AUSTIN ENERGY'S TARIFF PACKAGE:	§	
2015 COST OF SERVICE STUDY	§	**BEFORE THE CITY OF AUSTIN**
AND PROPOSAL TO CHANGE BASE	§	**IMPARTIAL HEARING EXAMINER**
ELECTRIC RATES	§	

DATA FOUNDRY/AUSTIN CHAMBER COST ALLOCATION AND REVENUE DISTRIBUTION BRIEF

TABLE OF CONTENTS

AUSTIN ENERGY'S TARIFF PACKAGE:	**§**	
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AND PROPOSAL TO CHANGE BASE	**§**	**IMPARTIAL HEARING EXAMINER**
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DATA FOUNDRY/AUSTIN CHAMBER COST ALLOCATION AND REVENUE DISTRIBUTION BRIEF

TO THE HONORABLE ALFRED R. HERRERA, IMPARTIAL HEARING EXAMINER:

Data Foundry, Inc. ("Data Foundry") and the Austin Chamber of Commerce ("the Chamber") respectfully present this Brief on Cost Allocation and Revenue Distribution[1] and show as follows.

Data Foundry and the Chamber do not agree with AE's proposed revenue requirements amounts. They instead support the revenue requirements recommendations submitted by NXP/Samsung, except to the extent NXP/Samsung would allow AE's fixed production-related costs into the base revenue requirement and then base rates. Nonetheless, this Brief applies Austin Energy's ("AE") claimed revenue requirement numbers purely for argument purposes, in order to allow comparisons with AE's non-revenue requirement recommendations. Since AE includes production-related costs in the revenue requirement and then proceeds to classify and ultimately allocate them among and between the various retail classes Data Foundry and the Chamber will address how production costs should be allocated and distributed if and to the extent they are allowed.

This Brief generally follows the outline proposed by AE. We have, however, added some subsection headings after Part IV (Revenue Distribution).

I. Introduction

Commercial Class customers cannot continue to be assessed rates that significantly exceed their reasonable costs. The Austin Chamber of Commerce and Data Foundry ("Data Foundry/Chamber") intervened in this proceeding to ensure that Data Foundry and Chamber members bear no more than the costs they impose and pay rates that are just and reasonable for their electricity requirements. These entities take service primarily in AE's Commercial Service classes and have decided to file a joint presentation regarding cost allocation and revenue distribution.

[1] Data Foundry is separately supplying a Brief on Revenue Requirements.

At least two of Austin Energy's proposals in this case serve to significantly, unreasonably and artificially increase the production costs attributed to, and then recovered from, Commercial Class customers. First, AE has proposed a new and unprecedented cost allocation method that increases the estimated cost responsibility of Commercial Class customers.[2] AE's proposed cost allocation method is significantly different than the previously approved method, which followed long-standing precedent at the Public Utility Commission of Texas (PUCT), and was also approved by the Austin City Council in AE's most recent rate case.

Second, AE's proposed revenue distribution unfairly maintains significant existing inter-class subsidies and fails to adequately move several large Commercial classes toward their actual cost of service. AE's own cost analysis shows that the Commercial classes currently pay more than $50 million more than cost of service, while the Residential class pays approximately $50 million less than cost. AE's proposed revenue distribution fails to make adequate movement toward cost of service, *i.e.*, a relative rate of return equal to the system rate of return ("unity"), for all customer classes in general and the Residential and Commercial classes in particular.

AE's Overall Proposal

AE proposed a significant change in its cost-of-service methodology for one of the largest components of its revenue requirement by recommending a change to its Production cost allocation method that differs from both the method most commonly approved by PUCT and the method most recently approved for AE by the Austin City Council. AE's new method allocates significantly more cost to Commercial customers and significantly less cost to Residential customers than the previous method. This new method is unprecedented for the purpose that AE has proposed it and, contrary to AE's assertions, is not supported by generally accepted practices in the industry.

Furthermore, the revenue distribution proposed by AE is inappropriate. Every cost allocation method considered by AE revealed that significant inter-class subsidies among AE's rate classes remain in place. AE's proposed revenue distribution nonetheless fails to take

[2] Data Foundry and the Chamber are fully aligned with NXP/Samsung with regard to allocation of any production costs that are allowed into base rates.

adequate steps toward elimination of these existing and long-standing subsidies even though there is a revenue surplus that can be used to facilitate, if not completely accomplish, the elimination of inter-class subsidies.

