

RESIDENTIAL ELECTRIC RATES
Comments by Shudde Fath
(Electric Utility Commissioner since 1977)
July 6, 2011

I am not capable of an opinion on cost of service allocations to the residential rate class and trust the Residential Advisors to propose whatever changes they deem appropriate.

I do feel qualified to comment on residential rate design and believe it is unconscionable to consider increases of 195% or 96% or 44% on small users. (See 05-25-11 reply to my Information Request Attachment A).

CUSTOMER CHARGE

I oppose including wires in the Customer Charge. My extreme example: we built our home in 1965 as one of the last houses in a small subdivision of Zilker neighborhood. The overhead wires were already in place on all the streets; in 45 years I recall seeing Austin Energy replace one wooden pole on my street. Just suppose I had been charged separately for wires in all those years.

Our June 20, 2011 EUC meeting included a discussion of the forthcoming 2011-12 budget. In answer to a question, Cheryl Mele, Chief Operating Officer, said most of the past five years expenditures for transmission and distribution were for replacements. In contrast, she said most of the forward-looking years of transmission and distribution expenditures are for expansion, that is, extensions of new service. This information seems to reinforce my preference for a hookup fee (capital recovery fee) for extending service to customers at new developments in lieu of a wires charge.

As for a Customer Charge amount that excludes wires, it is worth noting that Texas Gas Service recently increased its residential customer charge from \$9.75 to \$10.21, and my Austin Water Customer Charge is \$7.10.

I do realize that today's \$6.00 Customer Charge should be increased to cover today's costs attributable to the residential's share of meter reading, billing, payment processing, Call Center, collections, and uncollectibles.

Rather than a Customer Charge greater than today's costs, I prefer a minimum bill amount. This would also take care of my expressed concerns over the thousands of new and existing unoccupied apartments, houses, and condos for rent or for sale and whose owners have been getting a free ride with a \$6.00 Customer Charge together with low kWh consumption.

HOOKUP FEES

Beginning 10-01-81 and for some number of years the electric utility charged hookup fees ranging from \$150 for new residences up to \$5,500 for the largest commercial building. My memory is the fees were abolished because Austin and Texas Power & Light of Dallas had a dual service area of about 10 square miles in north Austin. Since TP&L did not charge for hookups, Austin could not compete effectively for new customers, and hookup fees were abolished. (I do not recall the year).

Austin Energy's defined service area is 437 square miles. In my opinion, it would be preferable to charge hookup fees and abandon the proposed charge for wires. And if Austin does not compete with TXU Energy of Dallas on rates, we will lose out on some new customers in a dual service area that is a bit over 2% of our service area.

INCLINING RATE BLOCKS

Increases in the electric utility's overall system peak load are what drive the need for new power sources. Our system peaks in summer months due to air conditioning consumption, and residential users who use air conditioning should pay for their contribution to the system summer peak. In a June 29, 2011 response to my Information Request #1, the utility provided three interesting calendar year 2009 load curves for: overall system, residential, and system minus residential. The overall system curve peaked at about 4:00 p.m. while residential peaked at about 5:00 p.m. and continued high longer than did the system.

Inclining rate blocks do encourage and reward conservation of electricity.

(See page 6 of the PIC Meeting #4 Summary 04-19-11 at https://my.austinenergy.com/wps/wcm/connect/b7deaa80467c191180d0815170fa2406/PIC+Meeting+4+Summary+Revised.pdf?MOD=AJPERES&CONVERT_TO=url&CACHEID=b7deaa80467c191180d0815170fa2406).

When customers are financially able and choose little or no conservation, however, it seems obvious that prices per kWh should be increasingly higher.

I support a 5-tier rate block system with somewhat higher break points than the consultants proposal. The 3 highest rate blocks probably should be priced to recover all of

residential production costs above whatever is the summer peak for the first 2 blocks. Based on the calendar year 2009 load curve, the break points could be:

500 kWh = 33.0% of total bills	(105,033 customers)
1000 kWh = 33.5% of total bills	(106,580 customers)
2500 kWh = 28.9% of total bills	(92,150 customers)
5000 kWh = 4.5% of total bills	(13,127 customers)
7500 kWh = 0.1% of total bills	(1,150 customers)
above 7500 kWh	<u>374 customers</u>
	318,414 total

This load curve shows 1,524 customers with monthly consumption in excess of 5,000 kWh (and two of those customers used in excess of 50,000 kWh). The lowest 500 kWh group uses little or no air conditioning, and the second 500 kWh group uses air conditioning with modest thermostat settings. It is worth recalling that recent market research found that the majority of AE customers are more interested in saving money than in saving energy --- even when they consider themselves “green”.

