

Residential Rate Advisor
2011 Austin Energy Rate Review
Final Report
August 29, 2011

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Executive Summary

After a competitive solicitation, I was chosen to be the Residential Rate Advisor (RRA) and tasked with representing all residential rate payers within the Austin Energy (AE) service territory during AE's 2011 rate review. As the RRA, I must simultaneously represent the various residential sub-classes: low-usage, high-usage, solar distributed generation (DG), low-income, all-electric, City of Austin (COA), and non-COA customers. Since each of these customer sub-classes can be adversely impacted by subsidization between them (intra-class subsidization), the guiding principles used by the RRA are:

- the Austin City Council (City Council)-approved Strategic Plan,
- Austin Energy Financial Policies and Goals, and
- Competitive market practices in the rest of the State of Texas.

Austin Energy began its public rate review process in January 2011. As part of the process they recruited 13 members of the community to represent their various customer classes in Public Involvement Committee (PIC) meetings. They also recruited me as the independent RRA to serve on the PIC. I met with other members of PIC, primarily residential members, to help them understand the complex terminology and jargon used in the utility industry. I was also included in meetings of the Community Advocacy Group to develop options for low income customers resulting from this rate review.

The primary purpose of the PIC was to educate a set of customer representatives on the challenges facing AE in redesigning their electric rates and seek their input into fair and reasonable approaches to addressing those challenges.

The first step in the process was to review the strategic goals and fundamental principles of AE in this rate review. These goals and principles are often in conflict when designing rates; the challenge is to align as many goals and principles as possible when making a recommendation. While I disagree with some of AE's recommendations on particular elements in this rate review, I do believe they did try to adhere to the goals and principles to the extent possible.

Disagreements with Austin Energy Recommendations

Cost Allocation Methodology

- My Suggestion – Base-Load Intermediate Peaking – (BIP) method be applied as it is consistent with the Electric Reliability Council of Texas (ERCOT) deregulated market design and use of facilities. ERCOT is the grid operator for most of the State of Texas.
- Austin Energy Recommendation – Average and Excess Demand (AED) method applied as it is commonly, but not uniformly, used in regulated markets.
- Impact – The AED method approach leads to 20 percent higher rates for residential and small business customers and 30 percent lower rates for large businesses

Electric Delivery Charge - Variable

My Suggestion – Customer billing statements should include both a fixed and variable charge for electric delivery as a line item.

Austin Energy Recommendation – Show a portion of these costs with a fixed charge for electric delivery as a customer bill line item. Remaining electric delivery costs included in the energy charge.

Impact - Separate charges are more transparent and thus in line with AE's transparency goal. These charges are consistent with billing practices commonly seen in a competitive market.

Fuel and Energy Cost Recovery Charge

My Suggestion – Continue fuel adjustment clause as it is today.

Austin Energy Recommendation – Reset fuel charge to 0 and apply an energy adjustment as a separate line item on customer bills when future adjustments are needed.

Impact - Improved transparency and simpler GreenChoice[®] program. (The AE proposal makes bills simpler in an initial period.)

GreenChoice[®] Program Updates

My Suggestion – Maintain GreenChoice structure similar to today and retain the 10-year rate lock on fuel.

Austin Energy Recommendation – Modify the current GreenChoice structure with adjustments to account for the difference between system average renewable energy and customer-selected renewable energy, and have renewable energy rate locks of variable durations.

Impact - Enhanced transparency and rate predictability for GreenChoice participants. (AE's approach, as described in the Rate Analysis and Recommendations Report dated August 29, 2011, is exceedingly complex, focuses exclusively on "green" customers and sounds like utility double speak, contravening the "simple and understandable" principle.)

Agreements with Austin Energy Recommendations

Customer Charge (Fixed)

Given the multitude of program offerings of AE regarding solar rebates, energy efficiency, appliance rebates, and weatherization, all aimed at reducing end-user consumption, I agree that a higher fixed monthly customer service charge is appropriate, especially as there is no discernable correlation between the need to contact Customer Service and energy consumption.

Electric Delivery Charge (Fixed)

A portion of the electric delivery charge needs to be applied as a fixed charge. New communities are being constructed with solar PV panels installed and these customers will also require traditional electric service. Without some form of fixed electric delivery charge, these customers will be subsidized by others.

5-Tiered Rate Structure

The five-tier rate structure is consistent with the goal of promoting energy conservation and energy efficiency, and I therefore support it. However, this rate structure will be one of the most complex in the country, and therefore fails the principle of “simple and understandable rates.”

Align Summer Rate Period

Following the PIC meeting #2, I recommended that AE update its “summer” definition to reflect that of the rest of the ERCOT market. This change follows that recommendation.

Community Benefit Charge

I support the community benefit charge. By outlining the cost and uses of these charges, AE has greatly increased the transparency of these charges within its rates. Going forward, it is important that the City Council closely monitor that funds are being used for the programs for which they are collected.

Regulatory Charge

There are a set of charges placed on AE by the Public Utility Commission of Texas (PUCT), including transmission charges, and ERCOT fees. These charges are outside the control of AE. I agree that a separate regulatory charge is appropriate to separate these charges.

Conclusions

Austin Energy lists four possible options in the Rate Analysis and Recommendations report dated August 29, 2011 as potential rate structures. Only the AE-recommended option has complete details regarding the proposed rate structure.

Current electricity prices are well below where they were in 2009. Austin Energy will be challenged to meet the affordability benchmark of being in the lower 50 percent of rates in Texas, particularly for high use residential customers.

While I have specific disagreements with allocations and transparency on specific charges, all my concerns can be addressed equally in any of the proposed options.

Based on the principles and goals of Austin Energy and the data available in the Rate Analysis and Recommendations Report released on August 29, 2011, I concur with AE that the recommended option is superior to the others.

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Background

Much has changed in the electric utility industry during the 17 years since AE's last rate case. The industry in ERCOT has undergone three different levels of deregulation starting with wholesale deregulation in 1995, retail deregulation in 2001, and the transition to a nodal market in 2010.

At the time of AE's last rate case, all utilities in Texas were vertically-integrated, having generation, wires, and load business functions. The vertically-integrated utilities planned and managed an electric service territory and all components within that territory. Today, for most customers in the State, these functions are quite diffused. The planning function is split between investors looking for a return and ERCOT who oversees the operation of the transmission system and the level of power generation. In most instances, companies who own generation are separate from those who own transmission wires, who, in turn, are separate from those who distribute electricity to customers.

Austin Energy is unusual but not unique in its position in the market. It is defined as a Non-Opt-In Entity, or NOIE, meaning it did not opt into retail competition, and acts in some ways as a vertically-integrated utility. Austin Energy is part of the ERCOT competitive wholesale market. As part of the wholesale market AE no longer has direct control over the commitment¹ or dispatching² of its power generation units. The amount of money AE receives from operating its generation units and the hourly charges AE pays to serve its load (i.e., satisfy customer demand) is now determined by ERCOT. Austin Energy uses payment for its generation to offset charges for its load. On a wholesale level, AE is just like a generation company, and a load-serving entity. Austin Energy is no longer required to build, or even contract for generation, to serve its load; other generators will build and supply energy to Austin on an hourly basis (although AE might not like the hourly price). Investor-owned Transmission and Distribution companies are still for the most part regulated. Transmission pricing in the ERCOT region of Texas is unique in the country. Transmission is billed by order of the PUCT and paid for by loads on a 4 Coincident Peak (4CP) basis.

In addition to market changes in Texas over the last 17 years, the world itself has changed significantly. Prices of copper, wire, steel, power poles, generation resources, fuel, in short, everything needed to run an electric system, has been impacted by increased demand from emerging economies. Increased costs of these materials must be passed on to ratepayers, to maintain the financial integrity of Austin Energy.

Role of the Residential Rate Advisor

The RRA was chosen through a competitive solicitation, to represent all residential rate payers within the AE service territory. Bob Wittmeyer P.E. of Volatility Mangers LLC was chosen as the RRA. The goal of the RRA is to simultaneously represent the various residential sub-classes: low-usage, high-usage, solar distributed generation, low-income, all-electric, COA customers, and non-COA customers. Since each of these residential customer sub-classes can be adversely impacted by subsidization between them, the guiding principles I used during this process were:

- the City Council-Approved Strategic Plan,

¹ Commitment - determination of when to start up a generation unit, so it can supply power to customers.

² Dispatch - determination of the level of production from a generation unit.

- Austin Energy Financial Policies and Goals, and
- competitive market practices in the rest of the State of Texas.

The RRA attended all PIC meetings, CAG meetings to discuss the rate review, and had numerous meetings with the other residential representatives on the PIC.

City of Austin-Approved Strategic Goals

The goals relevant to this rate review can be found in the April 22, 2010 City Council-approved “Austin Energy Resource, Generation, and Climate Protection Plan to 2020.”

Specifically the Goals of:

1. Increasing Energy Efficiency from 700 to 800 MW
2. Increasing the renewable energy goal from 30 percent to 35 percent
3. Increasing the solar component of the renewable energy goal from 100 to 200 MW
4. Establishment of a CO₂ reduction goal of 20 percent below 2005 level
5. Development of zero energy-capable homes by 2015

I considered these goals in conjunction with the rate design principles below, input from the Community Advocacy Group (for low-income customers), and members of the public during the PIC Process and while developing the specific recommendations of this report.

Figure 1

Austin Energy's Strategic Direction



Austin Energy's Rate Design Principles

1. Rates should be in alignment with AE's strategic objectives.
2. Ratemaking should be founded on economic standards common to the electric utility industry.
3. Rates should be fair among customer classes.
4. Rates should ensure the long-term financial strength of the utility.
5. Rate structures should provide incentives for energy conservation, promote the efficient use of resources, and encourage consumer investment in energy efficiency.
6. Rates should maintain the affordability of electricity.
7. Provide a discount to low-income customers.
8. Rates should be as simple and understandable as practical.
9. The rate review process should be transparent, including public involvement.
10. The rate review process must adhere to laws and regulations.

Affordability and Benchmarking

Affordability and rate benchmarking goals were established by the City Council on January 27, 2011. Under those goals, AE is committed to keeping customers all in competitive rates in the lowest 50 percent of comparable Texas utilities and a system average rate increase of no more than 2 percent annually after implementation of the new rates and rate design.

Comparison to the Competitive Market

I believe it is vital that AE continue to compare itself and the structure of its rates, to that of the competitive market. The work done by SAIC is primarily based on the traditional cost of service model and historic utility ratemaking. While these concepts are accepted throughout the regulated industry, AE customers are increasingly aware of the competitive market outside Austin's borders. Pressure will continue to be exerted by the legislature on AE and other entities who do not provide competition to their customers. Competitive markets have advantages in customer perception, reduced regulation, and sometimes price. Traditional utility markets have advantages in long-term price stability, planning, and financing. In most years, AE customers have enjoyed lower prices than customers in the competitive market. Depending on prevailing natural gas prices and the desire of customers to lock-in prices in the competitive areas for one to three years, AE's prices will sometimes be higher than the competitive market.

One of the challenges in this rate review is aligning the legitimate financial needs of AE as a vertically-integrated utility in the context of a deregulated competitive energy market. In the competitive market, profits increase when consumption increases. This model runs counter to the City of Austin's approved strategic goals.

In the competitive market, prices are quoted as "all-in" prices in cents per kWh, based on a minimum usage (usually 1000 kWh). These "all-in" prices include customer service, electric delivery (wires), and fuel cost charges. When an actual bill is delivered to the customer, specific disclosure of those charges varies from provider to provider. In nearly all cases, as a customer consumes more energy, the energy provider makes a larger profit, which is to say that increased consumption is good for the retail electric provider. For this reason, the PUCT leaves responsibilities for energy efficiency to the transmission and distribution providers, not the retail electric provider.

In the competitive market, inter-class and intra-class subsidization is greatly reduced. While competitive retailers do not need to do cost of service studies, they must ensure that they are charging all their customers about what it costs to serve them or the retailer will find that other providers may "cherry pick" their customer base, leaving only the customers who are paying below their cost of service. This reality has implications for AE due to the strategic goals set by the City of Austin to be in the lower 50 percent of rates in the State. AE must ensure it is not overly subsidizing one rate class over another, or it will find that the disadvantaged rate class will be holding meetings with members of the Texas Legislature.

In the 2011 Texas legislative session, no fewer than five legislative bills were targeted at opening AE's service territory to competition. (This may have been driven by the desire of the State to negotiate better long-term rates). But, in all legislative sessions since 1999, bills were introduced to open the service territories of municipalities and electric co-operatives to competition. While I am not

suggesting or recommending that AE open itself to competition, I believe the best defense against being forced into competition is open and transparent rates similar to those in the competitive areas.

Customers in the northern part of the service territory have neighbors who “shop” for retail electric service. When neighbors begin comparing electric bills, it is important that rates be clear, concise, and comparable.

While AE still maintains a vertically-integrated utility with a designated service territory, it is subject to pressure from competition. AE faces price competition within its designated service territory. Customers in the Round Rock area have neighbors in the competitive areas who can shop for electric service. Neighbors do talk and compare electric bills. Historically, AE has had favorable rates when compared to the competitive market rates. However, current low gas prices have given an advantage to some of the competing utilities and have reversed this situation. Currently, some short-term and long-term rate offerings in the competitive areas are lower than AE rates.

Austin Energy already faces competition in other areas of its business. Generation owned by AE is no longer dispatched (level of operation) in house. The generation fleet is now dispatched by ERCOT based on the marginal cost of each generator. The load (customer demand at a given point in time) served by AE is based on the cost to deliver power to the AE service territory from all resources in the state, regardless of ownership.

Also, in 1994 there were two major utility employers in town, AE and the Lower Colorado River Authority (LCRA). Today, there are four major employers (Austin, LCRA, Green Mountain Power, and ERCOT) and several smaller ones creating competition for qualified employees.

Impact of Austin Energy Goals on Fixed Charges

While it is important that AE consider its practices and activities in the context of the competitive market, it does not always need to follow that market. The competitive market is one based on consumption; the more the customer uses, the more profit the retailer makes. Austin’s Climate Protection Plan encourages conservation, energy efficiency, and zero energy homes. If AE were to follow the consumption models of either the traditional utility or the deregulated market, either the financial integrity of AE would be at risk, or greater subsidization among customers would have to occur.

Developers are building new energy efficient homes in Austin with solar panels integrated into the design, air conditioning companies are installing geothermal heat pumps, and AE has an active weatherization program, all targeted at reducing energy consumption. Austin is a national leader with its voluntary GreenChoice program. Its rooftop solar and energy conservation initiatives have been very successful. AE is currently developing standards for zero net energy-capable homes. Clearly, a revenue model for AE cannot be sustained based on energy consumption.

To ensure the financial integrity of AE, I believe a combination of fixed charges (user fees) and energy consumption charges are necessary. My recommendation is consistent with the City Council’s strategic goals and AE’s economic imperatives. I recommend consumption-based charges when the cost driver is consumption, and user fees (fixed charges) when the cost drivers are not consumption-based.

I also believe transparency is key. The public often instinctively distrusts utilities, even AE. A customer's utility bill is often the second largest monthly bill after the mortgage or rent. Customers understand little about how the electric system works and it is difficult for most people to understand what they are required to pay for.

Comments from the Public

I did hear directly from some customers in the general community on a variety of topics. These comments were considered throughout the process and are summarized below.

All Electric Homes

Members of the Lakewood homeowners association pointed out that tiered rate structures which benefit low usage customers are discriminatory toward people who live in all-electric homes. They are right. Consumers with multiple fuels, (gas, propane, solar hot water etc.) have a natural advantage under any inverted rate structure over all other electric customers. Furthermore customers who have water wells and pump their own water are also disadvantaged over customers with centrally supplied water. San Antonio has differentiated rates for all electric customers. San Antonio also supplies residential natural gas service so they know who is an all-electric customer. AE no longer has a database of all-electric homes, so separate rates for all electric users could not be easily implemented.

Household Size - Family Penalty

A customer in Northwest Austin pointed out there is a "family penalty" associated with the inverted rate structures. Reduced rates are provided to low-usage households, not low-usage individuals. Clearly a family of four is likely to consume more energy than a single person. A household which uses 500 kWh or less receives a better rate than a household using 1,200 kWh. Low usage households are given better rates, with no regard to the number of people living in the household. A "fair" solution would be to give discounted rates based on per person energy consumption. However, there are no practical ways to determine the number of persons within a household. Rates could be implemented uniformly without tiers, as is done in the competitive areas. This would remove the "family penalty." However, AE has multiple goals associated with the efficient use of energy and reducing emissions (conservation, climate protection, renewables) and only one related to fairness. Given that true "fairness" is not achievable; I find it unfortunate but appropriate, that the inverted rate structure remain.

Low-Income Users

A common misconception is that low-income households are low-usage households³. The data shows that low-income households consistently use more electricity than non-low-income customers. Some low-income advocates suggest the data is a consequence of the automatic enrollment program and the failure of AE to filter the data. For the most part, low-income people live in older, less efficient housing, perhaps with window air conditioning units, spend more time at home, and may even have electrically driven medical equipment. These outline just a few of the reasons why low-income people consume more energy on average. The residential members of the PIC all agreed that the automatic enrollment program should be

³ See Appendix B, chart on page B-21

altered. However, there is no expectation that low income customers will become low-usage customers, even with weatherization. Punitive rate structures for high-usage customers must consider the impacts on low income-customers.

Community Solar

One of the biggest hindrances to adoption of solar by some residents is something completely beyond the city's or legislature's control. Some customers responded that they would love to install solar panels on their roof, but their "significant other" would not consider solar on "my" roof. The proposed rates send a signal to high-usage customers to install solar. In the Joint Recommendations of the Residential Representatives of the PIC (attached as Appendix A), we make suggestions to AE regarding community solar projects.

Recommendations

As outlined above, the RRA considered the utility's City Council-approved strategic goals, AE's rate design principles, affordability benchmarking, comparison with the competitive market, and input from the public in making these recommendations.

Cost Allocation Methodology

I disagree with AE's recommendation regarding use of the AED methodology for allocation of production costs. I believe the BIP method is the better choice, as it is consistent with the ERCOT nodal market.

Austin Energy readily accepts that BIP is more applicable to a nodal market structure. (Table 4.8, page 84 of their Rate Analysis and Recommendations Report released on August 29, 2011) regarding BIP and application to a nodal market, *"Highly applicable, reflects generation resources likely dispatch into the wholesale power market and recognizes the underlying value as a hedge."* Austin Energy goes on to write with regard to AED, *"Less applicable to the nodal market. [AED] Views generation portfolio as a homogeneous resource serving customer's demand and energy requirements."*

Austin Energy recommended AED based on the following reasons (page 85 of their Rate Analysis and Recommendations Report released on August 29, 2011):

- 1) *"customers benefit from both demand and energy produced from generation assets."*

In a nodal market customers benefit from the hedge that owning generation provides. Energy is only produced from a specific generator when that generator is the lowest cost generation unit available given other reliability considerations.

- 2) *"Additionally, AE believes it is appropriate to recognize that high load factor customer classes are using power efficiently resulting in a lower cost of service. A cost allocation methodology that incentivizes customers to lower demand usage and/or improve load factor aligns well with AE's energy efficiency objectives."*

The efficiency that AE is referring to here is not its energy efficiency goal. Rather this measure is from the perspective of the utility and is better characterized as uniform energy consumption⁴.

- 3) *“The underlying AED methodology is widely used. Variations of this method are recognized and accepted by the PUCT.”*

Austin Energy failed to mention that PUCT has not approved or used any allocation method in the nodal market. Nor did they discuss that the nodal market was ordered by the PUCT over several years, across several commissioners, and after approval of \$550 million for its implementation.

Given the PUCT ordered amendments to **\$25.501** creating the nodal market, its approval to spend over half a billion dollars, and the reported benefits that the nodal market has brought to Texas ratepayers. It is difficult to believe the PUCT would not only approve, but favor a cost allocation method that is *highly applicable* to the nodal market.

There are other factors to be considered as well. As stipulated by City Council Resolution 9712-36 in 1997, the accepted method for cost allocation of production demand-related costs by the City of Austin was the Probability of Dispatch (POD) model. However, the City repealed the POD decision earlier this year as part of this rate process. The BIP method is very similar to the POD method. Probability of Dispatch has been accepted by the PUCT⁵. Part of the justification AE gives for choosing AED is that it is widely used around the country and has been accepted in Texas. I acknowledge that is true. However, BIP is also accepted in some jurisdictions around the country.

Rather than making the argument regarding the appropriateness of the BIP method, I will allow AE and SAIC Energy, Environment & Infrastructure, LLC (SAIC) formally R.W. Beck to make it:

PIC #3 White Paper page 27

“Given the City’s policy to use the POD method, but considering the broader context of the current ERCOT market and limitations to the POD method imposed by recent market changes, R. W. Beck recommends using an alternative method that preserves the fundamental linkage between power generating resource dispatch and load requirements. This alternative methodological approach is a time-differentiated method similar to the POD method referred to as the Baseload, Intermediate, and Peak Method.” ...

