Austin Energy Utility Oversight Committee Meeting Transcript – 08/08/2016

Title: ATXN 24/7 Recording
Channel: 6 - ATXN
Recorded On: 8/8/2016 6:00:00 AM
Original Air Date: 8/8/2016
Transcript Generated by SnapStream
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>> Gallo: Good morning, councilmembers. We need a few other councilmembers to get a quorum so if we have councilmembers upstairs in their office we could use you quickly and then we will call our Austin energy oversight committee meeting to order.

[9:08:38 AM]

>> Gallo: Good morning. I'm sherry Gallo, chair of the Austin oversight committee and we have a quorum of six councilmembers so I will call the meeting to order. It is August 8th at 9:08 A.M. First item on the agenda is approval of the minutes. Do I have a motion to approve the minutes? >> So moved. >> Gallo: Motion from councilmember Houston, seconded by councilmember Garza. All in favor? Any opposed? The motion passes unanimously. Next we have citizens communication. Mr. Robbins, thank you. >> Good morning. Do you want to cue it? Good morning. If you are looking for natural amenities and views of the Colorado river, few suburban neighborhoods in the region offer more than the Riverside municipal utility district. It is an upscale neighborhood where you would not expect to find many, if any, impoverished people. So it should be surprising to find homes enrolled in Austin's customer assistance program meant to assist the poorest of the poor with their utility bills. Now, this -- this beautiful 6,000 square foot home in river place is actually on a street called, and I kid you not, treasure island. I just received the July participant numbers and analyzed the participants on cap in river place and this is what I found.

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20 homes received customer assistance in December of 2015. Seven months later there were 16, despite the opt-out letters being sent since last fall. One reason for continued participation is that the opt-out letter is not that successful. While eight homes fell off the cap rolls, four new ones opted in. The average value of the homes even volleyed in cap was $723,000. The average square footage of home enrolled in cap was about 4,000 square feet. Two homes owned by the same family, including the one on treasure island, received cap discounts and all received out of city rate rates. Some concern has been raised that income qualifying customers might not be cost effective, that it might cost more money to administer than it would get back. Income qualifying just the 16 river place homes can pay the entire annual estimated $10,000 cost to income verify wealthy homes. One final thought, Austin energy has known about this problem since I alerted them almost two years ago. The public has known about it since December 1st of 2014. It is well passed time to fix it. Thank you for your attention. >> Gallo: Thank

you, Mr. Robbins. Are there any questions? We appreciate your persistence on this matter. Next on the agenda we have -- let me just make a couple of comments about citizens communication. So we will have work sessions where citizens communication will be handled in the same fashion that we do for no,

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ma'amal ae meetings which is a total of ten minutes, two minutes for each speaker. That's today. Also the next work sessions on August 15th and 22nd. Then there will be the public hearings on August 25th and 29th. And so at some point, council, we will need to determine how we want to handle the public hearings as far as communications, but there will be ample time for citizens to speak at those of those two meetings just to give everyone an idea of the upcoming meetings and the opportunities for citizens to come and speak to us. The third item on the agenda, we have two briefings. General manager's report and councilmembers, there were some handouts placed on the dais regarding both agenda item number 3 and 4. >> Good morning, chairman Gallo, mayor, consumers. -- Councilmembers. I've got a couple things this morning. First is this will be the last oversight meeting where I will be interim general manager. Our general manager Jackie sergeant shows up next Monday on the 15th. We'll get her up to speed as soon as possible. During interim I would like to thank city manager Marc Ott but most of all I'd like to thank the employees of Austin energy who have made this an incredibley easy assignment for me and I would encourage any councilmember who has not taken the opportunity to come out, visit one of our facilities, meet the employees of Austin energy and I think you will as impressed as I am with those individuals. >> Gallo: Before you start, I think we want to say thank you from all of us for you stepping in and really continuing to guide us in a very positive way through a very busy time. So thank you. >> It's been an honor. We have a couple things. First is as many of you know, Austin energy is a renowned utility across the country. From our environmental attributes to our reliability standards to our customer