Summary of Recommendations

The Austin Chamber of Commerce and Data Foundry recommend:

1. AE's proposed Electric Reliability Council of Texas 12 Coincident Peak (12CP) method for allocating demand-related production costs should be rejected and the A&E-4CP method traditionally used by the Public Utility Commission of Texas (PUCT) should be used instead; and

2. AE's proposed revenue distribution should be rejected in favor of a revenue distribution that more adequately reduces existing subsidies and better compensates for existing deviations from cost of service;

II. Revenue Requirement (Not addressed)

III. Cost Allocation

A. Functionalization of the 311 Call Center, FERC 920 Administration and General Labor Costs and New Service Connection Fees (Not addressed)

B. Classification of Production Costs

AE witness Mancinelli's Rebuttal testimony on pages 23-27[3] argues that under the specific circumstances at hand there is a valid reason to depart from the way the NARUC Cost Allocation Manual[4] normally treats certain embedded production costs. AE wants to classify some of its embedded costs as "demand" that the NARUC CAM says are usually variable, and therefore energy.[5] He has two main points.

First, he observes that the ERCOT wholesale generation market employs marginal cost pricing, and that basically requires generators to price their bids using only short-run costs. Data Foundry's separate brief extensively gets into the revenue requirement implications of AE's participation in the wholesale generation market and in particular the fact that AE's settlements revenues tend to recover only a small margin over AE's recoverable fuel costs, which are, for the most part, the "short-run costs" Mr. Mancinelli is discussing. That topic need not be re-hashed here, other than to note that Data Foundry's argument implicitly accepts the

[3] AE Exh. 3 (Mancinelli Reb.).
[4] Relevant excerpts of the NARUC CAM are contained in Data Foundry Ex. ON-A.
[5] *See, e.g.*, HOM Tr. p. 746, line 23 – p. 747, line 20.

proposition that AE's embedded costs other than recoverable fuel are properly classified as fixed rather than variable. Data Foundry then contends that retail ratepayers should not bear those or any other fixed production costs. But that is a revenue requirement issue. The question here is how AE's embedded long-run costs should be classified for cost allocation purposes once the revenue requirement has been established, if the decision has been made that retail ratepayers are responsible for them.[6]

Data Foundry and the Chamber agree with AE that if and to the extent the costs are allowed in base rates they should be classified as demand rather than energy. In other words, the entirety of the $200,778,242[7] of AE's non-fuel production O&M costs are most properly classified as demand, even though the NARUC CAM would normally classify some (presently undetermined) portion of that amount as energy. As Mr. Mancinelli explains,[8] the rates established in this case are based on a specific set of embedded costs that are then adjusted as best as possible to represent what will occur over a rate-effective period that will likely last only a few years until they are replaced with new rates that use a different test period. This means there is a "more narrow" "planning horizon." When viewed from this "shorter period of time" "the production non-fuel, non-purchase power costs are essentially fixed."[9] Data Foundry and the Chamber therefore agree that if they are allowed into the retail revenue requirement the costs in issue should be classified as demand rather than energy.

C. Allocation of Production Costs

Production costs comprise the largest component (almost two-thirds) of AE's claimed base revenue requirement. If AE's production costs are put in the base revenue requirement and recovered through base rates[10] the proper allocation of these costs has a major impact on the rates that customers ultimately pay.

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[6] *See* HOM Tr. p. 741, line 15 – p. 742, line 19.

[7] See amount in Figure 4.7, Bate 103 minus amount in Schedule G-7, lines 11, 16 and 18, Bate 992; HOM Tr. p. 98, lines 15-20, p. 763, line 23 – p. 765, line 3.

[8] HOM Tr. p. 763, line 23 – p. 765, line 3.

[9] HOM Tr. p. 755, lines 4-7.

[10] AE's generation fleet is dedicated to ERCOT rather than AE's retail load. Production costs have typically been included in retail base rates **only** when the generation is dedicated to the retail customers that will pay those base rates. That is the essential basis for Data Foundry's recommendation that AE's production costs should be excluded from the base revenue requirement.