⁴ This definition refers to the utility function of efficiency - a 10 SEER Air conditioner that runs all the time 24X7 is very efficient from a load factor perspective (constant load all day), the goal AE is promoting is using a 16 SEER A/C that only runs for a short time and shuts down. The utility function of efficiency and the AE goal of energy efficiency are two very different things.

⁵ POD has been accepted by the PUCT in Docket numbers 2840, 3522, 3716, 4400, 4628, 5301, 4202, 4716, 5204, 6875, 8646, and 9561.

“This method more accurately reflects the way in which the utility incurs costs for producing electricity and how customer class characteristics including energy demand and overall energy use drive those costs.”

PIC #3 White Paper page 34

“Of the three methods examined, Peak Demand (4CP), AED, and BIP, the BIP method is the most similar to the POD method as the BIP method considers the timing, use, and cost of different generation resources and allocates such costs to customer classes based on each class’ electricity usage characteristics. This method represents the varying use and value of AE resources in a nodal market. The primary difference between the BIP method and the POD method is an hourly versus peak period perspective for intermediate and peaking generation resources. The POD method analyses the generation supply stack for every hour of the year and matches this stack against customer class loads at each hour, resulting in an hourly allocation for all baseload, intermediate, and peaking generation resources. As previously discussed, the POD approach is no longer valid in the ERCOT wholesale market, as AE units are no longer dispatched just to cover AE’s load. Therefore, the linkage between economic dispatch of generation and system load is broken. This disconnect may result in misleading and potentially highly variable class allocations depending upon market conditions at any given time of study. The BIP method provides cost allocation results with improved predictability and stability on a going forward basis while recognizing time-of-use cost differentials for the use of different generation resources. The BIP method allocates generation costs from a broader perspective, taking into consideration the economic value of generation in the broader context of the market and the price protection such resources provide to AE customers given market uncertainty.

The BIP method is a reasonable approach for production cost allocation given these considerations.”

PIC #6 White Paper Pg. 8

Table 3 Summary of R. W. Beck Preliminary Recommendations for Austin Energy Cost of Service Study

*“Demand Allocation Method
Baseload, Intermediate, and Peaking
(BIP)*

The BIP method appropriately recognizes the use and value of different types of generation capacity at different times during the course of the year and appropriately allocates costs to customer classes in both the traditional and nodal market environments.”

.....

Table 4 Summary of Feedback from PIC Meeting #3 on Revenue Requirement and Cost of Service

....
“3) Support for the production demand cost allocation method that most accurately reflects the way costs are incurred in the nodal market. □ Austin Energy and R. W. Beck believe that the **BIP method** most accurately reflects the way resources are dispatched in **the nodal market.**”
.....

(Emphasis Added)

Rate Analysis and Recommendations Report released on August 29, 2011 page 79

*“The BIP allocation method allocates demand-related production costs to customer classes based on each customer class’s contribution to system load during assigned baseload, intermediate, and peak time periods. **This method reflects the way in which AE incurs costs for producing electricity and how customer class characteristics including demand and overall energy use drive those costs.**”*

(Emphasis Added)

From the Rate Analysis and Recommendations Report 8/29/11 Pg 85

“These results demonstrate that the BIP method is most favorable to residential customers and small business, while the 4CP and AED methods provide the most favorable results for the larger commercial and industrial customers. The 4CP method is the most favorable method for the lighting customer classes. “

Clearly there is ample evidence in the record to support BIP as an appropriate production cost allocation method for AE.

As noted in the above comments by AE and SAIC the selection of AED or BIP has a significant impact on customers with low load factors (i.e., residential customers, small businesses, worship facilities, among others). But how big is the difference really? Lets’ examine Table 4.9 in the Final Recommendations Report.

Table 1
Production Function Demand-Related Cost Allocation
Comparison Based on Allocation Method

Customer Class	Demand Related Costs (\$)			Cost Impact of
	AED	BIP	4 CP	AED over BIP
Residential	151,405,665	125,987,746	145,736,409	20.2%
Secondary Voltage <10 kW	12,983,578	12,751,661	13,274,502	1.8%
Secondary Voltage 10 - <50 kW	33,070,843	31,762,392	34,518,317	4.1%
Secondary Voltage ≥50 kW	120,308,343	128,792,710	125,888,259	-6.6%
Primary Voltage <3 MW	9,738,995	11,875,837	10,043,885	-18.0%
Primary Voltage 3 - <20 MW	15,933,252	22,031,593	15,729,550	-27.7%
Primary Voltage ≥20 MW	18,734,492	27,527,858	18,914,134	-31.9%
Transmission Voltage	4,414,718	6,866,384	4,585,247	-35.7%
Service Area Street Lighting	1,368,421	996,293	267,258	37.4%
AE-Owned Private Outdoor Lighting	616,526	358,323	90,388	72.1%
Non-Metered Lighting	77,862	43,588	4,783	78.6%
Metered Lighting	<u>469,332</u>	<u>127,644</u>	<u>69,296</u>	<u>267.7%</u>
Total	369,122,028	369,122,028	369,122,028	No change

(Edits applied to Table 4.9 from Rate Analysis ... Report 8/29/11)

I believe the fundamental reason that AE chose the AED method is summarized on page 86 of AE's Rate Analysis and Recommendations Report released on August 29, 2011. *"The underlying AED methodology has been used by other utilities in Texas and is recognized and accepted by the PUC"*.

As you will note, residential customers are being allocated 20 percent more costs and large businesses about 30 percent less cost under the AED method when compared to the results of the BIP method.

Both the POD and AED method have been accepted by the PUCT in the regulated areas. No cost allocation methodology has been approved by the PUCT within the context of the PUCT-ordered nodal market.

The generation plants Austin owns are a financial hedge against prices as they do not directly serve Austin Energy's customer load. Austin Energy is under no obligation to build new power generation capacity. It only does so as a hedge against power prices for its customers.

As explained in the Background section of this report, AE no longer commits or dispatches generation to serve its load. Every 5 minutes, ERCOT decides how to operate Austin Energy's units. Every 15 minutes ERCOT decides what price Austin Energy will pay for energy. The generation serves all AE customers as a hedge against prices every 15 minutes of every day. Austin Energy should chose the BIP allocation method because it is the most aligned with the market in which AE operates.

I recommend that AE proceed with the BIP method, even if threatened with appeal to the PUCT.

Customer Service Charge

Austin Energy's customer charge for residential customers is \$6.00 per month. This is effectively the minimum charge for an unoccupied, residential customer for the right to have electricity available at a moment's notice. I recognize and concede that this price is extremely low relative to the value derived. The need to contact a customer support specialist is unrelated to actual consumption of energy and therefore I agree that the fee should be raised to cover the cost of providing customer service, and the fee should not be a function of energy consumption. As a signatory to the "Joint Recommendations of the Residential Members of the PIC (Appendix A)", I recommended a \$12 per month customer service charge.

Electric Delivery Charge

In the competitive areas of the State, all residential customers have an electric delivery charge (wires charge). Some retailers explicitly state this on customer electric bills, others do not, but a customer can obtain this information from the Electricity Facts Label (EFL – See Appendix G) on the retailer's website. Even though electric delivery charges are generally fixed charges, the cost drivers can be considered separately. The meter, power lines to the home, local electric distribution system, customer billing system and other similar functions all exist because the customer exists and is connected to the grid. These factors are independent of consumption.

As we move further up the distribution system, at the substation level, these costs become more driven by consumption. The number of customers on a feeder (line which connects a group of customers back to the substation), and the size of the substation is impacted by the demands placed on the system by a given group of customers. As customers in the group consume more energy, upgrades need to be made or additional groups need to be formed. Therefore, I believe it appropriate to have a portion of the electric delivery charge as a consumption-related (billed on a per kWh basis) cost. Transmission Distribution providers generally charge both a fixed charge and a variable charge. On average this charge is about one-third of a customer's monthly bill.

In the competitive areas of the State, Transmission and Distribution companies charge a combination of fixed (\$5.87 - \$11/month) and variable charges (\$0.025 - \$0.033/kWh) as part of the energy delivery charges. Austin Energy is proposing a \$6-\$10 per month fixed charge which is near the top end of what others in the competitive areas charge. I find the \$10 fixed charge in line with the balancing of sometimes conflicting objectives of maintaining the long-term financial integrity of the utility, reducing intra-class subsidizations, and encouraging long-term reductions in energy consumption (through the promotion of energy efficiency, zero energy-capable homes, and roof top solar installations). I would suggest, the electric delivery charge not be equal to the customer service charge. Equal fees will be confusing to customers and customer service representatives.

Austin Energy is embedding the consumption-related electric delivery charge implicitly in the energy portion of its bills. I believe in keeping with the Transparency principle this charge should be explicit.

Based on the cost of service numbers, I would expect AE to propose variable electric delivery charges in the range of (\$0.005 - \$0.01/kWh). AE is recommending including the transmission charges as part of its proposed regulatory charge. The variable electric delivery charge is expected to be lower for AE, than the competitive areas because AE is including transmission changes as a separate regulatory charge.

I also considered the following alternatives:

Given the goal of promoting rooftop solar and thereby reducing energy consumption for solar customers, I considered recommending a surcharge on roof-top solar installations (and calling this a grid access fee). Solar customers effectively (through net metering) use the grid to store energy, making the grid a low-cost battery storage device. It is appropriate that solar customers pay for access to the distribution system. There are methodologies to charge a grid access fee to solar customers (maximum production/demand in either direction, etc.), but these seemed to be overly complex and could be perceived as a disincentive for solar installations. I do not recommend this approach.

Connection Charge – I do believe AE should review its line extension policy and recover a portion of its distribution costs from new connections. However, I understand that line extension was beyond the scope of this rate review.

I considered the concept of a minimum monthly electric bill, which included a small amount of “free” energy in addition to electric delivery and customer charges. However I believe inclusion of energy in a minimum electric bill is not consistent with the goal of energy conservation. Why should we send a pricing signal to a vacant house to consume energy just because it’s “free”. Given the inherent conflict between energy conservation and inclusion of energy in a minimum electric bill, I would recommend against such options. Austin Energy is now considering this concept as Option D.

Funding the Customer Assistance Program

In the “Joint Recommendation from PIC Members” document, a fee of \$1.00 per month was recommended to be added to residential bills and \$.00065 cents per kWh for all other customers to fund AE’s Customer Assistance Program (CAP) which provides assistance to low-income and disadvantaged customers. Austin Energy’s recommendation is in alignment with ours on the commercial and industrial charge. However, they prefer to charge the residential customer the same \$.00065 rate as the competitive areas. The survey data from Market Research and Product Development indicates that most residential customers are willing to pay \$1.00 to support the CAP program. The difference to the average customer is an additional \$0.35 per month, while the difference in the amount of available low-income funding generated is \$1.5 million per year. In addition, customers with very efficient homes and those with solar panels will be nearly exempted from contributing to the CAP program under AE’s funding proposal. Our proposal ties the funding of the CAP to the relatively stable number of customers, not to fluctuating energy consumption. Assuming a strong correlation between the number of customers and the number of low-income customers, a program based on customer count would provide a more stable and predictable funding source than one tied to customer consumption. Furthermore, customers understand the concept of \$1 per month to support low-income customers. Many people have no idea how many kWh per month they consume, so a charge of \$.00065 per kWh has no meaning. Because they do not understand this funding mechanism, they may be suspicious of this charge.

A dollar-a-month charge for residential customers is fair, transparent, and easy to understand, while providing a stable level of funding as well as additional revenue for low-income discounts. This finding is supported by survey results. I therefore recommend, for residential customers, AE reconsider its \$.00065/kWh proposal and accept our recommendation of \$1/month charge for residential customers and \$.00065/kWh for non-residential customers.

Fuel and Energy Charges

The vast majority of customers are only interested in the bottom line on their electric bill. So the initial level of the fuel and energy charges has no impact and is simply “noise” on the bill. For other customers, however, this charge represents the portion of their bill they can impact with the GreenChoice program. If the fuel and energy charges remain as separate line items on the bill, the GreenChoice program is easier for AE to describe, and for customers to understand.

I further note that to reflect the role that ERCOT plays in dispatching AE generation and the provision of energy to AE customer’s, inclusion of the word “energy” in the title is appropriate.

Therefore in keeping with AE’s rate design principles of transparency, and “simple and understandable rates,” I believe the fuel and energy charges should remain on the bill as the cost to supply energy to customers.

GreenChoice® Program Updates

Austin Energy runs the leading voluntary renewable energy program in the country. I believe the success of this program has largely been driven by two factors; 1) customer desire to be green, and 2) customer desire to lock-in rates for 10 to 15 years. Many customers today receive a discount on green energy because of the rate they locked-in to several years ago. The rate lock has contributed greatly to the program’s success and should not be overlooked.

The current GreenChoice program is easy to understand and I believe that has also contributed to its success. The proposed modifications to the program, as described in the Rate Analysis and Recommendations Report released on August 29, 2011, are overly complex, assumes people are purchasing it just to be green, and discounts the value of the long-term rate lock. Austin Energy specifically proposes a “premium” for green energy, wherein some customers’ are paying a “premium” for the rate lock. I would find it challenging to describe program intricacies to a customer, in terms they would actually understand, and be able to remember when they get their first bill under the proposed approach. A simple solution needs to be found.

The complexity is driven in part by the inclusion of fuel in the proposed energy charge on customer electric bills. Consistent with the recommendation above, the fuel and energy charges should be left as separate line items on the bill.

Renewable energy is energy and should therefore be included as part of the fuel and energy charge. All customers will receive a portion of their energy from renewable energy. Customers, who want 100 percent renewable energy, or a long-term rate lock, can still purchase renewable power from a portfolio of resources with a rate lock, very similar to the resource-specific contracts AE has historically offered. Customers will receive credits against the fuel and energy charges, just like they have historically done.

A program that is overly complex and sounds like utility double speak is destined for failure. I strongly recommend against the proposed changes.

Community Benefit Charge

In the competitive areas, retail electric providers are required to collect a system benefit charge. The System Benefit Charge is set by the Public Utility Commission and is currently \$0.00065/kWh. This

charge pays for a variety of things including supporting a low-income electric bill discount program for eligible customers in competitive markets. The proposed Community Benefit Charge will additionally include street lighting for all communities served by AE and funding for energy efficiency programs. As long as these charges are funding the programs for which they are collected and not reallocated to other uses, they are in the community interest, fair, and transparent.

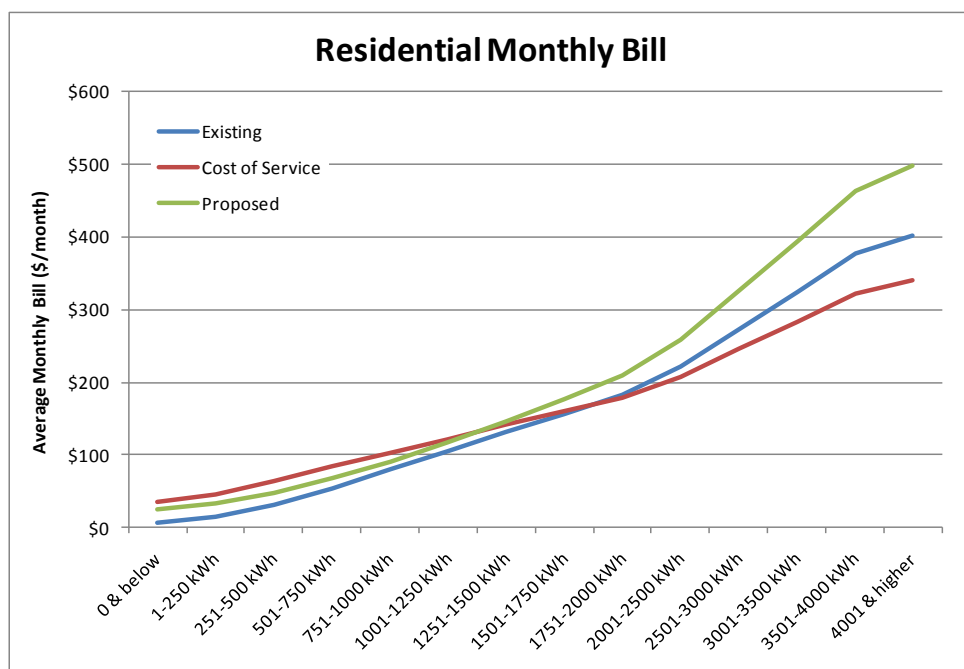
Tiered Rate Structure

Austin Energy has proposed a 5-tiered inclining block rate structure as part of this rate review. Consistent with the strategic goal of promoting energy conservation and energy efficiency, the 5-tier structure sends a strong price signal to high-usage residential customers.

I note that AE's 5-tiered structure will be among the most complex rate structure in the country. I understand it was modeled after Pacific Gas and Electric's (PG&E) rates in California. However, PG&E, at the request of its customers, is in the process of abandoning that structure in favor of a 3-tiered simpler structure (see Appendix H). This structure, in my opinion, fails AE's "simple and understandable" principle.

From the perspective of "fairness," the 5-tier structure charges high-usage customers much higher than the cost of service and therefore, in my opinion, fails the "fairness" principle.

Figure 2



As you can see from the graph above, users in the 4,000 kWh per month range are paying about 50 percent above their cost of service under AE's recommended option (Option A). Depending on the ultimate rate chosen, the highest tiers may be overly punitive.

Regulatory Charge

There are a set of charges placed on AE by the PUCT including transmission charges and ERCOT fees.

Transmission charges are a pooled set of charges. ERCOT recommends transmission projects to the PUCT. The PUCT then approves the projects, approves who constructs the projects and the overall cost. These costs are then spread to customers in ERCOT based on the 4 Coincident Peak (4CP) methodology. This allocation is based on the historic assumptions that transmission is built to serve peak demand.⁶

ERCOT charges a fee to fund itself (currently about 41.7 cents per MWH or \$.000417/kWh) to manage and control the grid. This fee is approved annually by the Public Utility Commission, and outside the control of AE.

Most transmission and distribution companies include these as energy delivery charges, from a customer perspective including the transmission portion in the regulatory charge probably makes no difference and given the current expansion of the transmission system to bring wind power from west Texas, including them in a regulatory charge is reasonable

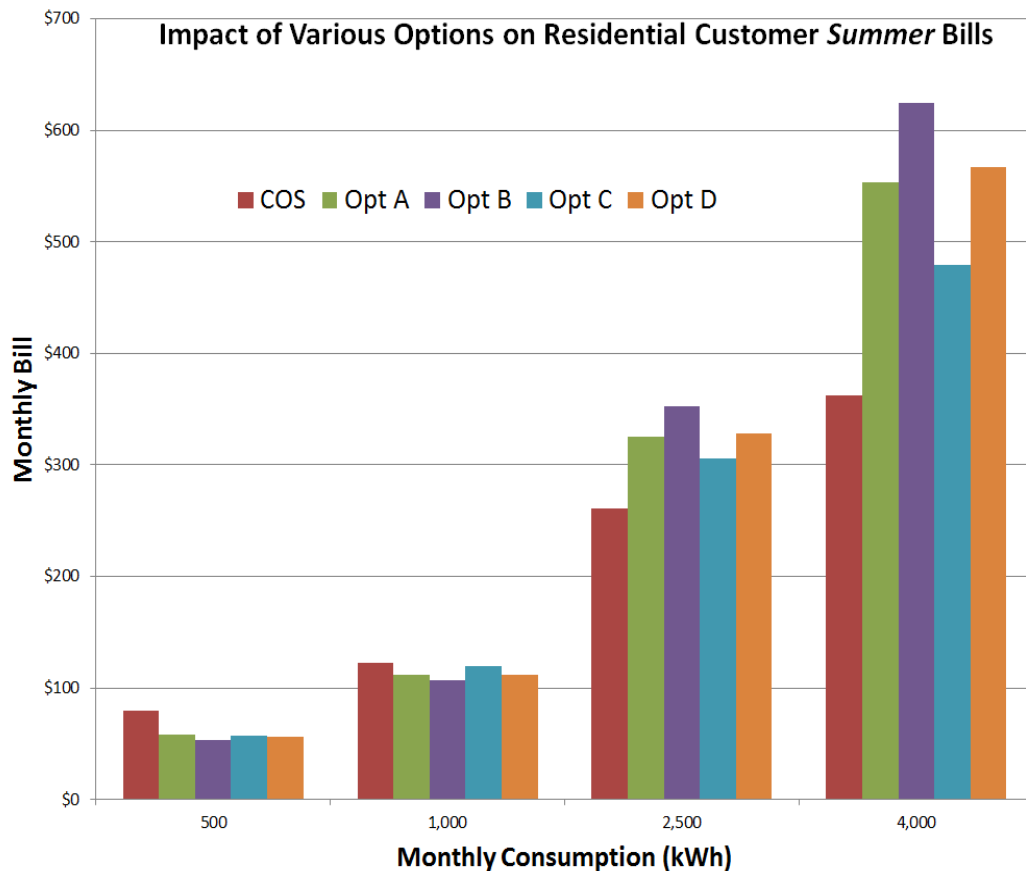
I concur with AE that inclusion of these fees is consistent with the transparency principle, given that these charges are beyond AE's control they should be listed and included in bills (or available on the website).