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energy programs. One of the areas that we do know we need to focus on is our customer care piece. And so in anticipation of that we have a couple presentations this morning where we hope to improve our customer care and vice president -- excuse me, dependly general manager Carey Overton will be presenting that. We have a tell com and utility replacement program. This is not the wireless initiative also going on in the city. This is for the wires that attach to our poles. And vice president Dan Smith will cover that area. I do have another item which is not coming up on Austin energy's future agenda, but it is on the city real estate which is on the 18th we're going to be bringing forward a lease extension for 811 Barton springs, so that's the eight-story building next to Austin energy. We have one more year option under our existing Earth can that we would like to exercise. We're going to bring that forward. This has no budget impact for this year's budget so it will be budgeted for the '17-'18 budget but it is vital to extend that lease so we can maintain that office space. Our longer term strategy is to work with the city on a master facilities plan and we have four goals. One is to reduce the square footage that we require Austin energy. It's to reduce the cost of our lease spaces. We're trying to see if we can move some of our employees out of busy downtown corridor that don't need to be down here. And last is to have less lease space and more owned space. We think that's more cost effective. So I would appreciate your support on that. Unless there are any questions, we're going to ask deputy general manager Kerry Overton to come you mean and begin on the customer care piece. Thank you.

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>> Good morning. I'm Kerry Overton, dependly general manager of Austin energy. Before I make this presentation as well equal to sharing the enjoyment of mark in the interim role, I want to mention very briefly this also will be the last presentation that jj Gutierrez will be making before you as well. She has announced her retirement and we're going to miss her. Just wanted to acknowledge jj, all of the great work you've done. We really appreciate it. Just so you know we're in good hands we've also made a transition for the last six months. We hired jj's replacement through a competitive national process and Jerry Galvan who comes to us from Detroit, he is in transition to take over the cost and operations. You may recall we were before you in the spring around April to provide you information about the renewing of our apple one contract that helps manage our utility and 311 call centers. We have undergone efforts in preparing the budget process and also to come back for the budget work sessions and a rca. That will be coming to in a few short days. What we are talking about in this staffing plan based on a one continue to improve the performance of the call centers is to convert 45 existing apple one contractors to full-time equivalents, employees into the city of Austin. And what that means is when we go through this presention, there's two budget lines that I want to speak about.

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We're going to primarily focus on the apple one contract, but a lot of the expenses are also embedded into our budget in other line items, particularly in personnel costs. This is a conversion and we'll talk a little more in detail about. That we also -- this presentation is to cover more specifics about the renewal of the apple one contract and in the contract there will be some increased costs and those associated with the base salaries where we're moving the salaries of the csr's, customer service reps, up to the council's mandated minimum wage and also include some competitive adjustments because we're speaking about some of the call centers and the competition we're dealing with in the Austin area. That's adjusted. And the goal is to improve our retention rates and that's one of the things we found in our numbers that our call quality and also the performance of the overall measures that we use to measure our effectiveness, they are going down but we believe steps that we've laid out in the staffing plan will improve it. We also will mention this -- the steps you are taking today that you will be eventually voting on in terms of the rca, this is just one step in steps to come. We're going to continue to evaluate our process improvements. We're going to look at new technology to make sure that we can improve our overall customer experience. And also we're going to be looking at how technology and how we can also begin to cover our peak volumes. The main goal -- one of the main goals that we measure the effectiveness of the center is by service levels is 90% of the calls being answered within 90 seconds or less. And that has behind it a lot of other measures that hold time for customers, how responsive we are to total

