducing average salaries by 3.5%.
- Negotiated a 10% reduction in nearly all professional service contracts with contractors.
- Managed the construction of a $14.7M wastewater treatment plant upgrade in a highly developed residential zone. The goal of the project is to modernize the plant to meet Department of Ecology standards and to provide Class A bio-solids and tertiary treatment to allow the recharging of the sole source aquifer while reducing operating and maintenance cost over the life of the plant.
- Oversaw the design and planning of $12M downtown revitalization effort to improve utility, roads, and non-motorized transportation infrastructure while meeting low impact development standards and funded by more than $6M in federal grants.

Director of Finance
Seattle City Light, City of Seattle: June 2005 – Apr 2008

I was responsible for providing strategic leadership for all aspects of a $1.3 billion annual budget preparation and reporting, rate making, financial planning, debt management, and corporate performance for Seattle City Light, a public power utility with more than $3B in its rate base and serving 4000,000 retail customers in western Washington with 1,900 MW of clean hydro and wind power. My duties required making decisions involving broad organizational policy regarding financial policies that ultimately determine financial performance of the utility including its revenue requirements and debt levels. I was responsible for interpreting and presenting complex and technical information to stakeholders and the public. Accomplishments included:

- Implemented the first organizational wide capital improvement prioritization program for the utility's $320 million biannual capital budget for 2007-2008. The program included the development of cost benefit analyses and business cases to maximize return on investment while meeting operating requirements. The utility was able to increase capital project completion from 83% in 2006 to 97% in 2008 as a result.

- Lead the effort to improve the utility's bond rating from A to AA- stable with Standard & Poor's debt rating agency. In the aftermath of the 2001 west coast energy crisis the utility's debt rating was significantly lowered.
- Managed the utility's comprehensive rate cases, including the 2006 general rate case that generated an 8.4% average rate reduction, the largest rate decrease in the utility's 100-year history. The utility utilizes the marginal cost methodology to determine its rates on a cash basis. New economic principles along with refined methodologies were incorporated to develop more efficient tariff rates.
- Served on a team of professionals that developed the utility's first risk metric that helped to shape its $150M annual wholesale energy trading activity while minimizing its exposure to the volatility of hydro and market conditions. Utilizing a stochastic model that accounts for the variability in price, load, demand, and natural gas supply, the 5% tail risk metric allows for trading that will minimize financial loss under worse case scenarios also encouraged conservation and rewarded energy efficiency.
- Oversaw the creation of the utility's Enterprise Performance Management system that linked performance metrics to strategic goals to assist in decision making at all levels of the organization. The work included conducting an inventory of all data systems, preparing process maps, identifying key drivers for performance and establishing cascading metrics throughout the utility. The program also developed performance dashboards with analytical capabilities using a Cognos solution.
- Served in the utility's Asset Management Council responsible for the development and implementation of practices throughout the organization to minimize the life cycle costs of its infrastructure.
- Served on the Conservation Advisory Committee with the mission of developing a 5-year conservation strategy for business and residential customers. Responsibilities included evaluation of the Conservation Potential Assessment, review and critique of cost benefit analysis, and market evaluation. The goal of the utility was to meet 100% of load growth with conservation and renewable energy sources while maintaining the lowest retail prices in the country and ensuring greenhouse gas neutrality.

Managing Principal
Sigma Squared Analytics, LLC, Seattle, WA: 2002 – 2005

I founded a consulting practice that provided infrastructure strategies and program management services to Federal, state and local agencies. The firm provided program management to the Department of the Navy's Utility privatization, Public-Private Ventures (PPV) and utility acquisition programs. I created inter-local agreements between local government and federal agencies for public works projects such as wastewater treatment plants and water storage and distribution systems.

- Served as technical advisory to the US Navy during a water and sewer rate intervention. Annual billing for the Navy's accounts exceeded $3.5M for the service. A municipality performed a cost of service study incorrectly identifying $1.1M in annual revenue requirements through improper calculations of the rate base and use of utility approach rate setting for the Navy. The proposed rate design was also evaluated and compared to similar customers in the other classes of service. The intent was to ensure the rates paid by the Navy were fair and equitable and supported by the cost of service study.
- Retained by a private company to provide demand-side energy and utility management in support of their housing privatization program in the Pacific Northwest. The company acquired 3,098 housing units under a $358 million 50-year lease arrangement with the US Navy. The work included demand side energy management, rate and contract negotiations, and consulting on

regulatory issues. Systems included electric, natural gas, water, sewer and solid waste. Represented the company before investor-owned utilities, municipalities, and unregulated providers.