⁶ We note that the \$5 billion plus in transmission projects currently under construction are not being built to serve peak load. Instead, they are being built to deliver off-peak wind power to the metropolitan areas of the State. These projects are, however, still being allocated using a 4CP methodology.

Comparison of Residential Rate Options

Austin Energy's report presented a recommended proposal (Option A) and a series of alternative options. The only option that is complete is the recommended option as the other options do not specify rates for the non-summer rate period. Therefore, my analysis of the options is limited to summer electric bill impacts. Figure 3 shows the impacts of each option on a residential customer's monthly electric bill during the summer rate period, as a function of electric usage.

Figure 3



I then reviewed these residential rate options on the basis of the City of Austin approved strategic goals and the rate design principles of AE (see Figure 1). These are subjective measures, and weighting given to each principle and goal will differ based on the individual's natural bias, and their internal weighting of principles and goals. The different options are ranked, and the rational is provided below Table 2.

Table 2**Residential Advisor's Subjective Evaluation of Proposed Rate Options**

	Option A AE Recommend	Option B High Use Penalty	Option C 2 Tier	Option D \$30 Min Bill
COA Strategic Goals				
Reduce Carbon Dioxide	7	9	5	6
800 MW energy Efficiency	7	9	5	7
35 % energy from Renewables	5	4	6	5
200 MW Solar	7	8	5	7
	26	30	21	25
AE Rate Design Principles (see Fig 1)				
Strategic Objectives (Included above)	N/A	N/A	N/A	N/A
Economic Standards	5	5	7	2
Fairness	7	3	6	5
Long-term Financial Stability	7	2	8	5
Incentive Energy Conservation	8	9	4	8
Maintain Affordability	6	2	7	6
Discount to Low Income	5	5	5	5
Transparent	5	5	5	5
Simple and Understandable	4	4	5	4
Legal	5	4	8	2
	52	39	55	42
Total	78	69	76	67

(Relative rankings on scale 1-10, higher ranking better aligns with goal or principle.)

Carbon Dioxide Reduction and 800 MW Energy Efficiency Goals

Option A, and Option B encourage energy efficiency and a reduction in consumption, Option B more so than the others. Option C has only 2 tiers so it does not send a strong the price signal/ Option D is interesting from an energy efficiency point of view. It encourages consumption of exactly 300 kWh per month. Anything less than 300 kWh is at a more expensive rate and additional consumption (within reason) is at a lower rate. Because Option D encourages consumption of at least 300 kWh, it is ranked lower from the perspective of CO₂ emissions and equal to Option A on energy conservation because of the 5 tier structure/

35 Percent Renewable Goal

Option B was ranked lower because high-usage customers are likely to push back on purchasing anything that could raise prices even further, and as a result are less likely to purchase GreenChoice power. The opposite is true for Option C. The prices under Option A and Option C are nearly equal.

200 MW Solar

Option B sends the strongest incentive to high-usage customers to install rooftop solar. Option C sends the weakest signal.

Strategic Objectives

For this analysis the Strategic Goals are ranked independently, so this measure is not applicable in this instance.

Economic Standards

Option A and Option B are discounted because of the complex 5-tier rate structure (See Appendix G). Regarding Option D, I am unaware of any utility that provides an amount of “free” energy included in the base charge. This, at the very least, will be unusual from a regulatory perspective. There may also be a potential legal problem for a municipality to give away “free” services. These regulatory and legal challenges are the reason for the low rating of Option D.

Fairness

Fairness is often measured by closeness to cost of service. Most residential customers neither expect to be subsidized nor do they expect to subsidize others (they will make an exception for low-income individuals). Option C comes closest to cost of service across all consumption amounts.

Long-term Financial Stability

Option C is most similar to today’s AE rates, and most likely to survive a challenge at the PUCT. Option B and Option D are likely to be problematic at the PUCT and Option B in particular is likely to cause high-usage customers to challenge the rates both at the PUCT and the Texas Legislature. Option B contains significant intra-class subsidization. If all of these customers conserve energy, then additional rate reviews will be required to adjust the revenues. The long-term viability of these rates is what differentiates the rankings.

Incentives for Energy Conservation

Clearly Option B is designed to promote energy conservation for high-usage customers. Option D discourages energy conservation for small users because these users are likely to try to optimize their bill by using exactly 300 kWh per month. Under Option D, the rate for 150 kWh is \$0.20 per kWh but for 300 – 1000 kWh the rate is \$0.10⁷, clearly the signal is being sent to consume more not less, if the customer is below 300 kWh.

⁷ Rate Analysis and Recommendations Report 8/29/11 Table 6.5 Option D (300-1000 kWh at 10 cents/KWh)

Maintain affordability

Option C has the lowest electric bills for high-usage customers and is most affordable for them, and probably the best fit for low-income customers. Option B is the least affordable for high usage customers. Options A and D are approximately equal.

Discount to Low Income

Without a specific program design, it is impossible to determine the impact of any option on low-income customers. However, once an option is chosen, a low-income program can be designed to give the same benefits across any option. Therefore all options are ranked equally.

Transparent

All options appear to be equally transparent.

Legal

Option D is likely to face significant legal hurdles at the PUCT, in terms of giving away energy or the 300 different rates⁸ (incremental cost of each of the first 300 kWh) that are generated based on the per kWh consumption of a low-usage customer. Option C is most like today's residential rate. Option B is punitive to high use customers, (all electric homes, low income, water wells etc.) if it is viewed as overly punitive by customers or the PUC, the rates will need to be revised.

In Summary:

Option A - meets the majority of AE's defined goals, principles, and objectives.

Option B - is punitive to high users including low income, all electric homes, and families.

Option C - is "fairest" but does not send the desired conservation price signal.

Option D - seems to be based on a cell or cable company model. Those industries have very low marginal costs. For an electric utility, fuel must still be acquired, shipped, burned, and delivered⁹ to very expensive power generation facilities for any amount of electricity to reach the customer. Electric utilities have real incremental cost to supply power to customers; the nuclear promise of "too cheap to meter" has never materialized.

Based on my review of the options presented, and noting that only option A of the AE options contained complete data, I believe the AE recommended option best meets the goals and principles of AE in this rate review.

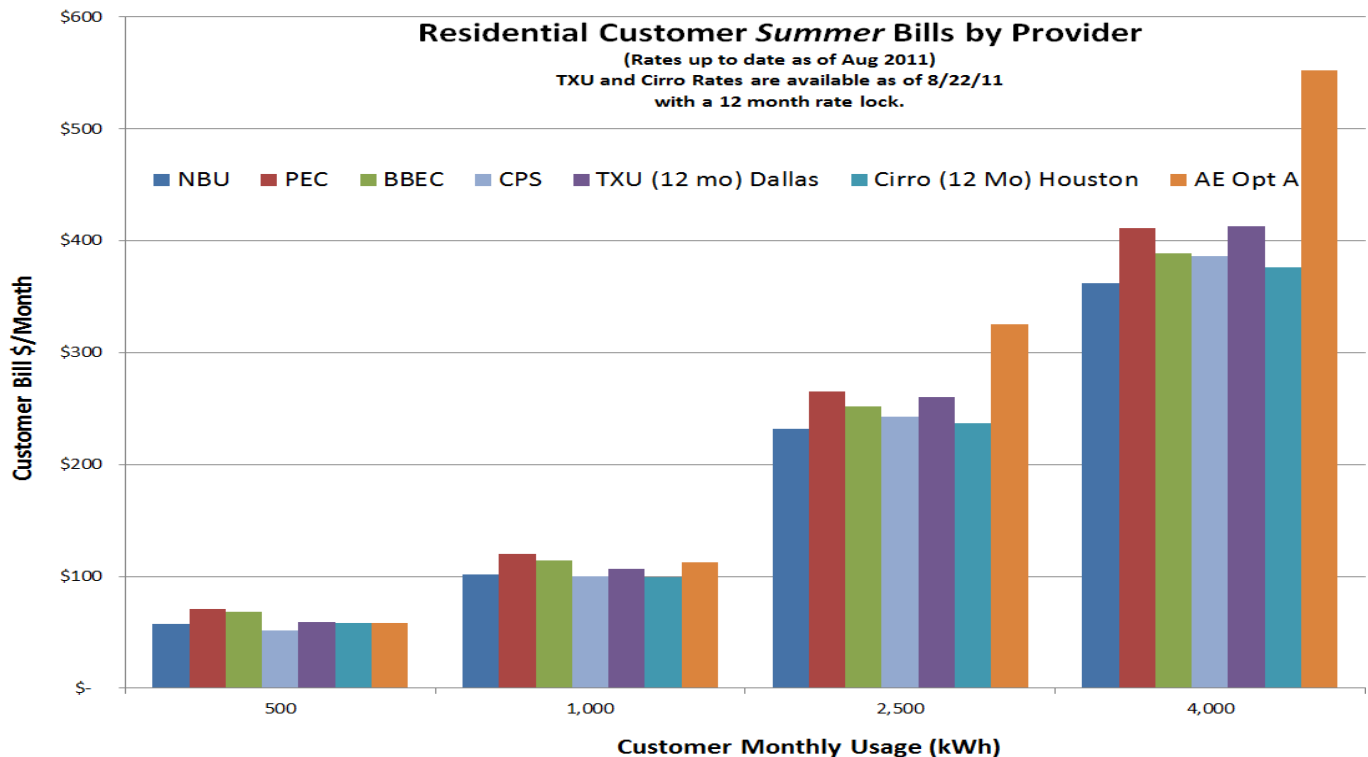
⁸ A customer using 1 kWh pays \$30/kWh; a customer using 2 kWh pays \$15/kWh; and so on; resulting in 300 different rates when measured by the industry standard cents/kWh.

⁹ Solar and Wind do not burn fuel however facility cost and DC to AC conversion equipment is still expensive.

Competitive Analysis

I have conducted an abbreviated competitive analysis based on current bills and 12-month fixed price offerings in the competitive areas¹⁰ as of Aug 22, 2011. The offerings chosen were from well-respected companies near the midpoint of the total available 12 month term offers in the market. These 12 month rates are compared against AE proposed rates to go in effect 5 months from now (about mid-term of the fixed price rate lock).

Figure 4



While AE is competitive for low-usage customers, the recommended option is significantly more expensive for high-usage customers compared to other municipal, electric cooperative, and competitive service areas.

Depending on changes in gas prices between now and January 2012, and ERCOT charges and payments, AE will be challenged to meet the benchmark goal of the lower 50 percent of rates in Texas. My results are different from those found in the Rate Analysis and Recommendations report dated August 29, 2011, (Figure 6.6 & 6.8), because AE is comparing the proposed 2012 AE rates against others rates as of 2009. Rates have declined in since 2009¹¹.

¹⁰ obtained from PUCT sponsored www.powertochoose.com and from personal contacts in the non-competitive areas (NBU, PEC, BBEC and CPS).

¹¹ As can be inferred by contrasting Figures 6.5 and 6.6 of the AE report.

Conclusions

The timing and magnitude of this rate increase is troubling. Had AE applied for this rate increase in 2008 or 2009 they would have fallen well below the 50 percent of rates in Texas. With current lower gas and power prices they will be challenged to meet the benchmark in 2012. I applaud AE for agreeing to rate reviews at least every five years in the future. It is much easier for AE and residential customers to manage small incremental changes in rates. Simplification of the rate classes is easier for everyone to understand and I hope AE will continue to look for ways to further reduce the number of rate classes.

The PIC process was a good attempt by AE, but it fell short of what it could have produced if additional discussion time had been allotted. However, the member of the PIC should be recognized for the time they committed to the process. I was particularly impressed by the time and dedication the residential representatives on the PIC spent and continue to spend on this rate review.

While I disagree with AE on some specific elements of different components of the rates such as cost allocation methodology, variable portion of the electric delivery charge, disclosure of the fuel and energy cost, updates to the GreenChoice program, and the structure of the residential charge to support low-income customers, I did find traceable links back to AE's strategic goals and rate design principles in all aspects of what AE is requesting.

The specific items I disagreed with AE on are associated with the ultimate pricing and not the structure of the solution. The priority given by either AE or the Residential Rate Advisor on competing principles is and will be subject to public debate through the remaining process.

If the EUC or City Council chooses to accept any of my recommendations, they can be applied across any of the options AE has proposed.

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Appendix A:
Joint Recommendations from Residential Members of the PIC

Recommendations of the
Residential Members
Of the
2011 Rate Review
Public Involvement Committee
June 1, 2011

The Residential members of the PIC have met several times to discuss the issue of low income discounts. The Residential Advisor and the Low Income Residential Member participated in five Community Advocacy meetings; we have reviewed survey results, and conducted our own informal surveys. We are prepared as a group to make the follow recommendations:

Low Income Program

- 1) The Low Income discount should be set at \$25/month and should apply equally to individuals on Tier 1 (**Priority 1**) and Tier 2 (**Priority 2**), (as outlined in PIC #3 slide 47).
- 2) The Program should be funded by all customers.
- 3) Residential customers should pay **\$1/month** regardless of consumption. We believe that contributing to the less fortunate is a moral obligation of all citizens and is not a function of energy consumption.
- 4) People should have to opportunity to make additional contributions as they do today.
- 5) Consistent with the system benefit fund in the competitive areas of the State, businesses should contribute **0.0655** cents per KWh.
- 6) We recognize that businesses under term contracts with Austin Energy are under no obligation to contribute toward the Community Benefit Fund. **Those who voluntary contribute should be recognized** both on the AE website as well as in a one-time billing insert thanking them for their citizenship.
- 7) **Automatic Enrollment should be discontinued.** While it is easy for AE to implement Automatic Enrollment, AE has an obligation to its ratepayers to maintain a credible program. In our opinion, a program where no human intervention is required, and discounts are just passed out without anyone requesting or verifying the need for a discount, has no credibility. We suggest the current Automatic Program become an Automatic Eligibility program. AE would still use the same process of identification of eligible individuals it uses today but letters would be sent prior to enrolling people, notifying them of possible eligibility for a discounted program and requiring them to return a post card signing an affidavit, they are the individual identified and requesting the discount. We recognize this is a different process than what is used in the competitive area. However, AE provides funding for 12 months per year; competitive area discounts only apply for 5 months per year.
- 8) To the extent Austin Energy has available funds in its low income program; AE should look at ways to **provide one-time assistance to residential customers facing transitory financial hardship.** Such assistance should be limited both in annual assistance to a customer as well as lifetime assistance to that customer.

Customer Service Charges

We are supportive of increasing the customer service charges and reducing the energy charges on residential customers. We accept that having these higher charges reduces the subsidies from larger users to smaller users. The higher customer service charges allow Austin Energy to expand its Energy Efficiency goals without causing conflict with maintenance of its financial integrity. Little correlation exists between customer consumption and the need for customer service, and in all likelihood customers who are very conservative, and focused on their electric usage are more likely to contact customer service regarding electric issues.

Notwithstanding the statements above we find the increase from \$6.00 to \$18.75, too aggressive for one rate increase. We would ask Austin Energy to consider a smaller increase in the customer charge. We understand that a lesser customer service charge will result in a greater energy charge. We would suggest something in the **\$12 per month range**.

Wires Charges

Austin Energy is unique in its desire to encourage energy conservation, and develop zero energy homes. While these initiatives generally reduce monthly energy consumption, they do not necessarily reduce energy demand during severe weather events; and these events are often the driver of distribution infrastructure.

Alternatives Considered:

Grid Storage fee on customers with distributed renewable generation

Pro: It would only charge customers who were using the system as storage.

Con: It could be perceived as a penalty on customers who were empowering AE strategic initiatives.

Increases in line extension charges

Pro: It places costs on new customers to cover system expansion to serve them.

Con: It creates two classes of customers, and could be perceived as anti-growth.

Therefore, in light of AE Strategic Goals, the cost drivers for distribution systems, and the alternatives we considered, we accept a wires charge or grid access fee is a fair and reasonable method to recover the cost of delivering energy to or from a customer's residence. Again, given this is a new charge, we would ask Austin Energy to consider a smaller increase, in conjunction with a smaller decrease in the energy rate. We would suggest something in the **\$10 per month range**.

Community Solar

The Cost of Service study suggests a substantial rate increase for some customers, and particularly large users of energy. We believe it is important to provide solar options to those customers allowing them to offset some of the rate increase. We suggest an option to achieve this goal would be to allow residential customers the ability to "buy into" a community solar project, wherein they would have a percentage "ownership" in a solar array. This ownership

would not be tied to a specific residence and therefore could be made available to renters or people whose homes are poor candidates for rooftop solar.

- 1) We suggest a program be initiated whereby Austin Energy owns (directly or through a third party) community solar projects and residential customers be allowed to prepay a 20 year lease on the solar production.
- 2) The solar production would offset the residential usage on a Lease share basis. So in effect if I was a 2,500 KWh/mo. customer, and I leased 10% of a plant who produced 10,000 KWh that month I would be billed for 2,500 - (10% of 10,000) or 2,500 - 1,000 = 1,500 KWh at the 1,500 KWh rate.
- 3) This plan would be a supplement to existing plan, and would be targeted at communities (HOA's) who allow Residential PV, but for site specific reasons PV is not viable for the homeowner (minimal south facing exposure, tree covered, etc.).
- 4) Subject to condition 3 above, all electric home communities should receive preferential treatment.
- 5) We suggests installation on park land, City owned or School property, or other Tax exempt properties further reducing potential property Tax burdens. Community Solar projects should be visible as a constant "Green City" reminder. Perhaps "Community Solar Art" projects could be developed to incorporate Solar in outdoor projects.
- 6) Projects should be less than one megawatt in size and should be located in the communities where the people have leased the facility. The sub one megawatt size would also classify as distributed renewable generations, while reducing both transmission cost and transmission/distribution losses.
- 7) We understand the Texas Legislature has just passed a bill that allows installation of Rooftop Solar in areas previously restricted by HOA's. We have heard concerns regarding the effectiveness of this new law. We believe it is important that the City of Austin work with HOA to ensure that all customers have access to renewable generation to offset their usage.

Three or Five Tiered Rates

Based on the Cost of Service Study, energy costs are 6.197 cents/KWh regardless of consumption. RW Beck has proposed two rate options of 3 and 5 Tiers, with the 3 tier maximum rate of 13 cents/KWh or just over twice the cost of service, and the 5 tier maximum rate of 15.319 cents/KWh or just under two and one half times the cost of service. While we recognize that the 5 tier approach provides greater incentives for energy conservation and installation of distributed renewable generation, all electric homes and customers with HOA restrictions on roof top solar installations are disproportionally disadvantaged with punitive rates. **While we are supportive of the 5 Tiered rate structure we are concerned with the**

impact of high priced tiers on high usage customers until they have viable options for installation of either community Solar or rooftop solar.

BIP Allocation Method

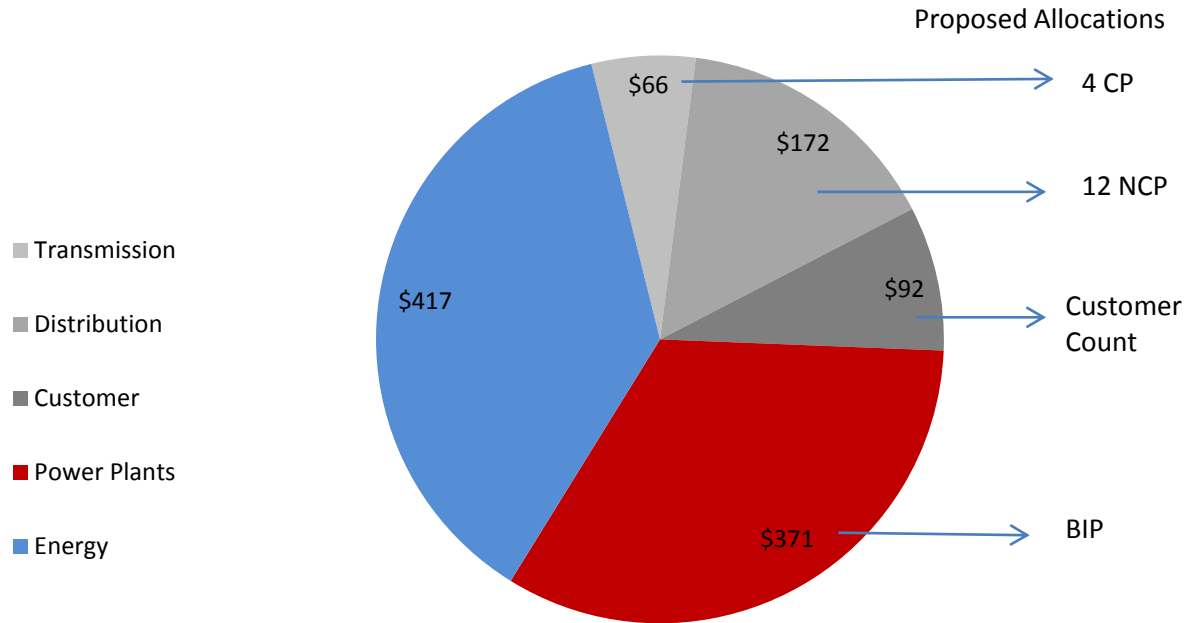
The business environment has changed dramatically in the 17 years since Austin Energy's last Rate increase. The electric market was wholesale deregulated in 1995 and retail deregulated in 2001. In December 2010 the market went through the latest deregulated change with the implementation of a Nodal Market.