AE recommends a Twelve Coincident Peak (12CP) method to allocate demand-related production costs between customer classes. AE's justification for this significant change in cost allocation is the utility's assertion that "[t]his is an appropriate methodology for a regulated entity like Austin Energy that operates in a centralized dispatched environment like the ERCOT Nodal Market" and it "better aligns the relationship between the costs and benefits that accrue from owning and operating its fleet."[11]

Discussion of AE's Cost of Service Proposal

AE has proposed using all of the same cost allocation methods that were approved by the City Council in 2012, ***except*** for production cost allocation. AE recommends that the Council change the production cost allocator from the Average and Excess 4 Coincident Peak ("A&E 4CP") method that has historically been applied. AE wants to instead use what it calls the ERCOT 12 Coincident Peak ("12CP") allocator.[12] Data Foundry and the Chamber oppose this change. AE has not proven that any change is warranted, and the alternative method does not correctly measure production costs given AE's system and specific retail class load characteristics.

The proposed change to 12CP is a significant departure from the method that was previously approved by the Austin City Council and that has traditionally been accepted by the PUCT. The 2012 rate ordinance, for example, adopted a modified version of the A&E 4CP method to allocate production demand costs.[13] This proposed change in cost allocation has a significant impact on the allocation of production costs among the customer classes. The more traditional and generally accepted A&E-4CP production cost allocation method assigns 44.9% of production costs to Residential.[14] AE's 12CP results reduces that to 41.9%,[15] and this directly leads to the transfer of approximately $10 million in production cost responsibility from the Residential class to the Commercial classes.

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[11] Rate Filing Package ("RFP") p. 5-14, Bate 117.

[12] RFP p. 2-11, Bate 23.

[13] City of Austin Ordinance No. 20120607-055, Part 6, (June 7, 2012), available at http://www.austintexas.gov/edims/document.cfm?id=171787. *See* NXP/Samsung Exh. NS-2 (Goble Dir.) p. 24, line 17 – p. 25, line 14.

[14] Schedule F-6, line 10, Column A, Bate 935.

[15] Schedule F-6, line 2, Column A, Bate 935.

AE's proposed production-related demand cost allocation method is unprecedented and rests on a questionable theoretical foundation. AE's assertion that 12CP is appropriate because of the ERCOT Nodal market and better aligns the costs and benefits from use its own fleet[16] is contrary to AE's own stated considerations for the selection of an allocation method. AE's introductory comments concerning production demand cost allocation state that "production demand cost allocation methods vary depending upon historical precedent and the utility's view of the underlying nature and cause of generation capacity."[17]

AE's proposed 12CP is not, in fact, based on cost allocation methodologies commonly used throughout the utility industry and in accordance with generally accepted practices, at least in Texas. 12CP has never been approved for allocating production costs by the PUCT. Furthermore, its use is questionable based on the load characteristics of utilities in Texas. The American Public Power Association cost allocation manual (referenced by RFP p. 5-1, Bate 104) notes that "12CP allocates demand costs over an annual period of time and, in this respect, can dilute, or reduce, the allocation of demand cost of those customer classes heavily contributing to sharp maximum system peak demands. If the power system has a high winter or summer peak demand relative to demands of other times, use of this method is questionable if a cost-price signal were desired to reduce peak demand."[18]

On the other hand, the Average and Excess 4 Coincident Peak (A&E-4CP) method traditionally approved by the PUCT recognizes that production costs are not driven solely by peak demands or energy usage but are the result of both. The American Public Power Association cost allocation manual also discusses the A&E Demand (AED) method and recognizes that AED "considers demand requirements as well as energy consumption of customer classes of service in allocating demand cost to classes. AED is probably the most commonly used method for public power systems in annual average cost of service studies

[16] AE's claim that its 12CP reflects the transition to a nodal market is curious since AE's effort to recover its production costs through base rates entirely ignores that fact that under the nodal market AE's generation fleet is now entirely dedicated to servicing the wholesale market rather than AE's retail load. *See, e.g.,* RFP p. 5-4, Bate 107.

[17] RFP p. 5-14 (Bate 117) (emphasis added).