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transactional time is taking to complete a call. Our goal is 90% of those calls answered, and as you can see we gave you a one-year snapshot of the performance. On average that's probably just above, you know, 50% and our goal is to put a staffing plan in place to improve that for our customers. And what you'll see is we're moving from a 40/60 ratio, meaning 40% of the employees are ftes to the city versus 60% contractors. This proposal of converting the 45 ftes is moving them from the contractor to the city of Austin and that's primarily because of benefits and then we're also going to in the renewal there are other costs associated with apple one in terms of the increases for the salary adjustments that we spoke about. This is really the base chart that we talked about back in the spring to give you an idea of how we're matching the transactions with our base workload. The chart in its entirety represents all of the work performed by a combination of the city of Austin employees and those combined with the apple one contractors. If you look at the blue area, that base, the base is really the area contained by the solid blue, but also the thin line that you see right at about 200,000 interactions with our customers. And all of these have time sequences associated with it. Again, the speed to answer that call, the transaction time to resolve that matter for the customer while we're on the line. But as represented by this thin blue line that shows our base workload. 91 of that's customer service reps are handling about 137,000 of those interactions. And the other 60,000 plus

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the -- the -- the ebb and flow of those above that line are being handled by the am he will one. In our proposal what we want to do is in converting the 45 apple one csrs is to handle that base by all coa represenves. That gives about 200,000 interactions based on the time frames that we spoke about covered by our workers. It also provides the benefits for them and that green that's above it is really still our peak calls that's a little bit more difficult to manage, but as we get spikes because of any reason, it could be because of billing complaints, it could be because of anything happening with the weather or new program introductions, we're going to still need measures to handle that volume that's a little more difficult to predict, but it will spike at any time and that's our peak. And so we want to continue in renewing the apple one contract to take care of the green spikes that you see above that base with the apple one renewal. The cost of that version is about $1.1 million. And the difference is, again, the base, the employees' salaries are already in the budget. This is paying the differential for the benefits associated with that move. And the summary of that in terms of what the cost is to the apple one contract, the annual cost to the renewal is our current is about $5.6 million. We will raise that to 7.5 as part of the renewal that you will be approving. And that gives us an increase of 1.9 million. And we're going the talk specifically about what are those apple costs, increased

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costs. In over a five-year period, that moves the contract with apple one from 28 million to 37.5. The benefits of continuing to renew the contract is it's going to continue to allow us to staff our call centers with the flexibility of the green peaks that we showed you on the previous staff. And also the benefits is avoided cost of the attrition. That attrition is very, very important. We just had an example in the last class that we just trained in the last 60 days -- I'm sorry, the last class we trained a year ago coming into the call center, we added was it about how many reps? >> 14. >> About 14 reps to continue to fill in vacancies that we had from the apple one contract. Within one year, 100% of those individuals are no longer with us. And it was extremely high and our training costs. Part of that turnover was associated with in the Austin market we now have really about 12 major call centers in this area. And when we were paying about $11, maybe $11.50, our competitors on average were paying about $15 for these same csrs. In this proposal those benefits will move not only to include the minimum wage, but we're going to be competitive near about $14. We're not necessarily trying to lead as number one and go above the 15 in our proposal because we think there are some other benefits to the city in terms of the overall career, but we think that from what we're hearing from all of the experts and what was proposed in the contract moving it to $14, and it's a little more, like 14.37, I'm not sure, but that's going to

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make us more competitive. We're retraining our trained resources and not losing our best csc's that we're training within a year and they are not longer with us. And also as part of the overall bent fits is we have several other positions. We have some municipal temporary -- what we call mini progs in the back office and we want to move some of that operations into the -- to be managed by the apple one contract, but we also are going to be proposing that we add four new quality assurance trainers. And that quality assurance is the monitoring, those are the individuals listening to the calls and providing the day to day feedback to our csrs based on scores and based on their performance and we want to increase that group and that will also expand the apple one contract. So what are those cost drivers? There's four additional quality assurance and trainers being added on at a rate of $303,000 on an annual basis. The adjustments to meet the living wage plus the market adjustment as we spoke about and also some moving temps that again I think council you have in one of your actions you have mandated any municipal temps on board after one year would begin to start receiving city benefits, but in some cases we're losing the csrs in our transactions a lot earlier before we get to the one year. So by moving those temps into the apple one contract, they will receive benefits that are associated with the contract itself. So those cost drivers, the annual apple one contract increase is 1.9, but that is off set and we believe it is a neutral budget proposal because also in our operations you will see a reduction in our staffing cost of about