Today Austin Energy finds itself in a business climate where it still has the exclusive rights to sell energy within its historic service territory; however, it no longer determines the wholesale price of electricity, even within its own area. Austin Energy also does not determine how or when its power plant will operate. Operational and Dispatch decisions are now made on a statewide basis by ERCOT. ERCOT determines which plants will operate, at what level, how long, and at what price (based on bid prices). Austin Energy no longer has much control over its own generation. It still has the financial obligation to repay the bonds that were issued to build its power plants.

Austin Energy purchases power from ERCOT to serve its load, and ERCOT purchases power from Austin Energy generation, to serve load when it is economic to do so. Because AE no longer directly controls the dispatch of its units, the allocation of costs to customer classes is particularly challenging. In 1997, City Council Resolution 9712-36 was passed, which stipulated a Probability of Dispatch (POD) model for cost recovery. The Base-load Intermediate Peaking (BIP) model is the closest allocation methodology to POD, and is consistent with ERCOT's dispatch of the system. Therefore, we believe it would be consistent with Resolution 9712-36 to adopt the BIP methodology.

In light of the overall rate structure in which includes the ERCOT CP allocation for Transmission costs, the Non-Coincident Peak allocation for Distribution Costs, the customer count allocation for Customer Service Costs, which all favor commercial or industrial users over residential users, the Residential PIC members **support the BIP production cost allocation** method.

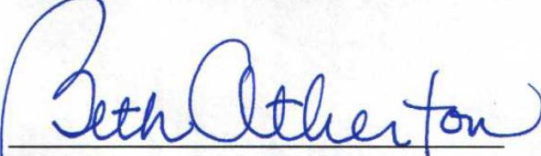
Total Revenue Requirements (millions)




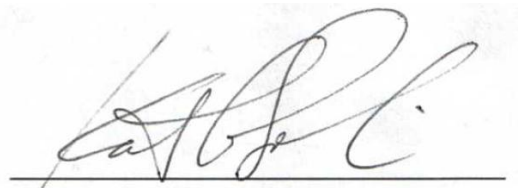
The allocation of 4CP/12NCP and Customer Count favor Business Customers, BIP favors Residential Customers. To the extent the red and gray areas are approximately the same size we find the overall allocation fair.

We would be happy to have discussions on different allocation methodologies as long as such conversations consider the entire rate package and not just the production allocation methodology.

Residential Members of the 2011 Rate Review


Beth Atherton – Residential Low Income


Mark McDonald – Residential At-Large


Kathy Sokolic – Residential – DG


Bob Wittmeyer – Residential Advisor

Appendix B:

Residential Rate Advisor Reports With Questions and Answers

Observations of the Residential Rate Advisor PIC #1

Austin Energy 2011 Rate Review

January 13, 2011 Public Involvement Committee

We would like to commend Austin Energy on a well-run, well-organized and well-facilitated meeting. Informative whitepapers were delivered in advance of the meeting, allowing members to prepare for a more productive meeting.

We applaud Austin Energy's use of the AustinEnergy.com website to disseminate information. The web site is easy to use, has relevant information and is well publicized.

The first meeting of the PIC was primary focused on logistics, process and expectations for future PIC meetings; we did however, cover some basic background and cost data.

The outline for the first PIC meeting included:

1. Public Involvement Process
2. Overview of Austin Energy
3. Rate Review Background and Purpose
4. Overview of Rate Review Process
5. Austin Energy's Current Cost and Rate Structure

Public Involvement Process

The PIC is comprised of fourteen representatives of a diverse set of interests. There are four Residential Representatives, including representatives of distributed generation and low income as well as members at large. The Commercial Representation includes the following constituencies: worship facilities, office buildings, small non-demand and demand customers. Large industrial, long-term contracts, state government, school systems, communities outside the city limits of Austin and environmental interest are also represented.

A potential shortcoming of the PIC process will be development of an outreach program to solicit input from the various rate classes. While each rate class has a representative, the ability of those representatives to do an effective outreach to their constituency in a timely manner will be challenging.

Overview of Austin Energy

Austin Energy is municipal electric utility that is subject to rate review upon appeal to the Public Utility Commission of Texas. While several municipalities in Texas are not subject to Commission oversight, Austin Energy is subject to appellant review of its rates to the Public Utility Commission by customers residing outside the City limits.

A diverse portfolio consisting of coal, nuclear, natural gas, renewable and purchased power contracts makeup the Austin Energy's power supply. Austin has an aggressive mandate to purchase 35% of its generation needs from renewable resources and to achieve 800 MW of energy efficiency improvements by 2020.

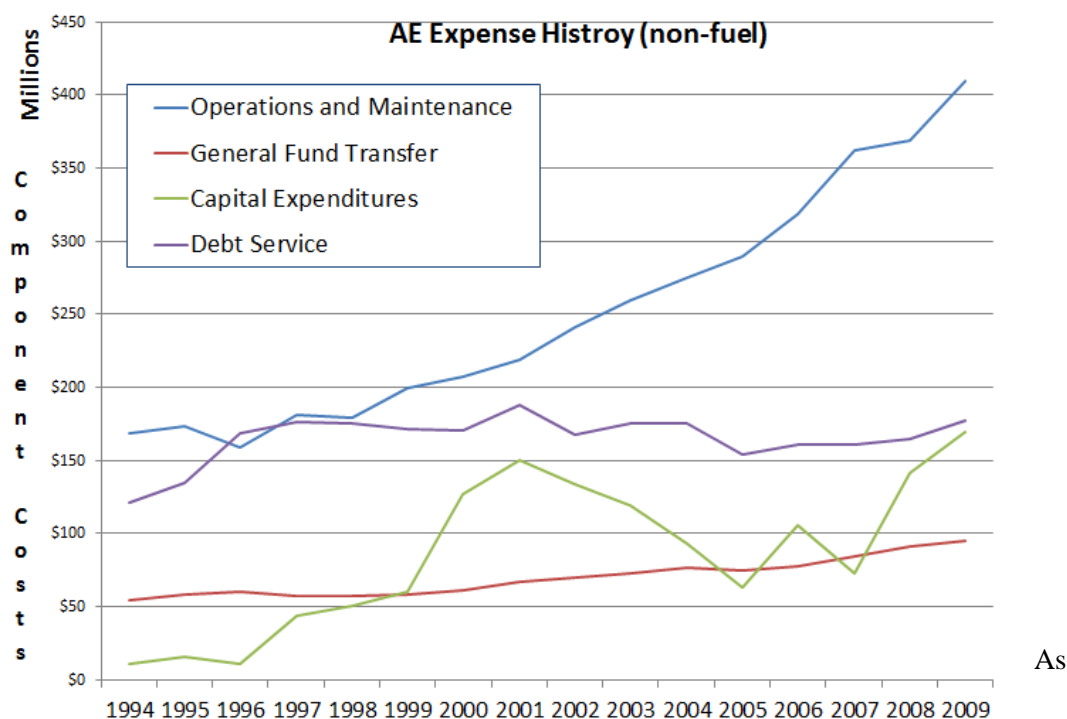
Austin Energy fully participates in the deregulated wholesale electricity market in Texas. As of December 1, 2010 Austin Energy's power plants are dispatched on a statewide level and are no longer directly controlled by Austin Energy.

Rate Review Background and Purpose

Austin has had stable rates for over a decade and a half. However, according to Austin Energy, recent increases in commodity prices, substantial increases in operating costs and a reduction in the rate of sales are forcing it into a rate case at this time.

Comparison of Construction Material Costs 1994 to 2009

DESCRIPTION	1994 PRICE	2009 PRICE	% INCREASE
25 KVA Overhead Transformer	\$505.00	\$2,500.00	395%
50 KVA Overhead Transformer	\$744.00	\$2,815.00	278%
Underground Cable Splice	\$0.59	\$2.00	239%
Street Light Pole Assembly	\$190.00	\$295.00	55%
PVC Elbow	\$1.09	\$1.95	79%
Bare Copper (per ft.)	\$0.28	\$1.10	293%
Insulator	\$3.40	\$4.35	28%
20 inch Manhole	\$12.50	\$18.53	48%
45 Foot Pine Pole	\$194.00	\$419.00	116%
40 Foot Pine Pole	\$150.00	\$336.38	124%



displayed on the second chart above, operations and maintenance costs are a significant driver of the costs increase. We request further detail on the operations and maintenance cost shown above.

Overview of Rate Review Process

It is envisioned that Austin energy will follow a typical rate review process. The steps in this process include Establishing Revenue Requirements, Unbundling the Cost of Service and Development of Prices. It is our understanding, based on comments from RW Beck, that the impact of ERCOT's switch to a Nodal Market is not being considered.

The Residential Rate Advisor is very concerned about RW Beck's intent to ignore one of the most significant changes ever to effect electric utilities in Texas. We fully recognize that the Nodal Market change is new, became effective after the end of Austin Energy's proposed test year, and is difficult to assess. However, we believe that completely ignoring this monumental change is a potential error that may seriously undermine the accuracy of and confidence in the results of RW Beck's analyses. We request clarification regarding how Austin Energy will adjust for a known market change with direct impacts on both the cost of serving the load and changes in dispatch patterns on Austin Energy's power plants.

We are fully supportive of maintaining the financial integrity of Austin Energy; however we would like clarification on how ERCOT costs and revenues will be allocated to customers.

Austin Energy's Current Cost and Rate Structure

The current rate structure follows a fairly typical utility structure with customer, demand, and energy charges along with Fuel adjustments, and a recently added transmission cost recovery mechanism. Austin rates (as of 2009) are competitive with other rates in Texas.

The fixed costs incurred by the utility are clearly not aligned with rate recovery of those costs. The Customer charge which is the only fixed portion of a customer's bill is very low relative to the cost to serve that customer. This has the advantage of incentivizing customers to conserve energy or install distributed generation. However, it has the potential to impact the financial viability of the utility if an excessive number of customers take action to reduce consumption.

Recommendations following First PIC Meeting:

- 1) We suggest that a community outreach program be established at the residential level in which Residential PIC members attend and provide a short (15 minute) introduction to neighborhood associations regarding the upcoming rate case.
- 2) We request a public comment section be incorporated into the PIC meetings. To ensure timely and orderly progress in the meetings we suggest limiting the public comments to perhaps 10 speakers at 3 minutes each starting at 5:30 before PIC meeting. We would be happy to do this at a residential level only, or the process could be expanded to include other constituencies.
- 3) We also suggest conducting a dialog with concerned citizens before the public comment period, perhaps starting at 5:00.
- 4) We request Austin Energy include in the monthly PIC materials, statistical information on unique visitors to the website as a possible gauge of customer awareness and involvement.
- 5) Does AE or the City have any information on the effectiveness of presenting web materials in Spanish for the Spanish speaking population?

Issues from First PIC Meeting

There is an expectation that load growth covers the cost of new infrastructure. Slide 44 on page 22 is unclear to many PIC members; perhaps this slide could be reworked to be clearer

Questions from First PIC Meeting

- 1) Several PIC members are trying to understand why Austin Energy's cost structure is so sensitive to load growth. The data indicate that sales are continuing to increase, perhaps at a slower growth rate than during more robust economic times, but growing nonetheless. Are existing customers subsidizing new customers to a greater extent than they have in the past? Has Austin Energy undertaken any analyses of the incremental costs of serving new load? If so, what is the form of this information and will Austin Energy make this information available?

***Answer:** Historical information on subsidization of costs is not available. Austin Energy's preliminary revenue requirement by customer class will be provided at PIC Meeting #3 on March 2 which will show preliminary estimates of the costs to serve different customer types under the new proposed customer class structure. This will provide some indication of cost subsidization that is and has been occurring under Austin Energy's existing rate structures. Austin Energy has not undertaken an analysis of the incremental cost to serve new load. Anecdotally, however, as costs have risen over time without corresponding changes to rates, exceptional load growth allowed AE to keep up with rising expenses. A reduction in the rate of load growth means AE finds it more difficult to keep up with rising costs. This result is aggravated by a rate structure where fixed costs are recovered in variable charges.*

2) Could we get a copy of slide 22 page 11 in Excel format?

Answer: This information was provided to the Residential Rate Advisor.

3) What is the average residential consumption now vs. 1994?

Answer: Average residential consumption in 2009 was 964 kilowatt-hours a month. Average residential consumption in 1994 was 861 kilowatt-hours a month.

4) What is the average cost of connecting a new residential customer?

Answer: Austin Energy's accounting systems are unable to provide an accurate estimate of connecting a new residential customer at this time.

5) What are the average annual commodity prices from 1994 to date for Gas, Coal, Copper and Steel?

Answer: Historical annual commodity prices are not historical data maintained by the utility as an open record and would require original research by the utility. This information should be readily available online. For instance: here is a link to historical commodity prices for cooper:

<http://www.indexmundi.com/commodities/?commodity=copper&months=180>.

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Observations of the Residential Rate Advisor PIC#2

Austin Energy 2011 Rate Review

Feb 8, 2011 Public Involvement Committee

Questions from the Residential Advisor Recommendations following Second PIC Meeting:

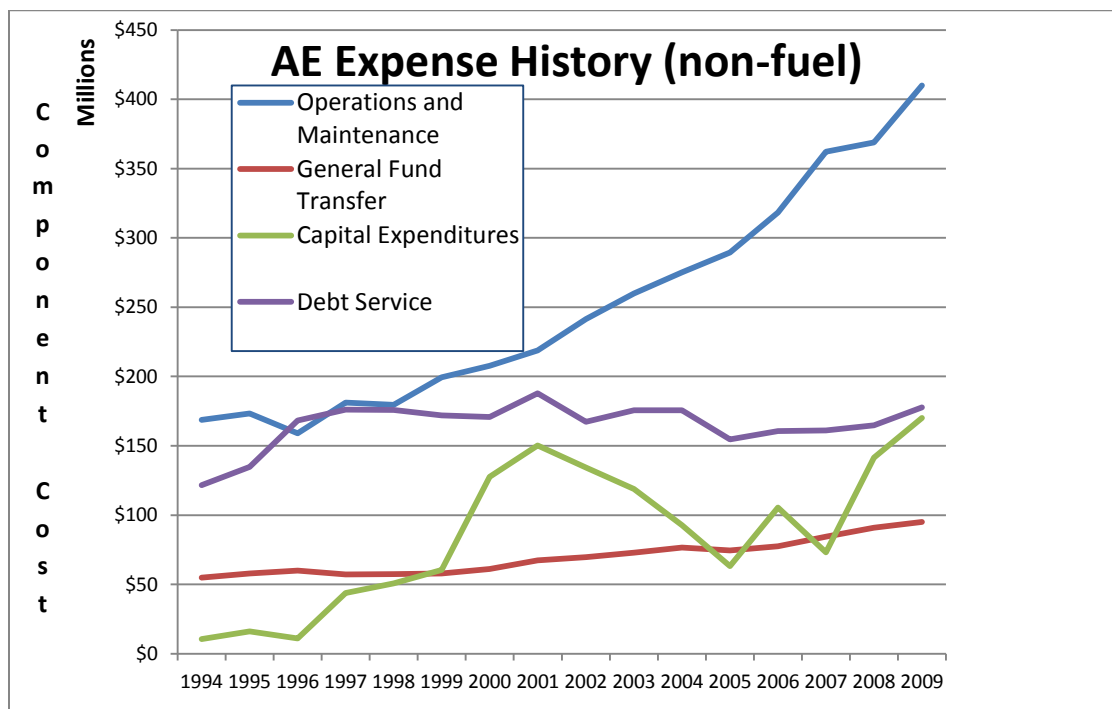
- PIC members are engaged and would like to be part of the discussions, but there is little opportunity for Involvement in the Public Involvement Committee. Time should be allotted to allow discussion and brainstorming among PIC members.

Issues from Second PIC Meeting

- PIC Members are concerned that this process lacks any type of creativity. Some PIC members believe RW Beck has decided what they want, and they are trying to convince the PIC to sell their solution. Members are concerned that this process is not trying to foster understanding, but rather it is a process of telling them what you what them to hear.

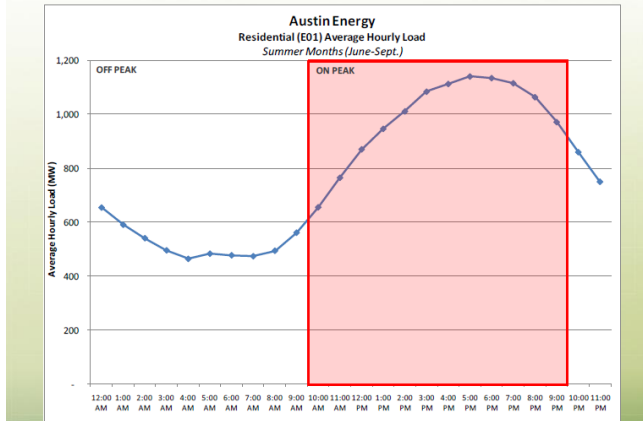
- We would like to thank AE for providing us the raw data from our previous request for PIC 1 slide 22. We have reworked the slide. It seems clear that Operations and Maintenance Costs are a significant driver of this rate case. Would it be possible to get a breakdown of the major components of these costs?

Answer: Other expenses includes: Workers compensation, Liability Reserve, Administrative Support, Trunk Radio, Accrued Payroll, and Revenue Bond Retirement Reserve. These costs are considered support operational.



2. Depiction of Peak hours –several slides in the presentation are provided indicating on-peak hours from 10 am to 10 pm, this definition is inconsistent with other definitions to which the RRA is accustomed. This definition is not consistent with the commercial market for traded energy, nor is it consistent with the expected ERCOT system peak. It would seem that a better depiction of peak hours would be consistent with the expected Coincident Peak hours on the ERCOT system, which determines Austin Energy’s annual Transmission Cost of Service. We are concerned that a definition of “on-peak” that includes a continuous 12 hour block could greatly limit the applicability of Demand Shifting, Distributed Generation and Time-of-Use programs.

Austin Energy Example Hourly Load Profile for Residential Customers



***Answer:** The 12-hour block for on-peak (10 am–10 pm) included in the load profiles presented in the PIC Meeting #2 presentation was used to provide an illustration of hours in which demand was increasing or decreasing up to the peak. The measure of coincident peak hours on the ERCOT system in relation to Austin Energy’s customer base or certain customer classes are used as specific data points in the cost of service analysis. Any discussions of pricing mechanisms that distinguish on-peak and off-peak hours will include analysis of the appropriate off-peak and on-peak periods and may differ from the 10 am-10 pm time period used for illustrative purposes in the PIC Meeting #2 presentation.*

3. Following the first meeting we discussed the perception that Load Growth covered its cost, at this meeting Larry Weis stated to the effect: “while he was not directly aware of AE’s process in general, load growth picks up its incremental cost”. In researching the issue via AE website:

“Line Extension & Electric Switchover Policy

Extension of Service

The City of Austin generally does not charge the customer for the normal extension of service. A customer may be required to make a Contribution in Aid of Construction for the extension of service if the current source is more than 300 feet from the point of delivery. Any required contribution will not include costs for facilities that are normally provided by the City of Austin, such as transformers, meters, and service drops.”

It would appear from the data, referenced in question 3 above that load growth and new load are a major driver of this rate case. Are revisions to the Line Extension policy being considered as part of this rate review?

***Answer:** Revisions to the line extension policy will be considered internally at Austin Energy and may be addressed during or after the rate review.*

4. RW Beck spent some time discussing different levels of transmission voltage, including voltage levels not found within AE service territory. We assume in future PIC meeting, ERCOT transmission charges and relevance to customer classes will be made clear, does AE know in which PIC meeting these discussions will take place?

***Answer:** ERCOT expenses, captured in FERC 556, have been separated into demand and energy related categories and allocated to the customer classes based on a variety of cost causal relationships. For example, the ERCOT administrative fees have been allocated based on the class contribution to the ERCOT 4 coincident peak (CP). Other ERCOT expenses are allocated based on average demand, net energy for load, 4CP or 12CP, depending on the nature of the expense and the production allocation methodology utilized. These expenses are captured in the preliminary revenue requirement and cost of service results which will be presented to the PIC on March 2.*

5. In the first PIC meeting, it was stated that the change to a Nodal market would not be considered as part of the known and measurable differences from the Test Year. How will energy and ancillary service sales and purchases from ERCOT, be allocated back to customers?

***Answer:** R. W. Beck has assumed no off-system sales in the cost of service analysis, but, to the extent that they occur, the benefits of off-system sales will be conveyed to the ratepayers via the fuel adjustment clause.*

6. In whitepaper 2a fuel hedging is discussed, when and where will congestion management hedging in the Nodal Market be discussed?

***Answer:** From a cost of service perspective, congestion management expenses, in general, are assumed to be recovered via the fuel adjustment clause. Because the Test Year will be based on a zonal market (i.e. the traditional market, which is not the nodal market structure), it is assumed that the amount of these congestion management expenses will be the same for Austin Energy in the Test Year as they were in the 2009 audited fiscal year.*

7. From the summary data provided by RW Beck for the customer class <10KW it appears that Residential and GS < 10kw could be merged. Will detailed data be provided to determine the merits of separate classes?