[18] Cost of Service Procedures for Public Power Systems, American Public Power Association, Washington, D.C., 1979, p. X-3 (1979) (emphasis added).

today as it attempts to consider class of service demands as well as the extent to which the classes used the facilities installed for service."[19]

AE's rationale for using 12CP does not reflect its own belief that the underlying nature and cause of generation capacity is an important consideration in selecting a production demand cost allocation method. Peak electrical demands in Texas occur in the summer. Generation planning therefore typically focuses on ensuring that adequate generation capacity is available during the summer months. Production demand allocation methods in Texas weight customer demands using the peak summer months in order to recognize that peak capacity demand, and planning for that demand, mostly center on meeting the summer peak.

12CP is not appropriate for allocating AE's demand-related production costs because ERCOT demands, like AE's, are seasonal and the production cost allocation should, therefore, recognize that the peak season is the primary cause of these costs. AE states that "[u]nlike non-power supply fixed costs, the price of power in the ERCOT market is highly volatile and reflects changes in seasonal demands."[20] That is precisely why a production cost allocation like 4CP that reflects the importance of seasonality is more appropriate than a 12CP allocator that relies on an assumption that these costs are the result of demands throughout the year and is more premised on perceived "value" than it is actual cost of service.

There is no historical precedent for using AE's proposed 12CP production demand allocation method for AE or any other retail utility in the state of Texas.[21] The 12CP method is used primarily where there are no dramatic summer or winter peaks. But Texas has a strongly summer peaking load. That is why Texas utilities overwhelmingly rely on a 4CP-based allocation, which more heavily weights customer demands in the months of June through September. The strong and long-standing precedent in Texas requires that AE stick with its prior 4CP-based method to allocate demand-related production costs.

Finally, in addition to selecting the cost allocation method that most reasonably reflects "cost causation" (the reason these costs are incurred), it is also important to maintain consistency in cost allocation methods. This is known in ratemaking as the "consistency

[19] *Id*., page X-4.

[20] RFP p. 6-6, Bate 137.

[21] HOM Tr. p. 781, line 21 – p. 784, line 14.

principle." Cost of service study methods and results that fluctuate wildly between cases send conflicting and confusing price signals to customers.

Cost of Service Study Recommendation

Data Foundry and the Austin Chamber contend that – if and to the extent production costs are included in the retail base revenue requirement even though the production is in fact 100% dedicated to the wholesale market – the A&E 4CP method should be retained. It is PUCT-sanctioned and Council approved, and AE needs to stick with it for all of the reasons given by NXP/Samsung.

D. Allocation of Distribution Costs (Not addressed)
E. Allocation of Customer Service (Uncollectible) Costs (Not addressed)
F. Allocation of Energy Efficiency Service Charge (Not addressed)

IV. Revenue Distribution / Allocation / Spread

A. Class Movement Toward Cost of Service

Minimization of subsidization and cost shifting between classes is a fundamental principle of utility regulation. The primary consideration for developing a revenue distribution is whether the proposal adequately reduces inter-class subsidies subject, in some instances, to certain limits to prevent rate changes that might lead to rate shock. The exercise usually involves moving the classes that are farthest away from their cost of service significantly toward cost of service before any other steps are taken.

The primary purpose of revenue distribution is to identify and then eliminate inter-class subsidies to the greatest extent possible within reasonable and necessary constraints. AE has suggested that "[t]here is not a direct causal relationship between revenue requirement and class deviation from cost of service. Whether the rates for a particular class should be increased or decreased depends upon the outcome of the cost of service and the ratemaking policy objectives of the utility and its governing body, not solely the magnitude of the revenue requirement."[22]

Data Foundry and the Austin Chamber disagree with AE's position. The ratemaking policy objectives of the utility and its governing body should not support and/or maintain subsidies between rate classes. Regulated utility rates are supposed to be set based on cost of

[22] Data Foundry Exh. 8.

service, not value of service or other considerations. Captive customers should not be forced to pay above-cost rates in order to subsidize other classes of customers.