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$1 million in overtime that we're currently spending. And also as we mentioned the additional quality assurance and the training will no longer have the cost that we're spending about $500,000, half a million dollars over a period of time to make sure that we have the csrs adequately trained. So when you look at that, it's really about a $400,000 change to the renewal which we believe is budget neutral. And more specifically what does the budget impact? Again, the 45 -- the converting the 45csrs from the apple one contract to be coa employees, $1 million in personnel cost. The renewal is is the 1.9 that includes the minimum wage and again the competitive salaries for $3 million. The budget decrease will be the temporary personnel costs, moving from our line item budget under personnel to the apple one contract. That's $1.6 million of a decrease. And then the estimated avoided costs that we just mentioned. So we believe that the net budget impact to this is very, very minimal to a neutral move. What you will see as a result of that is a rca coming to you at the next council meeting on August the 18th, and that will be for the apple one contract itself. And more specifically what you'll see embedded into the budget discussions as part of the budget work sessions on August 24th will be the conversions of the 45 existing apple one contractors to the coa ftes. And at some time in the future, possibly the spring of '27, we're going to come back to council and continue to

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bring briefings of our valuations of increasing technology, our processes and changes that we believe we can handle within the operations to continue to bring our performance measures to our expected and desired state of answering the calls, 90% of the calls in 90 seconds. With that I will myself and jj Gutierrez will take any questions that councilmembers have for us. >> Gallo: Councilmember Zimmerman. >> Zimmerman: Thank you for that presentation. If you back up to page 8 right quick, it's just a question, and this doesn't apply just to what you are doing but the city at large. Is anybody looking at the pension, the city of Austin pension system we have and how these ftes affect that? I mean every time we add employees, when we switch people from part time over to full time, I think more than what you've listed here as budget impact, the bigger concern I have is the pension liability. So does anybody do a pension, you know, impact? It's kind of part of our responsibility for employees going forward and I never see that when we add ftes. So was anything done about the analysis for how it affects the pension? >> Well, I believe our H.R. Department, human resources, actually does at the end of the year as part of their budget, they will give you numbers that present what the total number is and what they are expecting that to be because I think they do projections and estimates based on that. I don't have the numbers for this particular conversion, but we can get that number to council. And one of the things, councilmember Zimmerman, in addition to this presentation, any questions that you have, it is our intentions to prepare a letter before you actually come back to the council to vote on this item and provide any more additional information to you through a letter.

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>> Zimmerman: Help me understand, how is this or is it rolled into the current budget cycle? Did the city manager's proposed budget include these numbers or is that separate and apart from any of the budget presentations we've had? >> Let me see if Marc --. >> Mark today dubrowski. They are in the package. >> Zimmerman: Thank you. >> Gallo: Any other questions? >> Casar: Good morning. I have two quick compliments and then a question. First of all, thank you for your continued focus on the customer service area of the work. I think that's really important, something I regularly hear from constituents in getting that number up higher on the percentage of calls answered quickly I think will be of great benefit on people's impression of Austin energy. And second of all, I would like to compliment you all on working on -- working with community members that have been bringing this up for some time to figure out that pulled paying people more can potentially save us money by reducing waste. That's really exciting to hear and thank you all for your work on that. My question is that it seems like you all have a lot of confidence in the apple one contract and I don't know much about it, but I just would like to understand, it sounds like from the presentation the assumption is we will continue working with apple one, but considering that we are condemn plating pretty significant changes to the way we work with those contractors, help me understand when we decide we're going to continue working with the contractor and pay them more and absorb the costs versus when we are going to go out to the marketplace to see if there's other contractors who may better suit our needs of paying folks more and trying