***Answer:** R.W. Beck is completing further analysis of customer class differentials in its cost of service study and will provide further information on the merits of separate classes in future PIC meetings and educational materials.*

8. Does the Customer Database contain home ownership information for low income customers? At issue could programs be developed for low income customers who own their residence and, if so, can AE direct Distributed Generation and Energy Efficiency Programs to them first?

Answer: *Austin Energy's existing customer database does not contain household income or ownership information.*

Comments from the Residential Advisor

Reviewing the E01 Rate, and assuming that the current rate structure for the first 500KWh is subsidized by the larger energy users, we question the fairness of this rate structure.

Rate (E01):	Winter Billing Months November through April	Summer Billing Months May through October
Customer Charge*	\$6.00	\$6.00
Energy Rate (E01)	3.55¢ per kWh, first 500 kWh 6.02¢ per kWh, for all kWh over 500 kWh	3.55¢ per kWh, first 500 kWh 7.82¢ per kWh, over 500 kWh

The data presented at PIC number 2, shows that energy usage by low income residential customers exceeds energy usage of the average residential customer. This can be readily explained by the age of low income housing stock and less energy efficient appliances. If larger users are in-fact subsidizing smaller users, then on average, the low income consumers are subsidizing the standard residential customers. In particular, small users in newer more expensive energy efficient homes, lofts and condo's, are being subsidized by low income customers. We do not believe that was the intent when the rate structure was originally developed.

Existing Residential Class - Customer Profile FY 2009			
	Number of Customers	Average Usage (kWh)	Average Demand (kW)
Customer Group:			
Standard Residential	363,219	991	3.5
Low-income	5,192	1,023	3.55*
Worship	614	7,025	48.7

*August 2010 data

Comments from the General Public:

1. A Resident in the Lakewood neighborhood called and raised an issue relative to all neighborhoods comprised of all-electric homes. Some neighborhoods were endorsed and promoted by Austin Energy in the 1960-70's as all-electric, and natural gas service is unavailable. These homes obviously have higher electricity usage than mixed fuel homes. His questions 1) does Austin Energy still maintain identifiers in its customer database for all-electric homes? 2) has any consideration been given for discounts to all-electric homes. Please see the attached letter?

Answer: *Austin Energy's existing customer database does include an indicator for whether a premise is considered single-fueled (i.e. all electric) or multi-fueled (i.e., electric and gas).*

The accuracy of this indicator is not entirely clear. This topic can be discussed at PIC #4 on residential rate structures.

2. Advocates for the solar community have asked if evidentiary hearings will be held regarding Austin Energy need for a rate increase.

Answer: *Formal proceedings with opportunities for public input will be held at the Electric Utility Commission and are anticipated to occur during October and November 2011. Following the Electric Utility Commission proceedings, the Austin City Council will consider any proposed changes to rates in public meetings.*

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Observations of the Residential Rate Advisor PIC#3

Austin Energy 2011 Rate Review

March 2, 2011 Public Involvement Committee

We are concerned with the number of groups asking for discounts. While there seems to be general agreement that some level of Low Income discounts is needed; many other groups: non-profits, worship facilities, public schools, private schools, small businesses, small locally owned businesses, large businesses, all electric homes, distributed renewable generators, senior citizens and veterans, have requested or discussed discounts in one form or another. If even a token discount were offered to these groups, the impact on the remaining rate classes could be significant.

PIC Meeting # 3

PIC meeting was focused on the Cost-of-Service allocations, and was run in a more participative manor than previous meetings. We went around the table a few times and asked for responses from each customer representative. Unfortunately there was minimal direct discussion between participants; the communication was primarily between the representative and RW Beck. We believe the process would be better if communication were occurring directly between PIC Members.

We would like to thank Austin Energy for the clarification in this white paper regarding ERCOT Transmission Cost and the Coincidence Peak calculation. We concur with the explanation.

RW Beck provided the first look at preliminary cost-of-service numbers by rate class using various allocation methods. Moments after being presented with the cost-of-service numbers members were asked their preference. Not surprisingly each customer class chose the method that favored them, and then attempted to justify why that method was “fairer” than the other methods.

Issues from third PIC Meeting

As noted in RRA PIC Report #2, some PIC Members are concerned that this process lacks any type of creativity. Some PIC members believe RW Beck has decided what they want, and they are trying to convince the PIC to sell their solution. In PIC #3, Austin Energy Staff stated that the BIP had been chosen as the baseline for further analysis. What several PIC members heard was “the BIP Method has been chosen”. It is the RA’s understanding and recommendation, that AE clarify the current status of BIP selection.

Recommendations of the RRA regarding Allocation Methods

- Distribution Function – We agree with the Allocation of Distribution expenses on a 12 NCP basis. At the distribution level equipment is purchased and sized to meet the maximum demand at any given instant. Notwithstanding the Distribution Allocation we recommend Austin Energy reviews its line extension policy.

- Transmission Function – We agree with the allocation of Transmission Cost-of-Service on a 4 Summer CP Basis¹². ERCOT allocates Transmission cost to Austin Energy on a 4 summer CP basis, and AE is passing that cost on to consumers on the same basis.
- Production Function – We agree with the selection of the BIP method, and have provided recent testimony and summary orders from the KCPL rate case adopting the BIP method. We also appreciate that RW Beck considered the ERCOT Nodal Market and the wholesale electric market in Texas as part of their selection criteria.

An Alternate Allocation Method

While we support the BIP method, we recognize that the large consumers have already stated that they will head directly to the City Council to advocate for a different methodology. In anticipation of possible rejection by Council, the Residential Advisor would like to investigate alternatives to the allocation methods provided by RW Beck.

1. Would it be possible for us to get the Austin Energy hourly load data for the Test Year broken out by Customer Class in Excel format?
AE Response: Hourly load data is confidential.
2. If #1 is not possible, could we get a load duration curve for each customer class?
AE Response: Load duration curves for the proposed new customer classes have been provided to the Residential Rate Advisor separately as requested.

Questions from the RA

1. On slide 29, what fuel costs assumptions (delivered fuel assumptions) compose the energy production costs of \$417 million?
AE Response:
The \$417 million (which is rounded from \$416,557,644) is composed of the following:
Direct Fuel Costs (including recoverable system control and load dispatch costs) = \$375,991,015
General Fund Transfer and franchise fees = \$40,790,511
Allocated G&A and other expenses = \$496,683
Allocated other revenues = - \$720,565
Total = \$416,557,644
This includes the recoverable portion of accounts FERC 501, FERC 518, FERC 547 included in the response to Question 3 above. In addition this includes FERC 55 (\$95.5 million), FERC 557 (\$0.5 million), and a portion (\$4.9 million) of FERC 556.
2. Does energy cost change between customer classes as a result different resource allocation methods?

¹² We disagree with the allocation of CREZ Transmission cost on a 4 CP Basis, however we recognize this is beyond AE's control. We believe Transmission developed to deliver off-peak energy should be allocated on an energy basis, not a peak demand basis.

AE Response: Fixed production costs do change while fuel costs do not change.

3. In the BIP allocation, was the capital cost of specific resources allocated to specific customer classes?

AE Response: Yes, direct costs are allocated to the extent that capital costs are reflected in debt service and AE's Capital Improvement Plan (CIP). Indirect costs are allocated based on plant in service.

4. As shown on the attached worksheet, we attempted to calculate the revenue produce from the various allocation methodologies based on the data provided from PIC Meeting 2 and 3. However, based on the reference data. We calculate annual revenue of \$1.136 to \$1.147 Billion, rather than the stated target of \$1.118 Billion. Can you provide assistance on the reconciliation? (we note we do not have specific data for >20 MW customers and we were forced to estimate consumption. We do not believe our assumption on the >20 MW customers' accounts for a significant difference.)

AE Response: In the PIC Meeting #2 presentation, slide #54 actual Fiscal Year (FY) 2009 customer class sales are shown. However, cost of service is based on the weather normalized customer class sales with some other minor adjustments that have occurred since PIC Meeting #2. The analysis based on FY 2009 actual results is slightly different from results based on the adjusted and normalized data.

Comments from the General Public:

4. Eugene Preston (former AE Employee) and long-time consultant in the ERCOT Transmission Arena, provided to all the Residential PIC member's copies of his Testimony regarding allowing customers to purchase direct ownership in Solar and Nuclear Power Plants. Mr. Preston's testimony seems more appropriate for a generation plan discussion. However, there are implications in rate design if such a program were to be adopted by Austin Energy The testimony he provided is attached.
5. The Community Advocacy Group (CAG) met on February 16. The meeting was focused on determining how many people and what qualifications would be required to qualify for an Austin Energy Discount. The potential number of qualified individuals ranged from 380,000 to about 10,000. The group discussed and individually ranked subsets of the low income class. Results of these rankings will be presented at the March 16 CAG meeting.
6. Solar Austin held their monthly meeting on March 9, with a panel, including Larry Weis and Chris Riley. While they discussed the rate review, the bulk of the discussion was clearly related to the Generation Plan. The Solar community would like to see more investment in local solar generation and solar industry development in the Austin area and opposed to additional purchases from Nuclear power plants. Chris Riley discussed the need to increase the customer charge from its current level of \$6.00/month but gave no indication of his view of a proper customer charge.

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Observations of the Residential Rate Advisor PIC#4

Austin Energy 2011 Rate Review

April 6, 2011 Public Involvement Committee

This PIC meeting was focused on the Residential Cost-of-Service and Residential Rate Structures allocation. Like PIC#3 attempts were made to get input from PIC Members in a roundtable discussion. However, there is still minimal direct discussion between participants; the communication was primarily between the representative and RW Beck. We believe the process would be better if communication was occurring directly between PIC Members, and we understand the final June PIC meeting is anticipated to do this.

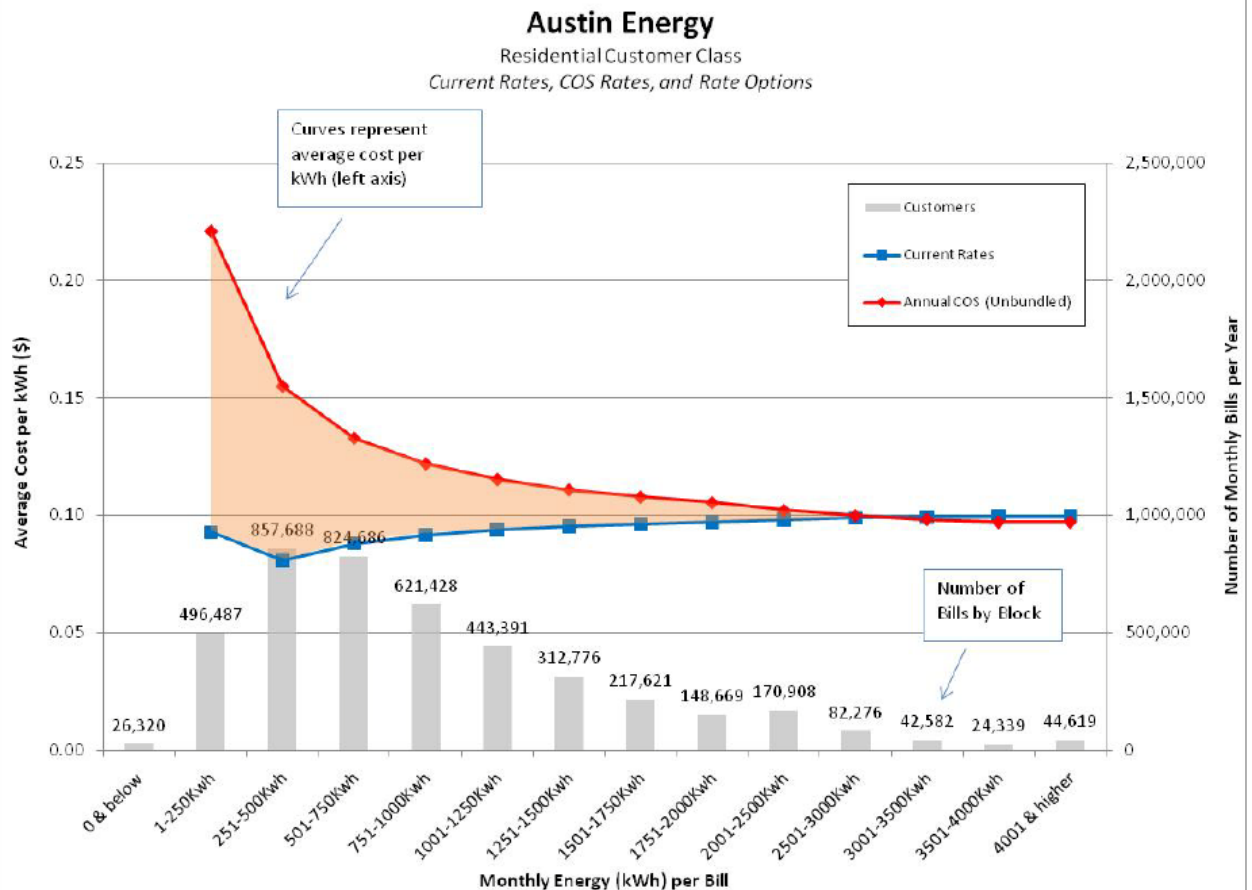
The five main meeting topics were:

1. Cost of Service Gap
2. Customer Service Charge
3. Tiered Rate Structures
4. Low Income Discounts
5. Alternative Rates

Cost of Service Gap

RW Beck provided the preliminary cost-of-service for the Residential Customers. As expected the low usage customers are currently paying below the cost of service. While it was well known and expected that the customers who use less than 500 KWh/month were receiving subsidized rates, what was surprising was the size of the subsidy and the total number of customers who were receiving a subsidy. Users of less than 500KWh/month are paying less than half the cost of service for their electricity, and by our calculations over 97% of the bills issued to residential customers in 2009 were below cost.

Subsidized rates are often used to direct behavior or to achieve a societal goal; at some point the subsidy becomes untenable. We believe Austin Energy has reached that point, and must reduce the gap between the cost of service and the rate. Failure to address the subsidization issue will cause internal political pressures from Austin Energy customers paying the subsidy and external competitive pressure from entities with a desire to serve those customers.



Customer Charge

Residential customers currently pay a \$6.00 per month customer charge; the cost-of-service suggests an increase to \$33.00/month (customer charge of \$18.75 and wire charge of \$14.25). While we have confirmed that is in the range the customers in the competitive areas pay, this fee is primarily collected on energy consumption. We further acknowledge that large Customer Service fees insure the Financial Integrity of Austin Energy and enable AE to pursue its Energy Efficiency/Conservation, and Distributed Generation goals. We are concerned about rate shock for low usage customers. We suggest examining a phased in approach, which would increase the Customer Charge, and lower the energy charge over a multi-year implementation schedule.

Tiered Rate Structure

In addition to changes in the Customer Charge, RW Beck suggested two alternative Tiered Rate Structures a three Tier and a five Tier. We must admit we were surprised by the suggestion that Austin Energy increased the number of tiers. In the competitive areas of the state tiers have been eliminated. We had anticipated that AE would follow the lead of the competitive areas and reduce rather than expand the number of tiers. We will withhold judgment on the suggested tiered approach other than to note that the rates in the highest tiers are over twice the cost of service.

Low Income Discounts (Customer Assistance Program)

As part of our engagement with Austin Energy the Residential Advisor (RA) attended the Community Advocate Group (CAG) meetings, which dealt specifically with Low Income Discounts and this Rate Case. Austin Energy then requested the RRA present a funding proposal at PIC Meeting #4. Our proposal included a \$1.00 per month surcharge on residential customers (consistent with the survey results presented at the CAG meetings) and a .065 cent/KWh charge on Commercial and Industrial customers (consistent with similar charges in the competitive areas). Some of the commercial customers accepted that proposal and tentatively agreed to pay the suggested charge. Options for applying the low income discount were discussed, flat discount \$/Month, or percentage of the bill. PIC members seemed to support a flat discount noting a belief that a flat discount was more in-line with energy conservation goals. It was noted that under the funding proposal suggested and a flat \$25/month discount, AE could serve 32,000 homes compared to the 10,000 currently being served.

Alternative Rates

Austin Energy provided some early concepts for alternative rates for residential customers, including changes to: the GreenChoice® Program, Net Metering rates for PV Customers, and the introduction of Time of Use/Off-Peak Rates. While we understand that Austin Energy has a lot of work to do to develop these rates, we encourage AE to do so. Given the impact the CREZ (Competitive Renewable Energy Zones) are likely to have on off-peak energy prices and the anticipated desire of AE customers to purchase electric vehicles, we believe the Time-Of-Use rates are something that could be appealing to many of AE customers.

Questions from the Residential Rate Advisor:

Low income Customer Questions

We understand that under the current Customer Assistance Program, AE receives Health & Human Services Medicaid enrollment records every March. The list gives AE detailed addressing information in order to match utility service addresses with state benefit recipient addresses. All duplication is removed and the remaining addresses are identified as new participating households. They are enrolled into the program automatically. Once the enrollment is complete a letter is sent informing the household that due to someone in the household being a Medicaid recipient they will now benefit from the discount program offered by the City of Austin.

Is this the process that is envisioned for an expanded program? Does AE initiate any follow up investigations to determine if customers that once met eligibility requirements are still eligible for the CAP? Are energy efficiency program offerings referenced in the letter the customers receive following enrollment?

AE Response: Yes, it is envisioned that an automatic enrollment process will be utilized as one element of an expanded program. Automatic enrollment allows AE to enroll more participants at the least administrative cost. Today, the automatic enrollment process keeps administrative costs down by lowering the cost of staff time, postage, and printed materials. The automatic enrollment process provides more than just a cost savings to AE, it also provides benefit to the customers who participate in the program. This process makes

initial certification less burdensome to customers who are already burdened with a multitude of enrollment requirements for support benefits by utilizing the results of other rigorous eligibility screening processes to determine eligibility for AE's Customer Assistance Program. Automatic enrollment is used in the deregulated market with the participants of the state-wide LITE-UP Texas Program, which provides utility bill discounts to low-income customers in deregulated markets.

All program participants are required to recertify every 12 months on their anniversary date. Austin Energy staff who administer this program run monthly reports to determine who is eligible for recertification and the participants are sent a letter and a new application.

The list of CAP participants is currently being used to identify customers who would benefit from participating in AE's energy efficiency and conservation programs, particularly the Free Weatherization Program which supports low-income customers. Austin Energy also conducts yearly outreach campaigns to this community where presentations on better managing energy consumption and energy conservation tips are provided.

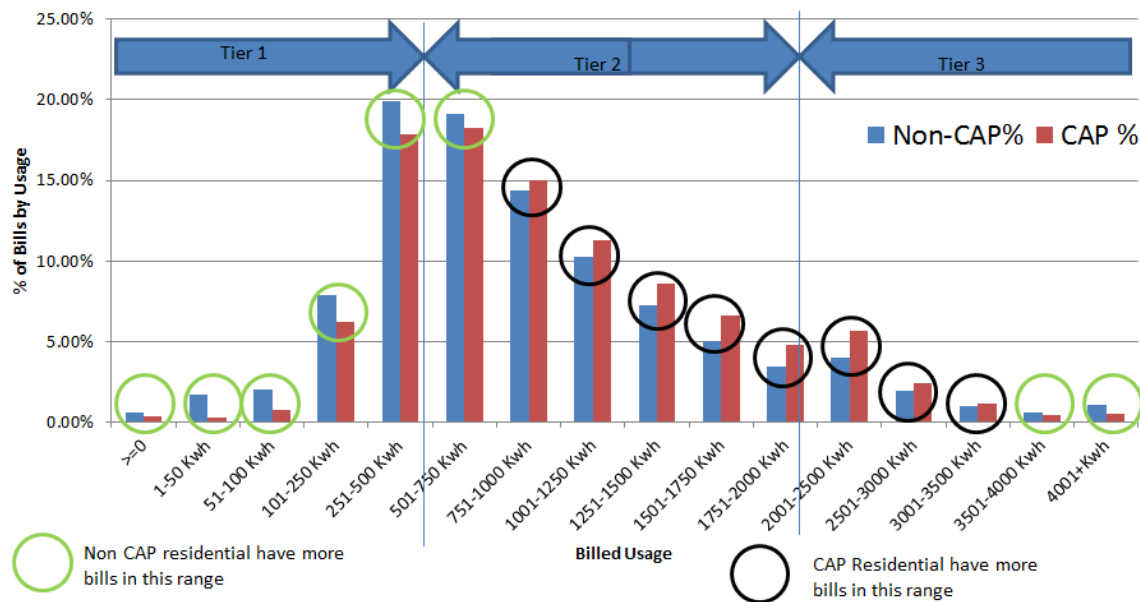
AE is currently funding the CAP Program at about \$3.5 Million annually, was any level of funding included in the Revenue Requirement?