A recent case involving a small revenue requirement reduction for Southwestern Public Service (SPS)[23] is quite instructive on these issues. The PUCT's Final Order provided on page 10 (notes omitted):

> The Commission declines to adopt any gradualism adjustment in this proceeding. The Commission has often stated that one of its primary responsibilities in setting rates is ensuring those rates are, to the greatest extent reasonable, consistent with cost causation. Further, as SPS conceded, the wisdom of a gradualism adjustment is affected by the size of the rate change. While there is no magic threshold at which a change in rates automatically justifies an aberration from basing rates on classes' costs of service, in Docket 40443, the Commission determined that an increase as large as 29% did not warrant rate mitigation. Here, SPS's overall Texas retail revenue requirement will be decreased by less than 1% and class allocations based purely on each classes' cost of service will result in relatively small rate changes. All but one class will experience less than a 14% change to its base-revenue responsibilities. The largest change will be borne by Street Lighting customers, whose revenue responsibility will increase 24.28%. Thus, moving from classes' costs of service and mandating inter-class cost subsidization is not warranted in this proceeding. Consistent with the Commission's decision to not include any adjustments for gradualism, the Commission deletes proposed findings of fact 335 through 337 and instead adopts new findings of fact 335A through 335C, 336A, and 337A through 337C.

The IHE should follow the PUCT's recent precedent. This is particularly so since AE's own results show a revenue surplus, as was the case for SPS. The relatively rare instance of surplus provides a unique opportunity to make substantial, and possibly complete, movement toward unity without severe rate increases for any class. As stated by NXP/Samsung witness Gary Goble:

> Page 256
> 22 A Yes. I think in this case we have what
> 23 should be a rare window of opportunity to correct some,
> 24 what even Austin Energy refers to as some severe
> 25 problems in under-recovery that will not be available.

[23] *Application of Southwestern Public Service Company for Authority to Change Rates*, Docket No. 43695 Final Order, December 18, 2015, available at http://interchange.puc.state.tx.us/WebApp/Interchange/application/dbapps/filings/pgSearch_Results.asp?TXT_CNTR_NO=43695&TXT_ITEM_NO=1018.

Page 257
1 in the future. We're having a rate decrease in this
2 case. When you correct the misalignment of costs at a
3 time where we're facing a rate increase, then you're
4 stacking the correction of cost of service on top of a
5 rate increase. I think we have a window of opportunity
6 here, and we should take advantage of that opportunity.[24]

AE's allocation of its proposed system-wide revenue reduction does not adequately reduce existing subsidies even though this could be done with a moderate rate increase to the Residential class. The classes that are farthest above cost-of-service are typically assigned the largest reduction. When a revenue surplus exists, regulators typically take full advantage of the opportunity to make very significant, if not complete, steps toward unity for the classes that are below cost, even if it requires moderate increases for below-cost classes.

AE wrongly chose to not follow the Texas precedent, which would require a revenue distribution that assigns the largest rate decreases to the classes that are currently the farthest above cost of service. Nor did AE use the opportunity to bring the classes that are currently the farthest below cost more in line with a unity relative rate of return on an absolute dollar basis and on a percentage basis. The IHE should correct AE's missteps and promulgate a revenue distribution that is consistent with traditional ratemaking principles, goals and outcomes.

AE admitted that it has not proposed or committed to any timeline for making additional movement toward cost-of-service in the future during Data Foundry's cross examination of AE Witness Mark Dreyfus:

Page 255

20 Q Generally speaking, is it fair to say that
21 Austin Energy wants to try to get the various classes
22 to a unity relative rate of return at cost over time
23 through specific steps? Not all here, but continuing
24 to work towards it over time?
25 A To the best of my recollection, Austin Energy
Page 256

1 has never specified an objective to achieve unity cost
2 of service. In the 2012 rate proceeding we did have an
3 objective to be within plus or minus 5 percent of cost

[24] HOM Tr. p. 456, line 22 – p. 457, line 6.

4 of service, but I am not aware that we've ever set
5 unity as an objective.[25]

…

Page 257
20 Q So, then, how can we accomplish one of the
21 goals, being continued movement toward cost of service,
22 using the principle of gradualism if we do not continue
23 to make adjustments to rates on a regular period of
24 time?
25 A Well, moving closer to cost of service I
Page 258
1 would think would require making adjustments to
2 [obscured] over time.
3 THE REPORTER: Adjustments to what
4 over time?
5 THE WITNESS: To rates over time.
6 Q (By Mr. McCollough) But your rate-filing
7 package doesn't talk about what might could happen more
8 than a year out in terms of specific rate proposals,
9 does it?
10 A Our rate design package did not make specific
11 rate proposals for rate changes beyond year one.[26]

AE proposed inadequate movement toward cost-of-service in this proceeding, and did not offer up any means to make progress in the future. The utility has not committed to or even suggested there should be a goal of ever reaching the point where every class is at or very close to cost of service. This abject disregard for a fundamental ratemaking principle must be corrected. The severe subsidization of the residential class by business customers must end. This is so from a simple fairness and equity perspective, but it is also important because businesses in Austin must compete with other businesses on a global, national, statewide and regional basis and high electric rates put Austin-based enterprises at a significant cost, and therefore competitive, disadvantage.