Surely the top one-third residentials in the top 3 rate blocks should bear a much greater load of residential cost of service than the first 1,000 kWh. I will be receptive to various tiers pricing proposals that accomplish this goal.

FUEL CHARGE

For the past 20 years, Austin Energy residential electric bills have included four items: Customer Charge, Energy Charge, Fuel Charge, and Sales Tax. Last October, Transmission Service Cost Adjustment was added, and its name will

change to Regulatory Charge under the proposed new rates. (See page 28 of PIC Meeting #4 White Paper, 03-30-11 found at https://my.austinenergy.com/wps/wcm/connect/a9fbae0046511382bba1bb5170fa2406/PIC+Meeting+4+White+Paper+-+Residential+Rate+Structures.pdf?MOD=AJPERES&CONVERT_TO=url&CACHEID=a9fbae0046511382bba1bb5170fa2406).

I hope Austin Energy will keep the simple words Fuel Charge rather than the proposed Power Cost Adjustment Factor. If the consultants have issues with how Fuel Charge dollars are being calculated for today's bills, please bring them forward for discussion.

And since future fuel prices are unpredictable, I hope you will keep Fuel Charge as a separate billing item rather than rolling the current fuel charge into the base energy rate. (See page 29 of PIC Meeting #4 White Paper, 03-30-11). There is nothing magical about today's fuel charge of 3.105 cents/kWh. Over the past 15 years we have had 15 different fuel charges ranging from .01311 to .03653 and enduring from 2 months to 36 months. Keeping fuel charge as a separate billing item will remove that volatility from the base energy rate and will make both billing items more transparent.

Fuel charges for Primary Service customers are slightly lower than the regular fuel charge to other rate classes because all Primary Service customers receive electricity at higher voltage. They "step it down" to lower voltages on their side of the meter, and the lower fuel charge compensates for the line loss occurring as voltage is reduced.

500 kWh BLOCK

Here is the source of the 500 kWh rate block in 1994 rates. (See question on page 6 of #4 Summary, 04-19-11). Actually the 500 kWh block and two-tier rates have been in existence since 1981. The 500 kWh lifeline rate block was based on the UT Engineering Department's Center for Energy Studies conclusion that 500 kWh supplied the essential electricity needs of the mythical average family without air conditioning or electric water heating or resistance heating. The 1981 rate ordinance established our two-tier inverted (inclining) rate structure with the 500 kWh first block. The 1981 rate replaced declining rate blocks, combined the Residential Multiple Fuel rate class and Residential Single Fuel rate class into one Residential rate class, and established the summer surcharge above 500 kWh.

In 1982 Dr. Tom Power, representing Austin before the Public Utility Commission, was asked for the economic justification for inverted residential rates. He said that smaller residential cost less to serve because they are less likely to contribute to the peak, have higher load factors, are less risky to serve (more stable, dependable, and non-seasonal), do not require as heavy a distribution system, tend to be central city customers using a more fully depreciated distribution system, incur lower line losses with small loads, and have lower incremental cost than large residential whose air conditioning load is more responsible for rising demand that leads to costly facilities expansions. In summary, the lower-price first block reflects lower embedded, marginal, and incremental costs and also encourages conservation.

ALL-ELECTRIC RATES

Page 5 of PIC Meeting #6 White Paper, 05-25-11 found at https://my.austinenergy.com/wps/wcm/connect/bff3f000470f16edbf7fff5ba5865842/White+Paper+6+-+PIC+Summary+Report.pdf?MOD=AJPERES&CONVERT_TO=url&CACHEID=bff3f000470f16edbf7fff5ba5865842 and page 7 of PIC Meeting #4 Summary, 04-19-11 mention requests for lower rates for all-electric homes. May I say that we have been there and done that.

For many years prior to 1981 Austin had separate rate classes and lower rates for all-electric customers. The rate classes for Residential, General Service Non-Demand, General Service Demand, and Primary Service all had two rate classes (Multiple Fuel and Single Fuel). The all-electric rates were always cheaper, and their goal was to increase revenues. (Large Primary Service had only a single rate class).