AE Response: The cost of service is not dependent on the level of participation in the CAP Discount Program. For example, if all customers were participants in the CAP Discount Program, it would not change the cost of providing electric service to customers. It would, however, change the revenue generated from customers. Thus, the CAP Program participation impact on rates is a rate design issue to be addressed in rate design and the ultimate prices set for different customers.

Consequently, no particular funding level was assumed in the revenue requirement provided at PIC Meeting #3. However, the projected revenue shortfall conveyed in PIC #3 does reflect a reduced amount of revenue given the increase in the number of participants in the CAP Program since Fiscal Year 2009. This is not an increase in any cost of service but rather a reduction in the revenue projected from residential customers based on the increase in the CAP Program participation since Fiscal Year 2009.

We have normalized and compared the energy use of customers enrolled in the CAP program and customers who are not. Based on our analysis (using slides #11 and 12 from PIC #4), CAP participants will fall in the higher tiers than the Non CAP participants on a percentage basis. We are concerned that CAP enrolled customers may be harmed by the tiered approach being considered. Did AE analyze the impact of the tiered rate structures on CAP customers?

Comparison between Non-CAP Enrolled and CAP Enrolled Customers



AE Response: Austin Energy and R. W. Beck reviewed bill frequency data for both CAP participants and other residential customers in its preliminary rate design analysis. Average usage for CAP participants tends to be slightly higher than for other residential customers. The distribution of bills is similar with slightly more high usage bills for CAP participants as is supported the graphic you provided above. In Fiscal Year 2009, about 10 percent of CAP customer bills were 2,000 kWh usage or greater compared to about 8.5 percent for all other residential customer bills.

Inclining block rate structures sends a strong pricing signal to all residential customers, including CAP participants, to conserve energy and make energy efficiency improvements. By applying this rate structure to all residential customers a uniform, consistent, and important pricing signal is provided in alignment with AE's strategic objectives. Providing an electric utility bill discount through the CAP discount program provides some rate relief to low-income customers but it is important that a pricing signal to encourage conservation and promote energy efficiency be retained. Identifying high usage CAP participants to target with DSM programs such as the Free Weatherization Program is a high priority for AE. This allows AE to provide rate relief to low-income customers through a combined discount program and through demand-side management solutions.

Distributed Solar Questions

Can AE provide Summer (July – Aug) time of use production data by hour for a “typical” PV installation? (We would like to review the actual production of a PV installation in Austin against the ERCOT System Peak.)

AE Response: The requestor was provided two profiles in Microsoft Excel format that allow the user to adjust for size of the system. These profiles are based on solar PV system production data available to AE for commercial, municipal, and school arrays (does not include residential arrays).

What would be the financial impact to AE, if 50% of the users over 2,500KWh/month installed Solar and became 500 KWH/month customers?

AE Response: Determining the financial impact to AE given this scenario would require significant analysis and is dependent upon the future design of rates for solar customers. The reduction of a monthly residential electricity bill by 2,000 kWh would require a solar PV system to be installed on a residential customer's premise of much larger size than is typically installed. The amount of electricity produced by a customer's solar PV system results in reduced revenue to AE based on the utility's net metering policy and rates.

Peak Definition - we note that AE seems to be suggesting summer rates that span from May - Oct, the same as they did in 1994, we suggest that true summer time rates should mirror the ERCOT calculation of Peak June-September. Would it be possible for AE to examine the COS with a shortened summer definition to match the ERCOT definition?

AE Response: Austin Energy appreciates this input and upon further consideration AE is proposing to adjust the seasonal rate structure time period to better align with AE's significant summer peak and improve the pricing signal to reduce peak usage during this time. It is proposed that the summer season be shortened from the existing six-month period (May through October) to a four-month period (June through September) in alignment with the ERCOT summer peak period. This proposed change was not included in White Paper #4 and PIC Meeting #4 which discussed proposed new residential rate structures, but is included in White Paper #5 and PIC Meeting #5 which discuss commercial and industrial rate structures. This proposed change was developed after consideration of this and other feedback received and will be a proposed change for the Residential customer class as well.

The ERCOT peak hour by which they calculate TCOS has historically occurred between Hour Ending 17:00 and Hour Ending 18:00, why is AE using a much longer block of 6 hours in their peak definition?

AE Response: It is correct that AE typically reaches the single highest peak demand each year between 5 PM and 6 PM and this mirrors the ERCOT peak hour in the TCOS. However, which day and month this will occur in each year is not consistent or predictable. For purposes of establishing a peak demand pricing period for the design of TOU rates and other purposes, a longer time period is appropriate so that AE's use of its peak demand generating resources is accurately reflected. An analysis of when AE's

generation peaking units are needed to provide capacity suggests that a 6-hour period is appropriate for setting the peak demand period. This will serve as a more fair and an administratively more practical time period to use for designing TOU rates for the new June through September summer peak period, work which is currently underway.

Alternate Rate Questions

It sounds as if the Alternate Rate designs are still in development, does AE have a tentative implementation date for these new alternative rate structures? Will AE be seeking public comments on any new alternative rate designs?

AE Response: Rate alternatives under consideration for residential customers were presented at PIC Meeting #4. Rate alternatives under consideration for commercial and industrial customers will be presented at PIC Meeting #5. The design of some of these rate alternatives have been presented while for others the design will be based on further analysis. All input, ideas, or comments are welcome related to these alternatives. Proposed new rate structures will be submitted to the EUC for review in September, followed by Austin City Council review. These processes will be open to the public and will include the opportunity for additional public comment.

One of the historical attractions of the GreenChoice® program was fixed rates for 10 years; this 10 year rate was attractive to both "Green" customers and "price risk adverse" customers. Will the new GreenChoice® program contain more frequent cost adjustments or, will it contain a similar 10 year rate lock?

AE Response: Changes to the design of AE's GreenChoice® program are currently under review and AE has not made a decision at this time on the frequency of cost adjustments or the potential for locking in a rate through GreenChoice® for the fuel costs portion of the electric bill.

Will the currently installed meters allow implementation of TOU pricing for Electric vehicles or is a newer or secondary meter required to implement a program designed to encourage electric vehicle use?

AE Response: The automated meters currently installed on most residential premises are capable of providing interval data to support TOU rates for electric vehicles but may not be adequate for complex 2-way communication expected with some electric vehicles. If the meter at a specific location cannot provide data for TOU rates, AE will exchange the meter. The process to calculate billing data for residential TOU customers is currently a manual process and AE is testing automation options.

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Observations of the Residential Rate Advisor PIC#5

Austin Energy 2011 Rate Review

May 4, 2011 Public Involvement Committee

Concerns of the Residential Rate Advisor

Press coverage of Rate Increase

Interest in the Rate Review is increasing, as evidenced by an increase in media coverage. We are concerned that much of what is being published discusses a 10-12% rate increase. We note that often times the direct quote of Austin Energy Staff includes the statement, “The average Resident will see a 10-12% increase”. What is not being quoted is “some residential customers will see a larger increase”. We note that based on the cost of service study, very low usage customers are likely to see a much larger increase. We believe the City Council is being put in an untenable political position of needing to meet the expectations set by the media. We recommend additional discussions with the EUC members and the City Council as well as enhanced media communications, stressing the Cost-of-Service, minimizing cross subsidization, and maintaining the financial viability of the utility while encouraging energy conservation. The message needs to be sold that we are reducing subsidies between and among rate classes.

Customer Service Charge

The increased Customer Service Charge will be the primary discussion topic in this rate case. A simple comparison between the six dollar (\$6) Customer Service charge today and the thirty-three (\$33) charge suggested in this cost of service study is a 5.5 fold increase in rates. “550% Increase sought by AE” will make a great sound bite, is easy to verify and understand. At a minimum AE needs to diligently discuss increased customer charges, reduced energy charges and addition of a wire charge.

In the competitive areas, the average (1,000 KWh) customer pays monthly service charges in the range of \$32-\$43 (see Appendix E). However, these service charges are based on a combination of fixed charges and consumption based charges. These service charges are combined and embedded in the energy rate, and customers never see a “Service Charge”.

Throughout this rate case, we have consistently urged AE to follow the example of the competitive areas; however, we believe AE needs to set its own path regarding customer charges.

Unlike the competitive areas AE is still a vertically integrated utility with specific goals set by the City Council. The combination of energy efficiency goals, demand reduction goals and zero energy homes requires a unique business model, independent of energy consumption.

We believe AE needs to review both the Customer Service change and the Wires Charge and confirm all costs embedded in these classifications. While we concur with the concept, we suggest that AE broaden the Wires Charge to include a Grid Access or Storage component. Zero energy homes will likely use the electric grid for energy storage. It is equitable for them to contribute to the maintenance and upgrade of the grid.

Meeting Review

This PIC meeting was focused on Commercial and Industrial Rate Structures. The main topics of PIC #5 were: Consolidation of the Rate Structure, improved Transparency, Energy Efficiency and reductions in cross subsidization. The proposed Rate Classes are:

- Secondary Service <10KW
- Secondary Service >10KW <50KW
- Secondary Service >50KW
- Primary Service <3MW
- Primary Service >3MW <20MW
- Primary Service >20MW
- Transmission Service

Secondary Service

Similar to the residential rate class AE is proposing increasing the Customer Service Charge and adding a Wires Charge. While we are supportive of this approach from an equity and transparency perspective these charges will cause rate shock to customers with very low usage, or intermittent usage of energy. Perhaps AE could consider some phase in transition for these customers.

As part of this rate case, AE is proposing lowering the demand threshold from 20KW to 10KW for non-demand customers or even removing the demand threshold altogether. The largest rate shock will occur to small entities whose usage is between 10 and 20 KW per month. A 15 KW per month customer with a 20% load factor may see a summer rate increase in excess of 75%. Non-demand customers who are below 20 KW with low load factors will see significant increases in their monthly bills. They will be hit with both the transition from today's non demand rate <20KW to the new demand rate of >10KW as well as the overall rate increase. Small Worship facilities will also see large rate increases as a consequence of moving from a Residential Class to a Secondary Service Class. Large Worship facilities with high load factors will see a decrease in rates as a result of moving to the Secondary Service Class.

One surprising result from the cost of service study was that the bulk of the customers were properly characterized and will see increases consistent with the 10-12% increases being reported in the media. It appears some will even see a decrease in rates.

An option that AE could consider to lessen the impact to low load factor, low usage worship facilities would be a Time-Of-Use pilot that focused on weekend usage. Weekend prices are historically lower than weekday prices, and ERCOT has never set Transmission Coincident Peak on a weekend.

Primary Service

The bulk of Primary Service customers are under special term contracts with Austin Energy. Austin Energy's General Manager Larry Weis invited customers in this class to come and meet with Austin Energy and arrange contracts. While the Cost-of-Service study results are useful to AE account managers, in arranging the pricing of those contracts, the proposed rates are merely a data point in the negotiations.

Transmission Service

As noted in the Primary Service Class, customers taking service at transmission voltage have negotiated rates, and the Cost-of-Service numbers are merely a data point in the negotiations.

Rate Alternatives

We briefly discussed rate alternatives; it is likely that AE will need to try some pilot rates in this area before developing a specific rate for these alternatives.

Questions from the Residential Rate Advisor:

- 1) We note in the General Service proposed rates the Demand Charges in combination with the Energy Charge seems to cover the cost of service though-out the Customer Class (using the Demand Option). The proposed rates are similar with minor variations in the customer charge; could RW Beck examine the feasibility of consolidating the three General Service subclasses into fewer subclasses?

AE Response: The application of the Demand Charge and the Wires Charge on a \$/kW basis to all Secondary Service customer classes would provide AE the option to further consolidate rate classes. As discussed in PIC Meeting #5, two primary drivers of cost of service are monthly load factor and customer size. A rate structure as described above appropriately recovers costs giving consideration to both of these factors. However, the disadvantage of consolidation to a single Secondary Service customer class is that the differences in cost of service and rate design (even though slight) would not be passed to the appropriate customer groups, thus limiting the flexibility of rate design.

- 2) Similar to the General Service notes above, two of the Primary Service Blocks: 3 to 20MW, and greater than 20MW, have similar proposed rates. Given the number of long-term contracts that are negotiated in this rate class, could RW Beck examine merging these two subclasses into one, thereby simplifying the rate structure?

AE Response: As noted in response to the question above, the disadvantage of consolidation to a single primary customer class is a reduction in rate design flexibility.

- 3) With Regard to the recent announcement of a term contract with the State, will the State continue to have its own rate class, or will it a discount rider on the proposed customer class rates?

AE Response: Under AE's proposed customer class design presented at PIC meeting #2, the State will no longer have its own rate classes. As with other special contract customers, the rate for those customers is defined by the contract. At the time at which the contract expires, assuming the contract is neither renewed or a new contract is developed, the customer, and each of its accounts, would be placed into the appropriate customer class.

- 4) (From PIC#4) The proposed tiered residential rate structure seems to be unique in ERCOT. The energy rates in the competitive areas seem to be one rate (cents/KWh) regardless of consumption. Other municipalities have an on-peak/off-peak (summer/non summer) and/or a

low cost first 500/600KWh rate. Is AE aware of any other entities in Texas that have a complex multi-tiered residential rate structure similar to what being proposed?

AE Response: Tiered rates are designed to promote energy efficiency, a goal of AE and the City of Austin. Austin Energy is not aware of any tiered rates that exist in competitive markets in Texas and AE has not conducted a comprehensive review of regulated utilities in Texas to identify instances of tiered rates. The competitive market structure is designed so that REPs compete for new customers and thus there is an incentive for increased kWh sales rather than promoting conservation. Tiered rate structures are often found in regulated markets with strong conservation objectives. In regulated markets investor-owned, municipally-owned, and cooperative utilities frequently offer tiered rates

- 5) It has been stated that the tiered rate structure encourages conservation; does AE or RW Beck have any studies they can share which support this assertion?

AE Response: Additional research is underway regarding this request and will be provided at a later date.

- 6) Does AE have any data on the size of a typical residential PV installation both in terms of KW and monthly KWh?

AE Response: The average system size of solar PV arrays in Austin over the last year is 5 kW which would produce approximately 6,600 kWh of electricity per year on average (note: this will vary depending on the orientation of the array).

- 7) Does AE have any data on the monthly usage (rate tier) a typical residential PV customer would fall in, both before and after the install?

AE Response: Additional research is underway regarding this request and will be provided at a later date.

Meeting with some low-income advocates

On May 18, I attended a meeting with some low income advocates

Their specific areas of concern included:

Regarding the characterization that low income households are not low usage households - they believe as a consequence of the federal program to weatherize these properties, usage has dropped and the data being presented is dated and should be updated.

They also believe that some large facilities (group homes) may be included as part of the Automatic Enrollment process and if the data were scrubbed some of the high usage customers would be removed.

Time of use Rates are a concern. Many low income customers are homebound and have little choice but to use electricity during on-peak periods.

Components of the Customer Service Charge, they want to confirm that the Customer Charge consists of charges that are truly customer related (Customer Service, Drop Charges, Billing, and meter related).

Discounted Rates to the State, and specifically if the State was covering its Cost of Service, or if it was being subsidized by other ratepayers.

We anticipate asking a few questions following PIC meeting 6 to address these concerns.

Questions/Comments from the General Public

Tom S... to Residential Advisor May 9

Mr. Wittmeyer and Mr. McDonald:

Although it has been 17 years since Austin's last rate review, it was about 27 years ago that the Electric Department tried unsuccessfully to impose inclining rates on its customers. Customers appealed the Council's decision to the Texas PUC on the grounds the rates were discriminatory. The PUC found the rates were not only discriminatory; they were punitive and unlawful.

Imagine, if you will, paying one price for your first gallon of gas, a higher price for your second gallon, more for the third gallon, and so on. If the ratepayers of Austin knew what was trying to be done to them under the guise of "efficiency", they would be outraged.

Efficiency and fairness are achieved in all markets with, if anything, a declining rate. You pay less per unit for larger container of a product. Consumers make the important decision of how much a product is worth, not some staff or committee. While I don't suggest a declining electric rate structure, inclining rates are not only unproductive, they are punitive.

System planning engineers are charged with building an electric system that will meet the demands of its electric customers at all times, particularly on that critical day in August or September when the demand is at its greatest. That demand is generated by consumers who want to survive the heat on the hottest day of the year, regardless of the cost. All customers are using the system together at that point, not just those who have consumed greater amounts throughout the year.

The only fair way to spread the cost of operating the electric system among residential customers is to charge everyone the same rate per kilowatt-hour. Small customers will have smaller bills, large customers will have larger bills. It is the way almost every business is operated, leaving the decision of how much they will buy up to each consumer.

Inclining rates are flawed, punitive, unlawful, discriminatory, unfair and unproductive. They don't achieve the goal of efficiency they are purported to achieve. They are a social theory, one that does not hold water and has never been proven to do so.

Please do not allow this hoax on the public to happen.

Tom S.....

Appendix C: Public Involvement Process

The Public Involvement Process began in January 2011 and consisted of 6 monthly meetings. There were 14 members on the PIC with alternates in the event someone could attend a meeting. The Residential customer class was represented by 4 members, the Residential Advisor (Bob Wittmeyer), Residential – Low Income (Beth Atherton), Residential At-Large (Mark McDonald), and Residential Distributed Generation (Katherine Sokolic). All other rate classes, Commercial (3), Worship (1), Industrial (1), Long-Term Contract (1), Government (1), School Systems (1), Outside Austin Communities (1), and Energy Efficiency Environmental (1) were represented.

One week prior to each meeting, PIC members would receive a White Paper which provided background and general information on the upcoming PIC meeting. Generally the Residential members would get together before the PIC meeting to review terminology, and again afterward to review questions generated during the meeting.

All PIC meetings were held at the Town Lake Center, and open to the public. However, public comments were not accepted at the PIC meetings. We would recommend that future PIC meetings allocate some time for public comments.

One of the more challenging aspects of the PIC Process was the lack of specific data. While the White Papers were released a week in advance, most of the tables were blank, and the tables with usable data were not presented until the presentation at the PIC meeting itself. The meetings themselves were very time constrained. Moments after the data was presented for the first time, members were asked their opinions on what they had just been presented. Without time to analyze most members either failed to respond or responded as expected, “more cost for my rate class - Bad”.

In future PIC meeting we would recommend either presenting the data in the White Paper a week ahead of the meeting, or delaying the conversation on newly presented data until the following PIC meeting after members have had a chance to review and analyze the data.

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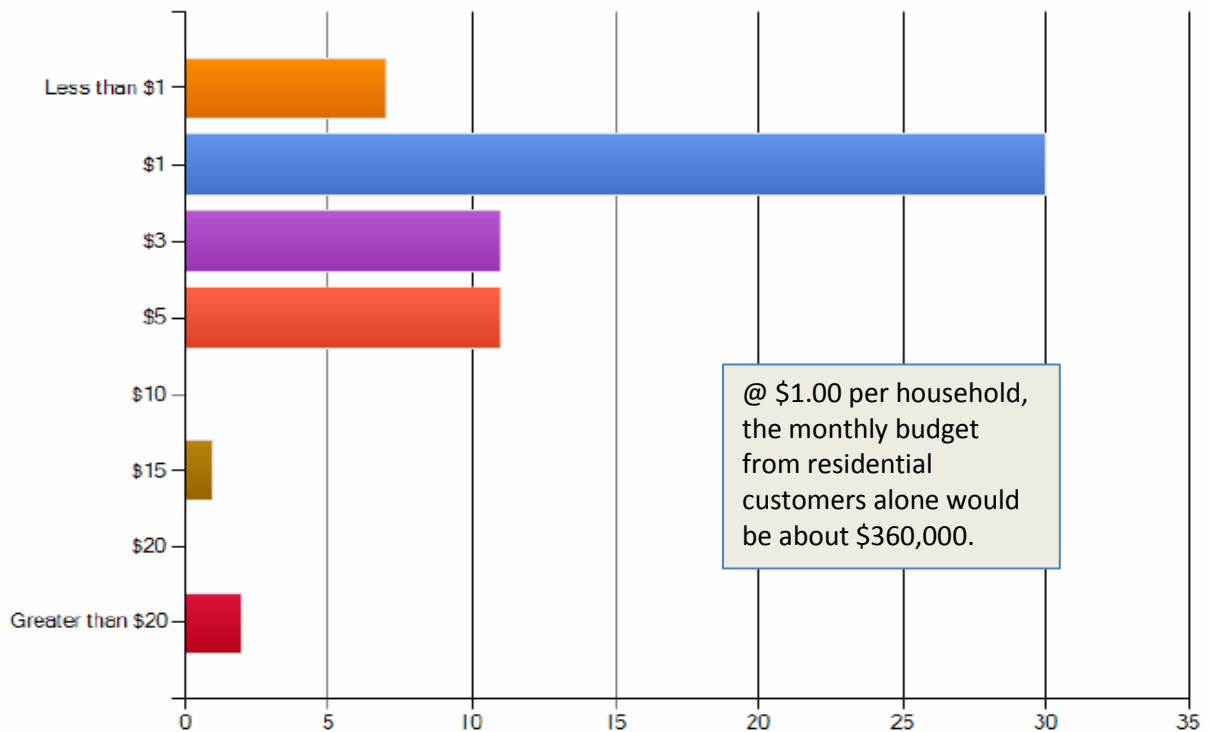
Appendix D: Community Advocacy Group

Both the Residential Advisor and the Low Income PIC Member were invited to the Community Advocacy Group (CAG) meetings which dealt with the Rate Review. We attended all the meetings.