Finally, AE has suggested that the ratemaking policy objectives of the utility and its governing body are the sole determinant of the relationship.[27] This is merely a polite way of

[25] HOM Tr. p. 255, line 20 – p. 256 line 5. *See also* Data Foundry Exh. 8.
[26] HOM Tr. p. 257, line 20 – p. 258, line 5. *See also* Data Foundry Exh. 7.
[27] Data Foundry Exh. 8.

saying that the city should maintain non-cost based rates as a matter of policy and, as a result, continue the extraordinary subsidization of the Residential class by business customers. AE and others want to turn fundamental ratemaking policies on their head in order to justify artificially low residential rates and artificially high commercial rates.

The PUCT looks at things the proper way. The Commission insists that the most important policy is attainment of cost-based rates for every class, because that best advances economic efficiency and fairness to all concerned. The SPS rate case involved a small rate decrease, but the PUCT still moved each class to unity, 100% cost-of-service, and expressly entered Finding of Fact No. 337C stating that "[e]ach class's rates set in this proceeding should be based on the costs to serve that class."[28] The PUCT, unlike AE, understands that forced inter-class subsidization is directly contrary to proper public policy. The IHE should reject the notion that there is any plausible excuse for failing to get each class at, or as close as possible to, its properly calculated cost of service.

B. Gradualism

AE relied on gradualism and "rate shock" as the excuse for constraining class rate changes so severely that significant progress toward unity cannot occur in this case. Although AE acknowledges that "certain customer classes are experiencing significant deviations from cost of service" and "the size of that deviation is large for some customer classes," AE suggests that "moving all customer classes immediately to cost of service would result in a financial burden for certain customers in classes with an indicated large rate increase. The associated rate shock of such a dramatic change would place undue hardship on the customers in these classes and would be undesirable."[29]

The Residential class is the only major rate class that is significantly below cost-of-service under every production cost allocation method evaluated by AE. Even under AE's proposed cost allocation method Residential customers are currently paying more than $50 million less than their actual cost. Interestingly, the Residential class is paying $53.4 million less than its cost-of-service, while the Commercial classes[30] are paying a combined $53.7 million

[28] *SPS*, Docket No. 43695 Final Order, p. 10.
[29] RFP p. 2-12, Bate 24.
[30] Commercial classes: S1, S2, S3, P1, P2 and P3.

MORE than their cost-of-service. This conspicuous direct subsidy of the Residential class by Commercial customers is unfair and longstanding. The disparity must now be finally acknowledged. Concrete, explicit action must be taken to advance much closer to a unity relative rate of return for all classes.

Gradualism is a common and widely accepted principle in ratemaking. Data Foundry and the Chamber strongly agree with Mr. Goble, however, that the revenue surplus provides a unique opportunity.[31] Gradualism is typically applied when there are material revenue increases, and it is used to ameliorate the impacts of potentially large increases to individual rate classes. Gradualism is not a significant factor when the case involves a small rate increases or an overall reduction. In *SPS* (Docket No. 43695) the PUCT stated that "… the wisdom of a gradualism adjustment is affected by the size of the rate change."[32] In that case the PUCT declined to adopt any gradualism adjustment at all.[33]

Data Foundry/Austin Chamber's originally-recommended revenue distribution recommendation was based, in part, on its understanding at that time that the Council's Affordability goal limiting annual increases to 2% also applied on a class basis. AE, however,, interprets it to apply to only systemwide amounts, and not to individual classes or customers.[34] To the extent that the Affordability goal is a limit on AE's overall rates and not rates to individual classes it does not impose a limit on individual class rate increases. In addition, to the extent that the revenue requirement is reduced more than AE has reluctantly agreed is proper, correspondingly higher limits on class rate increases would be allowed without causing excessive and unacceptable impacts to any rate class.