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to reduce attrition. I'm not trying to imply otherwise, I just want to understand how we make those decisions considering that since this council has raised that wage minimum, I expected this will be happening more with other contracts in the future where the city has to decide whether to negotiate with our existing contractor to raise wages or to go to the market and see if there are people that have a more -- invest in labor and are more competitive. >> Yes. And first of all -- and thank you for the compliment. We've been working very hard with the employees and I know they are watching and want to go make sure their wages move and are competitive with the market just for the cost of living with them. This has already gone through purchasing. The purchasing process has started so in the renewal, and they can explain that more when you actually see the rca, they -- there has been at least four companies who have bidded on this renewal based on the information we put out, and this through the competitive process was the best response that we had both in cost and overall meeting the requirements of the -- the budget -- the procurement process. >> Casar: So there was competition. >> There was. >> Casar: Around whether or not we would renew or move to someone else. >> Absolutely. One. Things we're going to continue to evaluate for future basis is what can we do with some of those pink shavings. Could we have another center operate during the peak periods and what would be the difference between us training our staff but sort of having another center sort of turn key ready at any point in time when we hit our peaks, you know, over a certain percentage. And we do that already with our outage management system, but again a lot of that is an automated system where we can actually take on additional accounts, but again it does not allow you to zero out and

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get with a live body. These particular calls will have to be handled a little different, but what we're going to bring back in the spring of 2017 is further analysis of how technology, how the outside market can help us as well. We're going to be looking at adjustments, but we're going to test more of that and look into it and bring back proposals. >> Gallo: Any other questions? Mayor pro tem tovo. >> Tovo: Just a quick thank you, great thanks, Ms. Gutierrez, for all your work for Austin energy over the years. I know my office has worked with you closely in all kinds of settings, but especially on situations where customers were in really difficult situations with medical conditions and child. Anyway, you've just always responded in a way that just shows your commitment to Austin energy and to making sure that their interests are protected but also recognizing the real human stories that come through all of our offices and often end up on your desk. I really appreciate all your work and wish you the best in your retirement. We're certainly going to miss you. >> Thank you. >> Gallo: Any other questions? And I would say that thank you would come from all of us. We're sorry to see you leave. Thank you for what you've done in the past. >> You're welcome. >> With that transition, jj will formally bring the presentation regarding the solex contract. >> So I have one final presentation with regards to customer assistance and our citizen speaker, Paul Robbins, spoke a little bit to the process that I'll talk to you about today. As soon as we have the slides up, I'll begin.

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So I'll go through a little bit of history, recent history regarding the customer assistance discount program. And the implementation of the automatic enrollment process. In July 2012 we passed a terrorist that we just automatic enrollment and that eliminated the need for our cap customers to go through the process. Once they determined that a customer meets the eligibility criteria list understand the tariff, they are automatically enrolled into the discount program. That happened back in July 2012. It took us about a year, August 2013, to set that process in place and forral ice it and we utilized solix, a vendor to help us implement the automatically process and solix was selected through an rfp process. I'm going to fast forward a little bit. The basescope of the solix contract is about half a million dollars a year. You'll see each year we typically spend about a half a million dollars with solix for them to help us implement that automatic enrollment process. We've been with them for three years and we are now at contract end. August 2016, this month, their contract with us will end. Throughout those years we've made several enhancements to the automatic enrollment process. We implemented a opt-out process where customers who contacted us voluntarily wanted to opt out of receiving the discount, we created a venue for that. And then even beyond that we created an override process where we could opt out

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customers if they just contacted us and they didn't have to go through the process self-service. We also in contract year 2 or 2015 added something we called home value screening. And that is the screening where we used the Travis county appraisal district data to understand the value of the improvement, the home on the land that the customer is living in. And we decided that at $250,000 that value was enough to ask that customer if they really needed the discount. And so we began sending these letters to anyone on the program who has home improvement value greater than $250,000. And we began that early fall 2016. 2015, I'm sorry. 2015. In addition to that we made additional changes. We added our veterans to the program and we removed the wait lists. And so as you'll see, each of those were contract changes within the solix contract. Some of them were more expensive than others, but all of of them implemented. In addition to those changes, we had some additional recommendations from our advocate regarding a further enhancement to the automatic enrollment process and I'll touch on those specifically. So there's six recommendations that we've been in discussion about, and these recommendations are -- have been driven by our advocate, Paul Robbins, and each of them we've taken up and researched and decided whether we should move or we should -- how we should respond. So the first recommendation, take quick action, really refers to these opt-out letters. The letters that are being