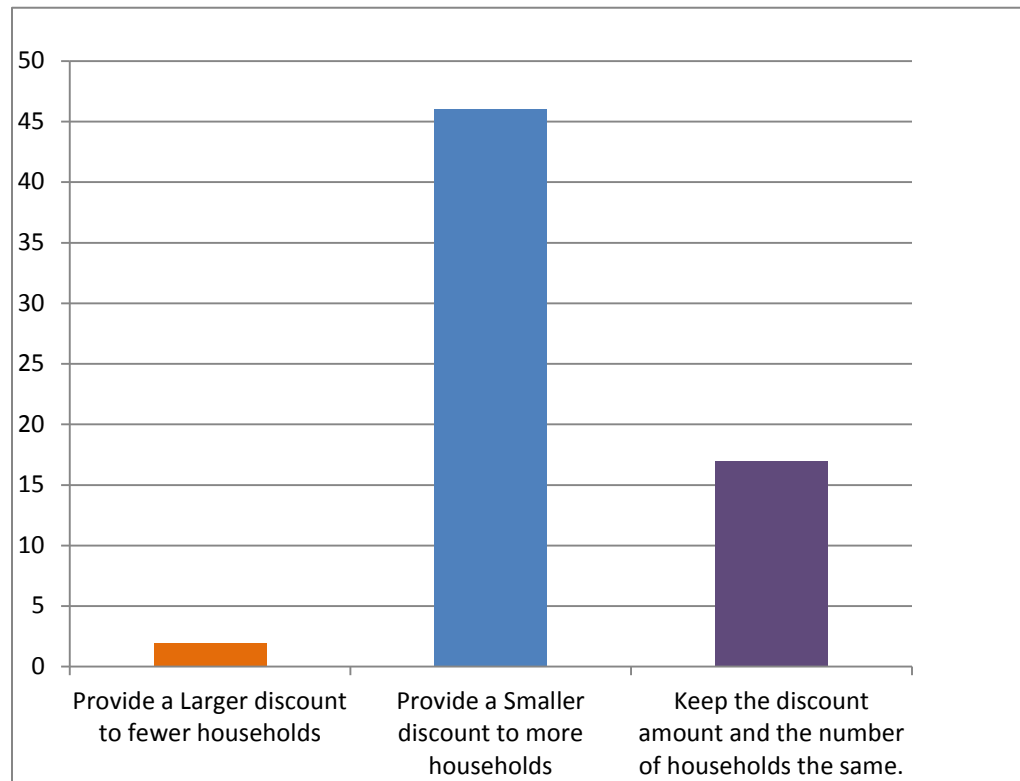
In these meetings we considered different segments of the population who could potentially be included in a discount program. We considered everything from all people over the age 65; to anyone who ever served in the armed forces, to people on various forms of government assistance. A Survey was conducted by Market Research and Product Development. The validity of the sample was questioned by members of the CAG; the results indicated that most people thought all customers should contribute to the program. Residential customers were willing to contribute a dollar per month and people preferred to expand the number of participants and reduce the benefit per customer. These results are consistent with one-on-one conversations with the general public.

At the final CAG meeting, at the urging of a few participants, the CAG declined to make any recommendations to the PIC regarding a low income program and instead requested that the members of the PIC make the final recommendations.

If customers were assessed a fee to support the Low Income Discount Program in the form of a flat monthly line-item on their electric bill, what, in your opinion, would you consider a fair amount?



If Austin Energy had a limit of \$3 million to spend on an annual basis to provide financial assistance to low income customers. How would you prefer these funds be distributed?



(Survey results from Market Research and Product Development)

The Residential Rate Advisor and the Low Income PIC member met with other Residential members of the PIC. All the Residential Members of the PIC then jointly recommended a program as outlined in Appendix A. The program recommended has funding generally consistent with that of the competitive areas, and, if adopted, would allow a 300% increase in the number of customers receiving assistance.

Our recommendations were based in part on the survey data, and concerns for the “working poor” who would not receive the discount but would still be required to fund it.

Appendix E:

Transmission & Distribution Charges for Standard Residential Service in Competitive Areas

CenterPoint (Houston Area) Estimated TDSP charge for **May** 2011 based on flat usage of 1000 kWh - \$38.989

Cost of Service Charges

Customer Charge - \$1.99 Effective 9/01/09 Docket 37234
Metering Charge - \$1.79 Effective 10/10/06 Docket 33255
Trans. Syst. Charge - \$0.005342/kwh Effective 10/10/06 Docket 33255
Distr. Syst. Charge - \$0.017648/kwh Effective 10/10/06 Docket 33255
SBF - \$.000655/kwh Effective 1/1/02 Docket 23926
TCRF - \$0.001898/kwh Effective 3/01/11 Docket 38933, updates on March 1st and September 1st

Financing Order Charges – updates may occur for major changes with 90 days notice

TC - \$0.001515/kwh Effective 11/1/10 Docket 38751, updates annually in November
TC2 - \$0.003162/kwh Effective 12/1/10 Docket 38854, updates annually in December
TC3 - \$0.000399/kwh Effective 2/1/11 Docket 39031, updates annually in February
SRC - \$0.001753/kwh Effective 10/15/2010 Docket 38669, updates annually in October
ADFIT – (\$0.000642)/kwh Effective 10/15/2010 Docket 38670, updates annually in October

Other Tariff Riders-

AMS (Advanced Metering Surcharge) - \$3.05 Effective 2/02/11 Docket 35639
NDC (nuclear decommissioning charge) - \$0.000049/kwh Last revised 11/17/08 Docket 36271
EECRF (energy efficiency cost recovery factor) - \$0.38 Effective 12/17/10 Docket 38213

Oncor (TXU, North Texas) Estimated TDSP charge for **May** 2011 based on flat usage of 1000 kWh - \$32.892

Cost of Service Charges

Customer Charge - \$0.57 Last revised 12/30/09 Dockets 37677 & 35717
Metering Charge - \$2.20 Last revised 12/30/09 Dockets 37430 & 35717
Trans. Syst. Charge - \$0.005918/kwh Last revised 9/17/09 Dockets 37677 & 35717
Distr. Syst. Charge - \$0.017744/kwh Last revised 9/17/09 Dockets 37677 & 35717
SBF - \$0.000655/kwh - Last revised 9/17/09 Dockets 37430 & 35717
TCRF - \$0.000950/kwh Effective 3/01/11 Docket 38938, updates on March 1st and September 1st

Financing Order Charges – updates may occur for major changes with 90 days notice

TC1 - \$0.000630/kwh Effective 8/27/10 Docket 38553, regularly updates annually in August.
TC2 - \$0.000920/kwh Effective 5/28/10 Docket 38262, updates annually in May.

Other Tariff Riders

NDC (nuclear decommissioning charge) - \$0.000169/kwh 1/1/02 Docket 32826
EECRF (energy efficiency cost recovery factor) - \$0.91 Effective 12/30/10 Docket 38217
AMCRF (advance meter cost recovery factor) - \$2.19 Effective 9/17/09 Dockets 37430 & 35717
RCE (rate case expense) - \$0.000036/kwh Docket 36530 (Effective 10/27/09 - 10/26/12)

Oncor (SESCO) Estimated TDSP charge for **May** 2011 based on flat usage of 1000 kWh - \$31.173

Cost of Service Charges

Customer Charge - \$0.57 Last revised 12/30/09 Dockets 37677 & 35717
Metering Charge - \$2.20 Last revised 12/30/09 Dockets 37430 & 35717
Trans. Syst. Charge - \$0.005918/kwh Last revised 9/17/09 Dockets 37677 & 35717
Distr. Syst. Charge - \$0.017744/kwh Last revised 9/17/09 Dockets 37677 & 35717
SBF - \$0.000655/kwh - Last revised 9/17/09 Dockets 37430 & 35717
TCRF - \$0.000950/kwh Effective 3/01/11 Docket 38938, updates on March 1st and September 1st

Other Tariff Riders

EECRF (energy efficiency cost recovery factor) - \$0.91 Effective 12/30/10 Docket 38217
AMCRF (advance meter cost recovery factor) - \$2.19 Effective 9/17/09 Dockets 37430 & 35717
RCE (rate case expense) - \$0.000036/kwh Docket 36530 (Effective 10/27/09 - 10/26/12)

AEP-TCC Estimated TDSP charge for May 2011 based on flat usage of 1000 kWh - \$43.386

Cost of Service Charges

Customer Charge - \$3.19 Last revised 1/30/08 Docket 33309
Metering Charge - \$3.55 Last revised 1/30/08 Docket 33309
Trans. Syst. Charge - \$0.005190/kwh Last revised 1/30/08 Docket 33309
Distr. Syst. Charge - \$0.013915/kwh Last revised 1/30/08 Docket 33309
SBF - \$0.000662/kwh Effective 1/1/02 Docket 28559
TCRF - \$0.001576/kwh Last revised 3/01/11 Docket 38940, updates on March 1st and September 1st

Financing Order Charges – updates may occur for major changes with 90 days notice

TC - \$0.003413/kwh Last revised 1/31/11 Docket 38853, updates in February.
TC2 - \$0.007741/kwh Last revised 8/27/10 Docket 38315, updates for September billing month.

Other Tariff Riders-

NDC (nuclear decommissioning charge) - \$0.000182/kwh Docket 36422 (Effective 12/30/08)
RCS-2 (rate case surcharge) – \$0.000084/kwh Docket 34301 (Effective 5/29/08; **Charge expires last billing cycle in May 2011**)
EECRF (Energy Efficiency Cost Recovery Factor) - \$0.000733/kwh Docket 38208 (Effective 12/30/10)
AMCRF (advance meter cost recovery factor) - \$3.15 Docket 36928 (Effective 12/30/09)

AEP-TNC Estimated TDSP charge for May 2011 based on flat usage of 1000 kWh - \$39.072

Cost of Service Charges

Customer Charge - \$2.94 Last revised 5/30/07 Docket 33310
Metering Charge - \$5.24 Last revised 5/30/07 Docket 33310
Trans. Syst. Charge - \$0.005803/kwh Last revised 5/30/07 Docket 33310
Distr. Syst. Charge - \$0.019007/kwh Last revised 5/30/07 Docket 33310
SBF - \$0.000660/kwh Effective 1/1/02 Docket 23925
TCRF - \$0.001878/kwh Last revised 3/01/11 Docket 38934, updates on March 1st and September 1st

Other Tariff Rider-

RCS (rate case surcharge) – \$0.000067/kwh Docket 34301 (Effective 5/29/08; **Charge expires last billing cycle in May 2011**)
EECRF (Energy Efficiency Cost Recovery Factor) - \$0.000327/kwh Docket 38209 (Effective 12/30/10)
AMCRF (advance meter cost recovery factor) - \$3.15 Docket 36928 (Effective 12/30/09)

TNMP Estimated TDSP charge for May 2011 based on flat usage of 1000 kWh - \$35.185

Cost of Service Charges

Customer Charge - \$4.00 Last revised 2/01/11 Docket 38480.
Metering Charge - \$1.25 Last revised 2/01/11 Docket 38480.
Trans. Syst. Charge - \$0.00/kwh Last revised 2/01/11 Docket 38480.
Distr. Syst. Charge - \$0.017347/kwh Last revised 2/01/11 Docket 38480.
CTC - \$0.003080/kwh Last revised 9/01/09 Docket 36025. (in effect until 11/30/20)
SBF - \$0.000654/kwh Effective 1/1/02 Docket 23920
TCRF - \$0.006900/kwh Last revised 3/01/11 Docket 38937, updates on March 1st and September 1st

Other Tariff Riders

RCE-2 (Rate Case Expense-2) - \$0.000204/kwh, Docket 36025 (Effective 09/01/09 - 08/30/12)
HCRF (Hurricane Cost Recovery Factor) - \$0.001040/kwh, Docket 36025 (Effective 09/01/09 - 08/30/14)
EECRF (Energy Efficiency Cost Recovery Factor) - \$0.71 Docket 38211 (Effective 1/01/11)

Sharyland Estimated TDSP charge for May 2011 based on flat usage of 1000 kWh - \$41.242

* Please note that Residential customers in Sharyland have a choice of a residential TDU tariff that could include demand charges. The charges below are based on the more prevalent residential tariff type which includes fixed charges and per/kwh meter charges.

Cost of Service Charges

Customer Charge - \$3.19 Last revised 10/01/10 Docket 38520
Metering Charge - \$3.55 Last revised 10/01/10 Docket 38520
Energy Charge - \$0.033506/kwh Last revised 10/01/10 Docket 38520
SBF - \$0.000662/kwh Last revised 8/17/07 Docket 32829
TCRF - \$0.000334/kwh Last revised 3/01/11 Docket 38942, updates on March 1st and September 1st

Appendix F: Competitive Bill showing Billing Determinates



P.O. Box 4802
Houston, TX 77210-4802

Member Since 07/30/10

To report outages and emergencies to your regulated TDU please call:

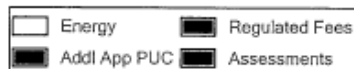
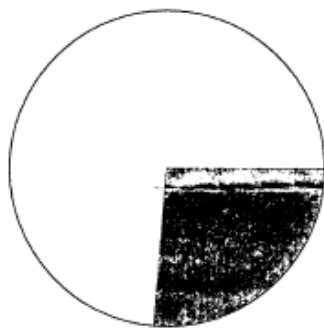
CenterPoint: 1-800-332-7143

Account Number: 2455

Invoice Number: 66418

For billing questions or to cancel your service, please contact StarTex Power at: Phone: 866.917.8271; Fax: 866.477.8576; Email: Service@StarTexPower.com. Customer Service is available Monday through Friday from 7:00am to 8:00pm and Saturday from 9:00am to 2:00pm (CST) or you may visit us online at www.StarTexPower.com.

Monthly Charge Breakdown

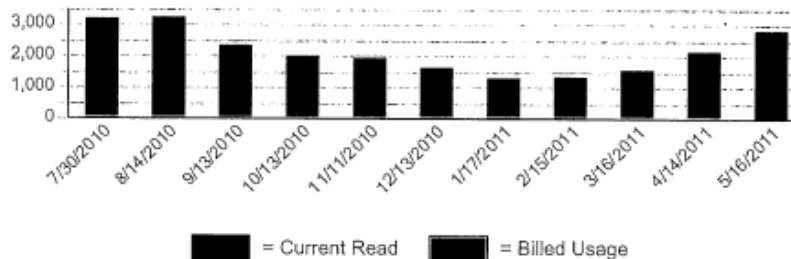


CURRENT CHARGES - DETAILS

Energy Charges		\$277.22
Non-Tiered Rate 0.09710 x 2855.0000 kWh*	\$277.22	
Regulated Fees Included in your Energy Charge:	\$96.31	
CenterPoint Monthly Charge	\$3.74	
CenterPoint kWh Charge	\$92.57	
TDU Surcharges Approved by PUC		\$1.60
Advanced Metering Charge*	\$3.05	
Energy Efficiency Cost Recovery Factor (EECRF)	\$0.38	
TDU Surcharges	(\$1.83)	
Assessments		\$0.46
PUC Assessment*	\$0.46	
TOTAL CURRENT CHARGES		\$279.28
TOTAL CURRENT CHARGES	\$279.28	
The Average Price you paid for electric service this month =	\$0.098 per Kilowatt hour	

* - Included in the calculation of Average Rate per kWh

Monthly Consumption History (kWh)



If you are on a variable rate plan your rate/kWh may increase or decrease on a monthly basis based on market conditions. Visit www.StarTexPower.com/m2m.aspx to view current month to month variable rates. If you would like to avoid these fluctuations go to www.StarTexPower.com and renew your account on a LOW and SECURED Fixed Rate Contract.

❖ DEFINITIONS

- Min Usage Fee – A per ESI-ID fee assessed when the energy consumption value is less than or equal to 499 kWh per billing period.
- kW – Kilowatt, the standard unit for measuring electricity demand, equal to 1,000 watts;
- kWh – Kilowatt-hour, the standard unit for measuring electricity energy consumption, equal to 1,000 watt-hours
- For a comprehensive list of billing terms, please visit www.StarTexPower.com/BillTerms.aspx

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Appendix G: Electricity Facts Label

Electricity Facts Label Reliant Energy Retail Services, LLC Basic Power Plan - 6 Oncor Electric Delivery service area Issue Date: 06/14/2011																					
Electricity price	<table border="1" style="width: 100%; border-collapse: collapse; margin-bottom: 10px;"> <tr> <td style="text-align: right; padding: 2px;">Average monthly use:</td><td style="text-align: center; padding: 2px;">500 kWh</td><td style="text-align: center; padding: 2px;">1000 kWh</td><td style="text-align: center; padding: 2px;">2000 kWh</td></tr> <tr> <td style="text-align: right; padding: 2px;">Average price per kWh:</td><td style="text-align: center; padding: 2px;">10.8¢</td><td style="text-align: center; padding: 2px;">8.2¢</td><td style="text-align: center; padding: 2px;">7.9¢</td></tr> </table> <p>This price disclosure is an example based on the following prices:</p> <table style="width: 100%; margin-left: 40px;"> <tr> <td style="text-align: right;">Base Charge:</td> <td style="text-align: right;">\$9.95</td> <td style="text-align: right;">per billing cycle < 800 kWh</td> </tr> <tr> <td></td> <td style="text-align: right;">\$0.00</td> <td style="text-align: right;">per billing cycle ≥ 800 kWh</td> </tr> <tr> <td style="text-align: right;">Energy Charge:</td> <td style="text-align: right;">4.9¢</td> <td style="text-align: right;">per kWh</td> </tr> <tr> <td style="text-align: right;">Oncor Electric Delivery Charges:</td> <td colspan="2" style="text-align: right;">\$5.87 per month and 2.6997 ¢ per kWh</td> </tr> </table> <p><i>Oncor Electric Delivery Charges include all recurring charges from Oncor Electric Delivery passed through without mark-up.</i></p> <p><i>This price disclosure is an example based on average prices - your average price for electricity service will vary according to your usage. The price you pay each month will consist of the Base Charge, Energy Charge, and Oncor Electric Delivery Charges. The Base Charge will not be included for each billing cycle in which your usage is 800 kilowatt hours (kWh) or more.</i></p>	Average monthly use:	500 kWh	1000 kWh	2000 kWh	Average price per kWh:	10.8¢	8.2¢	7.9¢	Base Charge:	\$9.95	per billing cycle < 800 kWh		\$0.00	per billing cycle ≥ 800 kWh	Energy Charge:	4.9¢	per kWh	Oncor Electric Delivery Charges:	\$5.87 per month and 2.6997 ¢ per kWh	
Average monthly use:	500 kWh	1000 kWh	2000 kWh																		
Average price per kWh:	10.8¢	8.2¢	7.9¢																		
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Energy Charge:	4.9¢	per kWh																			
Oncor Electric Delivery Charges:	\$5.87 per month and 2.6997 ¢ per kWh																				
Other Key Terms and questions	<p><i>See Terms of Service statement for full listing of fees, deposit policy, and other terms.</i></p>																				
Disclosure Chart	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%; padding: 2px;">Type of Product</td><td style="padding: 2px;">Fixed Rate</td></tr> <tr> <td style="padding: 2px;">Contract Term</td><td style="padding: 2px;">6 months</td></tr> <tr> <td style="padding: 2px;">Do I have a termination fee or any fees associated with terminating service?</td><td style="padding: 2px;">Yes. \$150. Applies after the due date of the first bill through the end of the contract term. This fee does not apply if the customer moves, and provides a forwarding address and other evidence that may be requested to verify that the customer moved.</td></tr> <tr> <td style="padding: 2px;">Can my price change during the contract period?</td><td style="padding: 2px;">Yes</td></tr> <tr> <td style="padding: 2px;">If my price can change, how will it change and by how much?</td><td style="padding: 2px;">The price can change to reflect actual price changes that are allowed by Public Utility Commission rules due to changes in law or regulatory charges after the Issue Date.</td></tr> <tr> <td style="padding: 2px;">What other fees may I be charged?</td><td style="padding: 2px;">Fees not included in the price above: Returned Payment Charge: \$30; Disconnect Recovery: \$25; Call Center Access fee: \$5.95; Late Payment Penalty: 5% of past due balances. Information on other non-recurring fees is available in the pricing section of your Terms of Service.</td></tr> <tr> <td style="padding: 2px;">Is this a pre-pay or pay in advance product?</td><td style="padding: 2px;">No</td></tr> <tr> <td style="padding: 2px;">Does Reliant Energy purchase excess distributed renewable generation?</td><td style="padding: 2px;">Yes</td></tr> <tr> <td style="padding: 2px;">Renewable Content</td><td style="padding: 2px;">This product is 20% renewable.</td></tr> <tr> <td style="padding: 2px;">Statewide average for renewable content</td><td style="padding: 2px;">The statewide average for renewable content is 12%.</td></tr> </table>	Type of Product	Fixed Rate	Contract Term	6 months	Do I have a termination fee or any fees associated with terminating service?	Yes. \$150. Applies after the due date of the first bill through the end of the contract term. This fee does not apply if the customer moves, and provides a forwarding address and other evidence that may be requested to verify that the customer moved.	Can my price change during the contract period?	Yes	If my price can change, how will it change and by how much?	The price can change to reflect actual price changes that are allowed by Public Utility Commission rules due to changes in law or regulatory charges after the Issue Date.	What other fees may I be charged?	Fees not included in the price above: Returned Payment Charge: \$30; Disconnect Recovery: \$25; Call Center Access fee: \$5.95; Late Payment Penalty: 5% of past due balances. Information on other non-recurring fees is available in the pricing section of your Terms of Service.	Is this a pre-pay or pay in advance product?	No	Does Reliant Energy purchase excess distributed renewable generation?	Yes	Renewable Content	This product is 20% renewable.	Statewide average for renewable content	The statewide average for renewable content is 12%.
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Statewide average for renewable content	The statewide average for renewable content is 12%.																				
<p>Reliant Energy Residential Services (dba), PO Box 3765, Houston, TX, 77253 reliant.com, e-mail: service@reliant.com, phone: 1-866-RELIANT, 24 hours a day / 7 days a week PUCT Certificate Number #10007</p>																					

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Appendix H: Pacific Gas & Electric Rate Tiers

PG&E Proposes Simplified System of Electric Rates Forty Percent Cut in Top Rate Would Limit Summer Bill Shocks

http://www.pge.com/about/newsroom/newsreleases/20100323/pge_proposes_simplified_system_of_electric_rates.shtml

Release Date: March 23, 2010

Contact: PG&E External Communications (415) 973-5930

SAN FRANCISCO, Calif. – Pacific Gas and Electric Company (PG&E) yesterday asked the California Public Utilities Commission (CPUC) for permission to streamline its system of residential electric rates next year to make them simpler and more equitable for customers across usage levels.