C. Rate Shock

As noted, "gradualism" is often employed to mitigate extremely large rate increases that could lead to "rate shock." According to AE witness Dreyfus, rate shock is "an impact on rates of a customer or customer class that seems unacceptable based on the balance of factors that we

[31] HOM Tr. p. 456, line 22 – p. 457, line 6.
[32] *SPS*, Docket No. 43695 Final Order, p. 10.
[33] *Id.*
[34] HOM Tr. p. 249, line 2 – p. 250, line 15. *See also* Data Foundry Exh. 6.

look at in setting rates," which he also noted is "subjective because there's no quantitative measure of what constitutes rate shock."[35]

Although AE proposed no rate increase for the Residential class, Dr. Dreyfus doubted that a 2% increase for any rate class would result in rate shock: "I do not anticipate that if I looked at a class and saw a 2 percent increase that I would think that that constitutes rate shock, but I'd have to look at the individual circumstances on that class."[36] Dr. Dreyfus testified, however, that in his subjective opinion increasing Residential rates by 11.3% in order to get the class to full cost-of-service[37] would lead to rate shock.[38]

The PUCT disagrees that an 11.3% increase would lead to rate shock. In the *SPS* Final Order in Docket No. 43695 the Commission stated that: "[t]he Street Lighting class's revenue responsibility will increase 24.28%. The Commission determined in Docket No. 40443 that an increase as large as 29% did not warrant rate mitigation."[39] The revenue decrease in this case and current class relationships to cost-of-service allow a full transition to unity without any need for gradualism since there will not be rate shock under the PUCT's criteria.

D. Use of Test-Year Pass-Throughs Versus Projected Pass-Throughs

AE's proposed revenue distribution is based on the utility's proposed base rates but it then used test-year Pass-Through rates to measure total bill impacts. The revenue distribution should instead be based on projected "Rate-Year" Pass-Throughs rather than "Test-Year" Pass-Throughs. Evaluating the impact of a revenue distribution based on Rate-Year Pass-Through costs, instead of Test-Year costs, is important because it reveals the actual rates customers will pay. Using Test-Year Pass-Through will not measure the actual impact of the proposed rate changes. AE acknowledged that the impact of Pass-Throughs is an appropriate consideration in evaluating a revenue distribution:

> Page 250
> 9 Q And once again I thought I heard you say it,
> 10 but I want to get it on the record. You look at this
> 11 from a total bill perspective, right, not base rate,

[35] HOM Tr. p. 251, line 25 – p. 252, line 6.
[36] HOM Tr. p. 253, lines 5-8.
[37] RFP p. 2-11, Bate 23.
[38] HOM Tr. p. 254, lines 8-13.
[39] *SPS* Final Order, p. 10.

12 not anything else? A total bill including --
13 A Total --
14 Q -- all pass-throughs?
15 A Yes. Total.
16 Q Changing gears just a little bit.
17 Consideration of pass-through charges, sort of related
18 to the affordability goal since pass-through charges
19 have an impact on the total bill.
20 Did Austin Energy consider the impact of
21 its pass-through charges when it was developing its
22 base rate revenue distribution?
23 A Yes, it did.
24 Q And so I presume you would agree that it is
25 appropriate when you're coming up with your revenue
Page 251
1 distribution approach to kind of keep an eye on the
2 total bill impact, including pass-through charges?
3 A When we developed our proposal for allocating
4 the 17 million dollar, 17 and a half million dollar
5 reduction to customers, which I presume is what you are
6 talking about when you refer to revenue distribution,
7 we looked at the base rate impacts and the total
8 revenue impacts for each customer class.
9 Q So the pass-through charges were a
10 consideration factor when you did the revenue
11 distribution?
12 A Yes, they were.[40]

The class revenues that will exist after the new rates take effect will obviously be the most accurate representation of the new rates' impact to each class. Basing revenue distribution by reference to Test-Year Pass-Throughs hides the full effect of expected rate changes.

This is no small matter. Projected Pass-Throughs are approximately $51 million less than Test-Year Pass-Throughs, as shown from the following table.

[40] HOM Tr. p. 250, line 9 - p. 251, line 12.