- Performed an analysis for the US Navy to reduce the Equivalent Residential Unit (ERU) charges for a remote installation served by a municipally owned water and sewer utility. The analysis included historical billing analysis, developing flow estimates using the WA State Drinking Water Design Manual and industry standards (AWWA), and comparisons to the provider's ordinances. The findings demonstrated over-estimates for the ERU billing and a reduction of 10% on annual billings.
- Provided rate intervention services for Naval Base Kitsap at Bremerton. The City of Bremerton had provided water and sewer service to the Naval base under a contract rate with an annual value of $2 million. The cost of service study conducted by the City did not support the contract rate. Services provided included analysis of the cost of service model, the revenue requirements, rate design and capital contributions.
- Developed a complex rate model using EXCEL to develop sewer rates for a system jointly owned by the US Navy and a municipality. The plant has a 2.5 MGD capacity with actual flows of 1.7 MGD. The model utilized published rates and historic flows to determine indexed contract rates, demand charges and excess flow charges. The model was also used to determine capacity allocations and planning requirements per the Department of Ecology.

Management Consultant, Interim Management Services
Crossroads, LLC, Newport, CA: 2001 – 2002

I provided business advisory services to financially distressed companies and their creditors. Duties included analyzing the clients' financial performance, restructuring debt, negotiating with creditors, providing interim management and bankruptcy services.

- Requested by the Trustee to conduct an investigation and prepare an analysis on commercial real estate investments made by a partnership managed by Mr. Reed Slatkin. The purpose of the analysis was to determine if additional capital investments from the estate would be economically and what the debt service requirements would be if the capital was infused in the properties.
- Served as a financial advisor to Mulay Plastics, an injection molding company with revenues of $90M, involved in a restructuring and refinancing. The work required the construction of a financial model capable of running multiple scenarios to determine optimal capital structure. The engagement also required a complete review and assessment of the company's accounting procedures, systems, business processes and organizational structure.
- Retained as a financial advisor to a California milling and commodity grain company with annual revenues exceeding $220M and operations in 8 states and Mexico. The Company wanted to explore various financing options, including re-capitalization or sale of the Company. The engagement included development of a Memorandum of Offering, market study for strategic acquirers, and a study of industry trends.

Manager, Corporate Transactions and Energy Practice
KPMG, LLP, Houston, TX and Seattle, WA: 1995 – 2001

I was responsible for the design, execution, and management of strategic planning and business process improvement projects for private companies and public agencies. I served as an advisor to the U.S. Government, assisting in executing the Utilities Privatization Program and the power supply contracts. I assisted installations of the U.S. Army and Navy, the Defense Energy Support Center and the Office of the Deputy Under-Secretary of Defense (Installations and Environment). I provided financial and economic consulting services to national and international energy and power companies in the area of corporate finance, valuation, litigation and turnaround services.

