



MEMORANDUM

TO: Mayor and Council Members

CC: Marc A. Ott, City Manager

FROM: Mark Dombroski, Interim General Manager

DATE: February 29, 2016

SUBJECT: Decrease in Austin Energy's Power Supply Adjustment Rate for 2016



Austin Energy **customers will see an 11.3% decrease** in the Power Supply Adjustment (PSA) charge **on their utility bills starting April 1, 2016**. This decrease is due to the continued unprecedented decrease in natural gas prices and the Electric Reliability Council of Texas (ERCOT) power prices, which are directly correlated. The reduction in oil prices has reduced the fuel expenses for our natural gas generators and power expenses for retail customers beyond the levels contemplated under the current PSA rate. A **residential** customer bill for 1,000 kilowatt (kWh) per month **will decrease by \$3.56**.

Background

This decrease is unrelated to Austin Energy's current review of its **base** electric rates. The PSA tariff requires that the rate be determined as part of the City of Austin's annual budgeting process, including a public hearing. The tariff also provides that the PSA rate may be adjusted during the fiscal year to eliminate any over/under recovery as described within the tariff.

The PSA is a dollar-for-dollar cost pass-through to utility customers for the recovery and crediting of ERCOT settlements, fuel costs, and purchased power agreement costs, with an adjustment for the over/under recovery balance for the period preceding the adjustment of the PSA. There is no profit or General Fund transfer on PSA charges.

Policy

To enact such an adjustment, the City Manager must publicly present a report to the City Council that provides the underlying calculations for the PSA both pre/post-adjustment by customer class within 30 days of any adjustment of the PSA. If, at any time, the balance of PSA costs recovered since the date of the last PSA adjustment is more than 110% of PSA costs actually incurred during such period, and such variance is projected to remain above 110% after 12 months from the date of the last PSA adjustment, the **PSA must be adjusted** to eliminate the balance within the next 12 months. The PSA recovery is currently projected to be above 110% after the date of the last PSA adjustment, which was November 1, 2015.

In compliance with the adopted tariff, this memorandum serves as the City Manager’s publicly presented report to the City Council.

PSA Charge Differences between Customer Classes

To determine the PSA for customer classes, Austin Energy adjusts the average system rate based upon the level of voltage in which the customer receives their electricity. Customers served at primary and transmission level voltage install and maintain their own transformer(s) and related equipment at their site because it is necessary to step down the voltage before the power enters their facility. Electricity delivered at higher voltages results in lower line losses between the point of generation and delivery to the customer. As a result, primary and transmission customers pay a slightly lower PSA charge. **Residential and most business customers receive secondary service.** All customers will receive an 11.3% reduction in their PSA rate. The total impact of this reduction on a customer’s bill is dependent upon their voltage level, consumption, and usage pattern.

The following table indicates the PSA rates per kWh by voltage level on bills beginning April 1, 2016.

Austin Energy Voltage Level	Voltage Level Adjustment Factors	PSA Rate per kWh Effective April 1, 2016
System Average	n/a	2.769 cents
Secondary	1.0049	2.783 cents
Primary	0.9821	2.720 cents
Transmission	0.9696	2.685 cents

The PSA on residential bills will decrease from the current 3.139 cents to 2.783 cents per kWh, which represents an 11.3% decrease effective with April 2016 electric bills. Austin Energy residential and commercial Business Cents and Energizer customers who subscribe to GreenChoice® will also see a decrease since GreenChoice® customers pay an additional \$0.0075 (3/4 of one cent) per kWh added to the PSA rate.

Underlying Calculations for the PSA

Austin Energy utilizes a standard formula to develop the PSA average system rate, as shown below:

$$\frac{(\text{Over}) \text{ or Under Recovery} + \left(\frac{\text{Historical Costs} / \text{Historical kWh}}{\text{Normalized kWh Forecast}} \times \text{Normalized kWh Forecast} \right)}{\text{Normalized kWh Forecast}}$$

Historical costs and load (kWh) may be adjusted to reflect known and measurable changes to account for one-time events, abnormal weather or operating conditions, or other events not reflected or improperly reflected in the historical numbers.

The current (pre-adjustment) PSA average system rate developed during the FY2016 annual budget process utilized historical costs as of June 30, 2015, and a normalized load forecast period of November 1, 2015 through October 31, 2016, which resulted in an average system rate of 3.124 cents per kWh, as shown below (in millions of dollars and kWh):

$$\frac{\left(\frac{(\$26.2)}{11,714.8 \text{ kWh}} + \frac{\$401.0}{11,976.9 \text{ kWh}} \right) \times 11,714.8 \text{ kWh}}{11,714.8 \text{ kWh}}$$

The post-adjustment PSA average system rate utilizes adjusted historical costs and an updated over recovery amount which reflects the balance as of January 31, 2016, and a normalized load forecast period of April 1, 2016, through March 31, 2017, which results in an average system rate of 2.769 cents per kWh, as shown below (in millions of dollars and kWh):

$$\frac{\left(\frac{(\$79.3)}{12,284.2 \text{ kWh}} + \frac{\$409.0}{11,976.9 \text{ kWh}} \right) \times 12,284.2 \text{ kWh}}{12,284.2 \text{ kWh}}$$

Please let me know if you have any questions.

xc: Elaine Hart, CPA, Chief Financial Officer, City of Austin
 Ed van Eenoo, Deputy Chief Financial Officer, City of Austin
 Greg Canally, Deputy Chief Financial Officer, City of Austin
 Electric Utility Commission