The utility's slogan was something like "Live Better All-Electrically", and there was a promotional cartoon character named Reddy Kilowatt.

Austin also had a long-term 18 cent natural gas contract with LoVaca Gas Gathering Co. whose CEO, Oscar Wyatt, abrogated the 18 cent price about 1971. Our gas prices went through the roof; from 1972 to 1981 Austin electric bills increased 338%. In 1981, the above eight rate classes were combined into four classes: Residential, General Service Non-Demand, General Service Demand, and Primary Service.

Austin Energy's current rebates for heat pumps and solar are a big improvement over promotional all-electric rates.

There was another reason for the long ago popularity of all-electric customers. Austin did not charge for hookups to new buildings, but the gas company did. The gas company also charged developers to extend gas lines down new streets, but Austin did not charge for distribution extensions.

LOW INCOME CUSTOMERS

As some of you know, I have been concerned about frequent mention of lower rates for “low income” customers when that term is not further defined.

The Community Action Network said 35% of Travis County’s population is considered to be low income. (See In Fact newsletter 04-05-11). A PIC representative said one-third of the people in our community live at or below the 200 percent poverty level. (See page 11 of #4 Summary, 04-19-11). Without knowing the “average household” number, I cannot translate the above percentages into an estimated number of our approximately 368,400 residential ratepayers.

For proposed Low Income rates I support including all the low income categories now mentioned in the current 9,949 participants and then adding additional participants in those categories as they are identified. I also support AE’s current careful rechecking for continuing eligibility. Note: I would appreciate a complete list of the current categories, including definitions for the acronyms. (See page 24 of #4 PIC meeting 04-06-11).

What I strongly oppose is expanding the definition for low income participation to individuals for whom Austin Energy would be required to screen income eligibility. Austin Energy

appropriately did income eligibility screening for recipients of free weatherization paid by federal stimulus grants, but I do not support income screening to qualify for low income electric rates.

Austin Energy is a well-run business that provides us with important financial and community support. The residential rate class includes some 368,400 customers. Ten percent of that is 36,840 customers, and that seems like an appropriate limit for reduced electric rates --- certainly more appropriate than 33% or 35% of 368,400.

GENERAL FUND TRANSFER FORMULA

This is where I wish to remind city staff and City Council that the EUC has twice recommended changing the current General Fund Transfer formula which for 11 of the past 12 years has been 9.1% of gross utility revenues.

Gross utility revenues include fuel revenues on which no profit is made. So the higher are fuel costs the greater is the General Fund Transfer! A 11-04-09 city report says: City Financial Services & Austin Energy will bring back a recommendation to Council on General Fund Transfer policy.

HISTORY

The fact that so many electric utility changes occurred in 1981 was no mere coincidence.

Early in 1980, a group of community activists began a campaign to make such matters as fair electric rates an issue in the 1981 City Council election. (Never had we had a City Council majority). We formed the RATERS coalition to

Reform Austin's Terrible Electric Rate Structure. The coalition included some members of the Electric Utility Commission (created in 1977) and anti-nuke activists. As we brainstormed various residential rate designs, Council

Member Richard Goodman would request city staff to do an impact study on each proposal, and we finally settled on "Proposal 7". We had citizen petitions, endorsements by 61 Austin organizations, a huge 09-15-80 City Council public hearing, press conferences, UT Economics professors' expertise, campaign fliers, etc.

In the April/May 1981 council elections, Larry Deuser (Ph.D electrical engineer and EUC member), Dr. Charles Urdy (Ph.D physics professor), and Roger Duncan (you know him) won and joined re-elected John Trevino and Goodman for a solid 5 vote majority. The council passed Proposal 7 on 06-11-81 and abolished the four all-electric rate classes. Proposal 7 had a two-tier inverted rate structure with a year-round lower rate for the first 500 kWh and increased summer rate above 500 kWh. The council also instituted hookup fees effective 10-01-81 and called for a sell-the-nuke ballot proposition in November 1981. The sell-the-nuke proposition won with 60%, but by that time Wall Street had wised up on nuclear plant cost overruns, construction delays, etc., and Austin never had an offer to buy.

Looking back on my 34 years in a citizen's advisory capacity, I truly admire and appreciate the employees of Austin Energy who do so much more than just keep the lights on.

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