- Served on a team that supported the Deputy Under-Secretary of Defense (Installations and Environment) and the Defense Reform Initiative office in preparing the utility privatization policy (OSD guidance of October 2002, subsequent to DRI Directive 49)
- Serves as a senior advisor to Navy Region Northwest for all matters related to utility acquisition, privatization and rate intervention. Duties include representing the Navy in negotiations and hearings with Federal, state and local agencies that provide utility service; Providing interpretation and analysis regarding utility rules and regulations from FERC and the WUTC; Assist municipalities, counties and PUD's in utility contracting matters with Navy Region Northwest.
- Retained by the Commander, Navy Region Northwest to analyze the potential effects of privatizing the Government-owned electrical distribution systems that received power from the Bonneville Power Administration. The analysis determined that privatization would increase commodity costs by the loss of preferred rates.
- Served as an advisor to the U.S. Army's National Training Center at Fort Irwin, CA for the privatization of the electrical distribution system. The installation was conducting sole-source negotiations with Southern California Edison, an investor-owned utility.
- Testified in arbitration hearings on the pricing of natural gas, pipeline nominations, reservation fees and pipeline transport fees. Completed an analysis on the deductions claimed by an interstate transporter of natural gas. The scope of the analysis was to determine if the costs were "actual and reasonable" and in compliance with FERC approved tariffs.
- Analyzed the internal rate of return, return on assets and return on investment on capital investments made by Houston Light & Power (HP&P), a subsidiary of Houston Industries, an investor owned utility. The analysis included developing multiple scenarios and utilized Monte Carlo simulations to predict expected returns on investments made on a lignite generation facility.
- Managed business unit integration for S&S Energy, a GE Power company, a manufacturer of turbine-powered generators. Assistance was provided to conduct a hard close of financials and included valuation of inventory, warranty exposure, inter-company transfers and accounting irregularities
- Examined the cost accounting methodology used by the Environmental Protection Agency in its Superfund program. The focus of the analysis was to insure appropriate allocation of shared costs to various sites within a given region. Additionally, the costs were reviewed to determine if they were in compliance with the various contracts issued by the government.
- Negotiated and closed a turnkey marketing agreement on behalf of a Bolack Minerals, a royalty owner in the San Juan Basin. The marketing agreement represented annual production exceeding 2 BCF of natural gas. The services included preparing a Request for Proposals, evaluation of submissions, negotiations with prospective marketers and advising the client on alternatives.
- Provided valuation services to an offshore drilling company to insure their unencumbered assets provided a capital base to qualify for environmental self-insurance under the Federal governments' Minerals Management Service guidelines. Nuevo Energy Company is the largest independent oil and gas exploration and production company in California. .
- Managed a 5-state market survey for Chugach Electric Association, an electrical cooperative in the Pacific Northwest, which wanted to expand into new market segments as an Application Service Provider. The results of the survey were used in developing a business plan, determining potential market share, and creating a pricing strategy.

Consultant, Corporate Finance, Houston, TX
Price Waterhouse, LLP 1992 – 1995

I performed financial, accounting and economic consulting for large infrastructure and energy related projects, such as commercial land developments, refineries, and power plants. Duties included business valuation, complex financial modeling, economic analysis, and marketing analysis.

Military Officer, Operations Officer, Camp Lejeune, NC
United States Marine Corps 1986 – 1992 (Reserves 1992 – 1998)

I planned, organized and supervised military operations and exercises. I was responsible for the training and welfare of over 100 personnel as an Executive Officer of a combat unit. I was assigned as an Operations Officer for a unit of 2,500 personnel stationed aboard 5 ships in the Mediterranean Sea. Achieved the rank of Captain and received commendations for outstanding achievement and leadership during combat operations.

EDUCATION AND CERTIFICATIONS

- Master of Public Administration; Seattle University
  Pi Alpha Alpha honors, The National Honor Society for Public Affairs and Administration
- Bachelor of Arts; University of Texas at Dallas
  Internship, United States House of Representatives, Congressman Dick Armey, TX
- Incident Command System (ICS) and National Incident Command System **(**NIMS) Certification
- Certified Energy Manager (CEM), certified by the Association of Energy Engineers
- Certified Demand Side Manager (CDSM), certified by the Association of Energy Engineers
- Seattle City Leadership Institute 2006, The Seattle Mayor's City Leadership Institute
- Marginal Costing and Pricing for Rate Making, National Economic Research Associates, Inc., 2008
- Certificate in Petroleum Accounting and Joint Interest Auditing; University of North Texas
- Professional Development Institute, Council of Petroleum Accountants Society 1997; Denton, Texas

Austin Energy's Response to ICA's 2nd RFI

ICA 2-5 Reconcile the response to NXP/Samsung 1-73 with news stories that link problems with the IBM billing system to a rise in uncollectible debt. See for example, "Why customers' unpaid bills are piling up at Austin Energy", By Lilly Rockwell - American-Statesman Staff, Posted: 5:36 p.m. Saturday, Feb. 7, 2015.