PG&E proposes to replace the complex five-tiered rate system with three tiers and to lower the rate, or price, that customers in the top tier pay for electricity. In a tiered system of rates, as required in California, customers pay more per unit of energy as energy use increases. The lowest band, or tier, is called "baseline."

Customers in Tier 5 currently pay almost 50 cents per kilowatt-hour (kWh), compared to 11.9 cents for Tier 1 (baseline) usage. Under PG&E's new proposal, the top rate that customers would pay—in Tier 3—would be 29.8 cents per kWh. While still promoting energy conservation, the new top rate would limit high summer bills when exceptionally hot weather drives more electricity use for air conditioning.

"We've heard our customers tell us, loud and clear, that rates for those who use the most energy are just too high," said Tom Bottorff, senior vice president of regulatory relations at PG&E. "Our proposal would set rates more fairly and equitably, and help avoid summer bill shocks, without sacrificing the incentives to use energy more efficiently."

Monday's proposal is just the latest in a series of steps PG&E has taken to address customer concerns over rates, in addition to a [wide range of energy-saving programs](#) that help lower monthly bills. [In interim proposals filed with the CPUC last month](#), PG&E asked permission to cut average rates 2.5 percent and to narrow the wide gap in residential rates between Tiers 3 and 5. Those proposals would take effect June 1, if approved.

In its new proposal, which would take effect next year, PG&E would make several other changes in its residential rates to spread costs more equitably among customers:

- In 2011, the baseline level of usage in Tier 1 would be reduced from 60 percent to 55 percent of average use in each climate zone, which is more in line with baseline levels at other major California utilities. As a result, more consumption would be priced at Tier 2 and Tier 3 levels. Some customers would see an increase in bills, while others would benefit from the reduction in rates at the highest tiers.

- Lower-income customers who qualify for the [California Alternate Rates for Energy \(CARE\)](#) program, whose rates today are at their lowest level in 19 years, would begin paying a higher price for usage that extends beyond the second tier, in accordance with legislation passed in 2009. This new price would still represent a substantial saving compared to rates paid by non-CARE customers. Customers who need help can also take advantage of a host of other [financial assistance programs](#) administered by PG&E.
- Customers would pay a flat monthly fee of \$3.00 (or \$2.40 for CARE customers) to cover fixed costs of service, such as the distribution system that connects customers to the electric grid. Such charges are commonly assessed by investor-owned and municipal utilities. The revenue from this charge would permit electric rates—the cost per kilowatt-hour—to be lower than otherwise.

Separately, as part of a regular CPUC review of utility costs, PG&E today proposed changes to better reflect the actual costs of providing electric service among various customer classes. As a result, costs allocated to residential customers would drop 2.9 percent, but would increase 4.6 percent for small business customers and 6.0 percent for agricultural customers. (All figures apply to "bundled service" customers who receive energy supply and distribution services from PG&E.)

Typical residential customers who use the system average of 550 kWh per month would see a \$10.73 increase in average monthly bills in 2011, from \$77.40 to \$88.13. (The exact figure will depend on the customer's climate zone and baseline allotment.) Customers who use 850 kWh per month would see an increase of \$0.84 in their average bill, from \$176.77 to \$177.61. Customers who use 1,500 kWh would see a decline in average bills of \$108.62, from \$480.08 to \$371.46. [See charts for residential impact by usage level.](#)

Pacific Gas and Electric Company, a subsidiary of [PG&E Corporation \(NYSE:PCG\)](#), is one of the largest combined natural gas and electric utilities in the United States. Based in San Francisco, with 20,000 employees, the company delivers some of the nation's cleanest energy to 15 million people in Northern and Central California. For more information, visit www.pge.com/about/.

Appendix I: Issues Outside the Scope of this Rate Review

Austin Energy Line Extension Policy

As AE pointed out in the table below from PIC meeting #1, Slide #23 the change in materials costs since 1994 has been significant.

I believe AE should consider revisions to its line extension policy, to recover a greater share of the new construction infrastructure costs.

Comparison of Construction Material Costs 1994 to 2009

DESCRIPTION	1994 PRICE	2009 PRICE	% INCREASE
25 KVA Overhead Transformer	\$505.00	\$2,500.00	395%
50 KVA Overhead Transformer	\$744.00	\$2,815.00	278%
Underground Cable Splice	\$0.59	\$2.00	239%
Street Light Pole Assembly	\$190.00	\$295.00	55%
PVC Elbow	\$1.09	\$1.95	79%
Bare Copper (per ft.)	\$0.28	\$1.10	293%
Insulator	\$3.40	\$4.35	28%
" 20 inch Manhole	\$12.50	\$18.53	48%
45 Foot Pine Pole	\$194.00	\$419.00	116%
40 Foot Pine Pole	\$150.00	\$336.38	124%

Line Extension & Electric Switchover Policy

Extension of Service

The City of Austin generally does not charge the customer for the normal extension of service. A customer may be required to make a Contribution in Aid of Construction for the extension of service if the current source is more than 300 feet from the point of delivery. Any required contribution will not include costs for facilities that are normally provided by the City of Austin, such as transformers, meters, and service drops."

Load growth and new load are major drivers of this rate review. Cost sharing with developers on new infrastructure could lower the burden on existing customers.

Customer Assistance Program Administration

As outlined in Appendix A, The residential members of the PIC believe administration of the CAP should be modified. Since we made that recommendation, I received the following email from an unwitting “participant” in the program:

Mr. Wittmeyer,

Thank you for offering to be my representative concerning my City of Austin Electric bill.

I am both embarrassed and mad. I believe I am an example of a capable person to pay my bills, but now being given aid and assistance on the backs of others. This is not what should be happening.

Background:

We have lived in Austin 28 years and proud to have participated in the Green Energy Programs over the years.

This included signing up for the Wind and Solar programs when offered 10 years ago. Even though they were more expensive at the time than regular fossil fuel rates, we were happy to participate.

When my electric bill arrived this week, I noted there was no mention about the Green program savings, I called to find out what happen[ed] to my Green Savings and a very helpful lady researched my record. The results were that I had been taken off the program in March 2011, and placed on another program where I would be given “Credit Fuel Charges” and “Credit Customer Charge.”

During the conversation, I learned that these “Credits” were “given to me because I deserved them.” I was not aware that this was a customer assistance program (charity). Please see the attached bill. It shows that I was given \$86.72 on a bill of \$231.37 or 37.5% rebate or “credit.”

What qualifies me for this “charity money”? No one asked how much I earn, if I am on welfare, etc. or if I needed assistance to pay my bill. I don’t want to receive this if it means that others have to make up my short fall.

I would assume there are hundreds of people just like me, who are receiving this unqualified charity benefit.

I did not ask to join this program, nor did I know I was on this program, until I called on a completely unrelated issue and found out by accident that I was on the program. I think that the free hand out is not appropriate unless a means test is administered to show a need.

Should you need additional information, I will be pleased to assist

Fred

I believe the email above addresses our concerns with the existing program perfectly. There is no low-income person living in this household and the homeowner is unaware of any request he made to be placed on the program. Throughout discussions with AE, I and the PIC low-income representative were assured that the program was credible.

We believe a minor change to the program from one of automatic enrollment to automatic eligibility would solve the problem, and address the concern expressed above. Furthermore, we believe it would address the concerns of others regarding AE failing to “scrub the data” regarding monthly consumption of those in the program.

Under today’s automatic enrollment program, any household that contains a low -income individual (as identified in the county database) is automatically given a discount on their electric bill, regardless of the actual income level of the household. (i.e., grandma lives with us, she is on Supplemental Security Income therefore, we are a low-income household).

While it is easy for AE to implement automatic enrollment, AE has an obligation to its ratepayers to maintain a credible program. In our opinion, a program where no human intervention is required, and discounts are just passed out without anyone requesting or acknowledging a need, has no credibility.

The goal of the CAP program needs to be to help as many people as possible who need help, not to make it easy for AE to distribute money.

AE could still use the same process of identification of eligible individuals it uses today¹³. But letters should be sent prior to enrolling people, notifying them of possible eligibility for a discounted program, and requiring them to return a post card, phone call, email, or other method for requesting the discount.

We recognize this is a different process than the one used in the competitive areas of the State. However, AE provides funding for 12 months per year while competitive area discounts are for 5 months per year.

We believe that a program which redistributes \$7-9 million per year of customer money needs to have credibility; as demonstrated from the letter above, today’s program does not.

¹³ We still have concerns about AE accessing confidential records, but that is a different issue.

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Appendix J: Austin Energy 2011 Decision Point List

Issue	Austin Energy Staff Recommendation ¹⁴	Residential Rate Advisor	Other Parties	EUC
1) Achieve Revenue Requirement	Collect revenues from all customer classes sufficient to fund core functions and the utility's strategic objectives. Increase overall revenues based on the Test Year 2009 results from \$1,004,133,897 to \$1,111,135,775, or an 11.1% increase.	Concur as Austin Energy must collect its revenue requirement.		
2) Align Rates by Customer Class with Cost of Service (minimize subsidies across customer classes)	No customer class should pay greater than 105 percent or less than 95 percent of its cost of service in the implemented new rates, with the condition that the utility achieve its total revenue requirement through implemented rates with the exception of contract customers.	Concur with this metric. However, the selection of the cost of service model upon which the 105 percent and 95 percent are calculated, defines the true impact. The Average and Excess Demand (AED) method places 20% more cost on residential customers than the Baseload, Intermediate, Peak (BIP) method.		
3) Set Policy Bounds on Customer Class Alignment with Cost of Service	Set the Residential, Secondary Voltage <10 kW, and Lighting customer class target revenues at 95 percent of cost of service and set all other customer classes at 104 percent	Concur with this metric. See Issue #2, regarding cost allocation differences between the BIP method and the AED method.		

¹⁴ Preliminary; to be finalized for final proposal to the Austin City Council based on consideration of public input and input from the EUC.

Issue	Austin Energy Staff Recommendation ¹⁴	Residential Rate Advisor	Other Parties	EUC
	of cost of service.			
4) Mitigate Impacts Within Customer Classes	(a) No residential customer electric bill below 1,500 kWh should increase by more than \$20 a month on average. (b) Transition non-demand secondary commercial customers to demand rates.	(a) Concur with Austin Energy. (b) Concur – Rate shock will be reduced with a transitional plan for non-demand customers, as they are brought up to cost of service.		
5) Select a Production Demand Cost Allocation Method	Apply the Average and Excess Demand Method to 1) recognize that customers benefit from both capacity and energy produced from generation assets; 2) to reward high load factor and energy efficient customers; 3) to be consistent with methodologies commonly used in Texas and around the country.	Disagree - Apply the BIP Method. Consistent with the Public Utility Commission of Texas (PUCT)-ordered nodal market. Recognizes that customers benefit from both capacity and energy produced from generation assets; and is consistent with methodologies used around the country. The BIP method is a simplified version of the Probability of Dispatch method previously approved by PUCT and the City of Austin. The PUCT has not made any determination regarding cost allocations in a nodal market. Furthermore, the BIP method is consistent with the use of Austin Energy's generation resources by the Electric Reliability Council of Texas (ERCOT).		

Issue	Austin Energy Staff Recommendation ¹⁴	Residential Rate Advisor	Other Parties	EUC
6) Consolidate Customer Classes	Consolidate current customer classes from 24 to 9 classes and develop classes based on cost of service differentials, including unique service requirements and electricity usage characteristics.	Concur with the reduction in classes and recommend that AE continue to monitor differences in consumption within the secondary and primary customer classes and seek future reductions in the number of customer classes.		
7) Update Rate Structure for Residential Customers	Unbundle rates and apply a customer charge, electric delivery charge, energy charge, regulatory charge, community benefit charge, and energy adjustment.	Concur with the direction and suggest complete unbundling of the electric delivery charge from the energy charge to be consistent with Austin Energy's transparency principle and the Texas deregulated market.		
8) Update Rate Structure for Commercial and Industrial Customers	Unbundle rates and apply a customer charge, electric delivery charge, energy charge, demand charge, regulatory charge, community benefit charge, and energy adjustment.	Concur with the direction and suggest complete unbundling of the electric delivery charge from the energy charge to be consistent with Austin Energy's transparency principle and the Texas deregulated market.		
9) Update Fuel and Energy Market Costs Recovery Mechanism	Recover Test Year fuel-related costs in the energy charge and apply an energy adjustment in future years to account for future fluctuations in fuel-related and energy market costs.	Disagree – Rates are more transparent and GreenChoice® Program is easier to understand if fuel and energy discrete line items.		

Issue	Austin Energy Staff Recommendation ¹⁴	Residential Rate Advisor	Other Parties	EUC
10) Apply Regulatory Charge	Add a regulatory charge to recover costs associated with transmission and ERCOT fees and remove these costs from the energy charge.	Concur as these charges are beyond Austin Energy's control.		
11) Apply Community Benefit Charge	Add a community benefit charge to recover costs associated with the Customer Assistance Program, service area lighting, and energy efficiency programs and remove these costs from the energy charge.	Concur as the entire community benefits from these programs. Change makes rates more transparent.		
12) Update Summer Rate Period	Shorten summer rate period from six (May – October) to four months (June – September) so that stronger pricing signals can be provided during the summer time period and to align with ERCOT.	Concur as this was one of my recommendations during the Rate Review Public Involvement Committee process.		
13) Apply Residential Customer Charge	Raise the current residential customer charge from \$6 to \$15 and remove this portion of residential customer-related costs from the variable energy charge.	Concur as the need to contact customer service is not a function of electric delivery. During AE's Rate Review Public Involvement committee meeting process, the residential representatives on the PIC recommended a \$12 customer charge.		

Issue	Austin Energy Staff Recommendation ¹⁴	Residential Rate Advisor	Other Parties	EUC
14) Apply Residential Electric Delivery Charge	Move distribution costs from the energy charge to an electric delivery charge for residential customers set at \$10 and remove this portion of residential distribution costs from the variable energy charge.	<p>Partly Disagree – There is a cost of meter reading systems, meter drops, tree trimming, etc. that is unrelated to energy consumption. Therefore we agree with the \$10 per month fixed electric delivery charge.</p> <p>However, there are other electric delivery costs that are driven by demand (a measure of consumption). I recommend adding a second electric delivery charge to be consistent with deregulated areas and removing all electric delivery charges from the energy charge. This change is consistent with Austin Energy’s transparency and understandability principles. It also allows comparisons to be made with the deregulated market.</p>		
15) Implement Residential Inclining Block Tiered Rate Structure for Energy Charge	Expand existing residential inclining block rate structure from two tiers to five tiers to provide stronger conservation and energy efficiency pricing signals to the highest users in the residential customer class.	<p>Concur - This will be one of the most complex rate designs in the country and, therefore, does not follow the AE design principle of “simple and understandable” rates. But it does follow Austin Energy’s strategic goal of incentivizing energy efficiency. I believe more weight should be given to goals than principles and, therefore, this</p>		

Issue	Austin Energy Staff Recommendation ¹⁴	Residential Rate Advisor	Other Parties	EUC
		change is appropriate.		
16) Fund Customer Assistance Program	Fund the Customer Assistance Program with a Community Benefit Charge sub-component of \$0.00065/kWh to all customers.	Disagree - Recommend a flat fee consistent with survey results for <u>residential customers</u> of \$1/month. A \$1 fee is simple to understand, and transparent and therefore follows those principles. It will provide a stable funding source throughout the year, and will scale with the number of residential customers served by Austin Energy. Concur - with the proposed funding mechanism for non-residential customers.		
17) Apply Commercial and Industrial Customer Charge	Apply customer charge at or near cost of service for commercial and industrial customers.	Concur		
18) Apply Commercial and Industrial Electric Delivery Charge	Unbundle rates and apply an electric delivery charge on a \$/kW basis at or near cost of service for all commercial and industrial customers.	Concur		
19) Apply Commercial and Industrial Demand Charge	Expand use of demand charges to all commercial and industrial customers and implement a three-year phase- in of demand-related charges (electric delivery and demand charge on a	Concur - This phased-in approach will reduce the rate shock on these customers as they transition to demand rates.		

Issue	Austin Energy Staff Recommendation ¹⁴	Residential Rate Advisor	Other Parties	EUC
	\$/kW basis) for the current non-demand customers.			
20) Apply Power Factor Adjustment for Commercial and Industrial Customers	Apply a power factor adjustment of 90 percent to all commercial and industrial customers with the exception of current non-demand customers during the phase-in period and customers with demand less than 10 kW.	Concur – Austin Energy is required by ERCOT to maintain a power factor of 97 percent so this is a good first step. The costs for AE to correct power factor to 97 percent are currently placed on all customers. Following this change, Austin Energy should continue to monitor the cost to correct the distribution power factor and determine if a greater adjustment is warranted.		
21) Implement Time-of-Use Alternative Rates	Implement a time-of-use alternative rate for residential customers with a 2,000 customer enrollment cap and implement time-of-use rates for each commercial and industrial customer class with an enrollment cap of the higher of 10 percent of the customers in the class or 10 customers for each class.	Concur – Suggest preference be given to residential customers with solar PV and/or an electric vehicle to ensure a representative sample of the impact these customers could have on future rates and demand profile.		

Issue	Austin Energy Staff Recommendation ¹⁴	Residential Rate Advisor	Other Parties	EUC
22) Update Renewable Energy Alternative Rate (GreenChoice®)	Maintain the GreenChoice alternative rate for customers who wish to receive a 100 percent renewable energy price that is locked in and use a bundled portfolio approach that prorates the GreenChoice adjustment to account for system-wide renewables.	Disagree –Adjustment should continue to be shown as offsetting fuel charge. Program as described is unnecessarily complex and confusing. The recommended change to the portfolio approach is fine, but the overall program will be better accepted if credit is given for the fuel charge. If system level renewables were included as part of the fuel and energy charge (as the name implies), the entire program is simplified. That change achieves the AE goal, and meets Austin Energy’s transparency and “simple and understandable” principles.		
23) Update Net Metering Alternative Rate	Maintain a net metering rate for customers with distributed generation (e.g., solar PV) and apply a credit at the annual value of solar rate for excess energy generated on a monthly basis with the intent to move to a separate solar rate when meter data management capabilities are achieved.	Concur – Suggest moving to a solar rate which considers the hourly value of energy as expeditiously as possible.		
24) Update Thermal Energy Rate Option	Update existing thermal storage rate option to support customer investment in this technology.	Concur – As transmission lines are completed to wind areas, significant savings may be available for energy storage.		

Issue	Austin Energy Staff Recommendation ¹⁴	Residential Rate Advisor	Other Parties	EUC
25) Plan for Pricing Pilot Projects with Pecan Street Project	Austin Energy will work with the Pecan Street Project to pilot new rates for customers. Any pilot project implemented must first be approved by the Austin City Council.	Concur – Suggest that the Austin City Council be very liberal on approving pilot projects with a maximum participation rate of 1 megawatt (MW), and less than 2 years in duration.		
26) Plan for Future Pricing of Long-Term Contract Customers	Move long-term contract customers to cost of service-based rates upon expiration of their contracts in 2015.	Concur on move to cost of service-based rates, and further suggest future long-term contract customers be tied to a specific fuel or power hedge which minimizes impact on other customers.		