Comparison of Pass-Through Rates	
Test-Year vs. Projected	
Proposed Base Rates and Test-Year Pass-Through Rates (1)	$1,217,290,318
Proposed Base Rates and Projected Pass-Through Rates (2)	$1,166,309,563
Difference	$50,980,755
Source:	
(1) RFP p. 5-28, Figure 5.21, Bate 131	
(2) RFP p. 6-45, Figure 6.28, Bate 176	

The decrease in Pass-Through charges provides an additional reason the underlying base rates for classes below cost-of-service can be increased even further without risking rate shock, because the overall impact is less once you fully consider the pass-through changes.

E. ICA's KWH-Based Revenue Distribution

Data Foundry/Austin Chamber oppose the Independent Consumer Advocate's (ICA's) Revenue Distribution proposal. ICA witness Clarence Johnson proposes to allocate the revenue decrease on the basis of class shares of kWh consumption.[41]

Mr. Johnson's revenue distribution proposal is arbitrary, inconsistent with regulatory precedent and completely ignores the results of the cost-of-service study. The cost of service study and individual classes' relationship to their cost of service should be the primary consideration in allocating revenue among classes. ICA provided no persuasive rationale for deviating from cost. It is apparent ICA simply wants to keep residential rates artificially low in relation to cost. But what ICA forgets is that residential customers will not be able to pay for electricity at all if the companies for whom they work go out of business or downsize because of high commercial rates.

V. Rate Design (Not addressed)

A. Billing Adjustment Factor (Not addressed)
B. Seasonal Power Supply Adjustment (Not addressed)
C. Residential (Not addressed)

[41] ICA Exh. 1 (Johnson Dir.), p. 75, lines 9-10.

1. Customer Charge (Not addressed)
2. Tiered Energy Rates (Not addressed)
3. Seasonal Base Rates (Not addressed)

D. Non-Residential Customer Charge (Not addressed)
E. Load Shifting Voltage Rider and Additional Demand Response and Storage Tariffs (Not addressed)
F. S2 and S3 20% Load Factor Billing Determinant Adjustment (Not addressed)
G. Group Religious Worship Discount (Not addressed)

VI. Value of Solar Issues (Not addressed)

VII. Policy Issues

A. Funding Discounts (Not addressed)
B. Rates for Customers Inside and Outside the City Limits of Austin (Not addressed)
C. Piecemeal Ratemaking (Not addressed)
D. Service Area Lighting (Not addressed)
E. Power Production Costs and Rate Treatment **(Addressed for Cost Allocation Purposes in Part VIII.B.)**
F. Studies Supporting Future Cost of Service (Not addressed)
G. Customer Assistance Program (Not addressed)
H. Customer Satisfaction (Not addressed)
I. Pilot Programs (Not addressed)
J. Pick Your Own Due Date (Not addressed)

VIII. Statement of Position / Other Issues (Not addressed)

A. Late Payment Fees (Not addressed)

B. Regulatory Charge (Not addressed)

IX. Conclusion

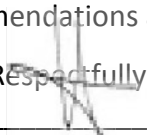
The Austin Chamber of Commerce and Data Foundry recommend:

1. AE's proposed Electric Reliability Council of Texas 12 Coincident Peak (12CP) method for allocating demand-related production costs should be rejected and the A&E-4CP method traditionally used by the Public Utility Commission of Texas (PUCT) should be used instead.

2. AE's proposed revenue distribution should be rejected in favor of a revenue distribution that more adequately reduces existing subsidies and better compensates for existing deviations from cost of service. The alternative revenue distribution proposed in this Presentation should be adopted.

Data Foundry and the Austin Chamber respectfully request that the Independent Hearing Examiner adopt the forgoing recommendations and requests.

Respectfully submitted,



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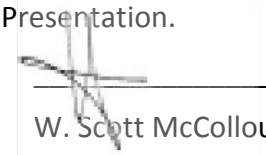
June 10, 2016

STATEMENT OF COUNSEL

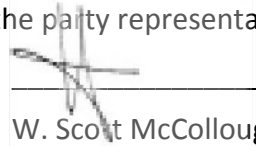
I, W. Scott McCollough, represent and certify that I have been authorized to submit this Presentation on behalf of the Austin Chamber and further represent and certify that the Austin Chamber has ratified and does join in the Presentation.



W. Scott McCollough

CERTIFICATE OF SERVICE

I, W. Scott McCollough, certify that I have served a copy of this Presentation on all parties listed on the Service List for this proceeding as it exists on the date this document is filed, using the email address provided for the party representative.



W. Scott McCollough