ANSWER:

Austin Energy's Response to NXP/Samsung's RFI No. 1-73 refers to an inquiry specific to system issues affecting tariff service charges, or charges for service connections, reconnections, collections, or returned checks. There were no issues with the billing system that affected any of these categories, other than a longer than forecasted delay in initiating full collection activities after system go-live. Issues with the billing system were mainly categorized into post-conversion infrastructure stability problems and processes tied to implementation of new rate structures. The longer than forecasted delay in initiating full collection activities was to ensure that any conversion issues were resolved prior to resuming utility disconnections for non-payment. This delay, coupled with more lenient payment arrangement policy changes, allowed unpaid debt to accrue to higher than normal levels.

Prepared by: EKD
Sponsored by: Kerry Overton

Austin Energy's Response to ICA's 2nd RFI

ICA 2-30 Provide the actual uncollectible expense amounts for each of the last 10 years.

ANSWER:

FY 2015 unaudited: 8,462,937.91
FY 2014: 20,868,372.90
FY 2013: 17,256,806.47
FY 2012: 3,482,839.51
FY 2011: 3,546,362.78
FY 2010: 4,166,029.29
FY 2009: 3,649,194.76
FY 2008: 2,092,953.75
FY 2007: 3,537,823.95
FY 2006: 5,324,380.93

Prepared by: SK
Sponsored by: Mark Dombroski

Austin Energy's Response to NXP/Samsung's 4th RFI

NXP/Samsung 4-29. Please provide the number of years AE has employed programmers for IT Staff Augmentation. Please provide the estimated cost for IT Staff Augmentation during the time that base rates from this proceeding will be in effect.

ANSWER:

The IT Staff Augmentation program began in 1998. Austin Energy has not estimated the cost for IT Staff Augmentation into the future.

Prepared by: KL
Sponsored by: Kerry Overton

AELIC Response to AE RFI No. 1-2

AE1-2. AE RFI No. 1-2: On page 5 under the topic 'Rate Design' for part 3, please provide all supporting documentation and studies for each of the statements listed below. In addition, please indicate whether each statement is a fact or opinion.

a. "An inverted block rate design promotes energy efficiency."

b. "The design of an inverted block rate requires the initial block or first two blocks, depending upon the number of rating tiers, to be priced below average cost."

c. "AE's first tier represents the most inelastic usage tier."

d. "Rates should be significantly below cost."

e. "A rate design promoting energy efficiency requires low fixed charges."

f. "Under an inverted block rate design the average price to a customer is smoothed because each price tier is incrementally added to the bill."

Answer:

a. Fact based on my general knowledge and on AE's own study. See AE Response to ICA RFI No. 1-22. See also App B to AE's rate filing package.
b. Fact based on pure mathematics. See AE's response to Rourke No. 1-5; App B to AE's rate filing package, and App M-53 to AE's rate filing package.
c. Fact based on my general knowledge of elasticity of demand studies for electric pricing. Did not rely upon specific documentation.
d. My opinion given the fact that AE has five rating tiers; that the amount of revenues that can be realized is limited to its embedded costs; that AE has a fixed charge that creates a countering effect to the inclining block nature of the first block and perhaps second blocks.; and that the first tier is the least susceptible to price changes.
e. Opinion based on general knowledge and on AE's recognition of the conservation effect of inverted block rates. For instance see executive summary of attached study; however, did not review any specific study or document to answer the rfi.
f. Fact based on general math concepts. No study or document.

Prepared by: LMC

Sponsored by: Lanetta Cooper

Response to Austin Energy's First RFI to Data Foundry

AE 1-5. In 'Cost Allocation, Revenue Distribution and Rate Design' on page 20 under the title 'Rate Design,' please provide documentation for the regulatory amount of "$3.61 per kW" and supporting calculation that derives a "423% increase."

RESPONSE:

See AE 2014 Electric System Rate Study (also known as Rate Filing Package (redacted)), 253 of 347 (Bates stamp 1012). Line 32, represents Regulatory Charge Existing: $0.69 and Proposed Rates: $3.1634.

Data Foundry has discovered an error in Data Foundry's calculation. The proposed increase in the Regulatory Charge is 358% rather than 423%.