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sent were being sent monthly to those whose eligibility criteria was up on that month. The recommendation here is to not wait for their natural deenrollment period but to send the letter right away, quick action. We've actually been able to have solix create or revise their process so we can send those letters right away. And I'm proud to say solix has gotten that process ready for rollout this month so all opt-out letters will be received by our participants who are eligible for opt out in August 2016. The next recommendation was eliminate double payments. This was an error we found in algorithm and, of course, we are going to fix that. In addition to that we also were made aware that there are sometimes participants who own more than one property, and we also want to be able to weed them out and allow a opt-out process for those participants as well. Staff is agreeing to implement these three, quick action, eliminate and more than one property, and the only delay is that we will require a new scope of work under the solix contract to implement the last -- the second and third items. So you'll see the first item is permitted under the current contract. The current contract is expiring. We have added the next two items to the scope of a new five-year contract with solix. The last three recommendations, income verify participants, create a dual enrollment system, and eliminate the 10% discount for the top two tiers, these are the ones that staff is saying

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hold up a little bit. Let's do some further analysis. And so what we would like to do is implement the first three under the new contract and then bring back to this committee or this commission the results, what -- what remaining issues are there after we've made the -- the earlier changes. If there are still significant issues remaining, then we would bring back a recommendation to look at income verification or even a dual enrollment system. We're not recommending to move forward with those two right away. We want to provide some analysis to you first. Let's talk a little about what the cost and benefits are for each of these recommendations. We were able to receive a price or a cost for each of these recommendations, and in general they are not terribly expensive. Some of them, though, will have ongoing costs. So we've already implemented the first recommendation, tcad screening. That one-time cost has already been paid and we're implementing the opt-out letters all at once, the quick action as well. We see that based on the number of homes that have opted out in the past by receiving these letters, we anticipate $125,000 in program savings. By implementing the opt-out letters all at once. If you look at the second recommendation, stop double payments, we know exactly those customers that are receiving double payments. We calculated a $90,000 savings by eliminating those double payments. And a one-time cost of $10,000.

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For the more than one property, this is a little bit more difficult, but we are estimating that we would save about $140,000 by removing those accounts where their property in total is greater than $250,000. At a one-time cost of $50,000, we could save $140,000. And these are annual savings. Now we get to a little bit more difficult discussion. The cost to implement income verification has a $33,000 one-time cost. But we're seeing that we're not going to get a big bang for the savings. Maybe potentially a $20,000 savings per year. The next two, dual enrollment and elimination of 10%, those look like and they are large savings. Implementing a dual enrollment process will -- what that is is when you -- when we are matching our enrollees to their -- the account holder, today we don't necessarily have to have a name match. What we do today is if anyone in the household is receiving the benefit, then the household, even though the account holder may be a different person, the householder will receive the discount. This suggests that the household does not receive the discount unless the beneficiary is actually the account holder. We know that there are roughly 14,000 accounts or participants in the cap program where their name is not the account holder. The beneficiary is not the account holder.

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It's about 14,000 customers in that situation. We also know that when we require those households to self-enroll or complete an application, we also know that 10% will respond to an application process. And so we would be losing quite a few participants through that process. We said we could maybe do better than 10%, we could implement some outreach and some real feet on the ground participation here and maybe get 50% of those folks back into the process. So instead of losing 14,000, we may only lose 7,000. Eliminating 7,000 people from the program, you would save $1.8 million. The last is a recommendation where if the participant will consume and their consumption reaches the fourth and fifth tier of our rate structure, we would not pay the discount at those two levels. A straight calculation shows that that would save $2.2 million. Quite significant, but this is a recommendation that staff does not support because, again, it is eliminating a benefit for really low-income customers who really truly have a need for the discount. So it's a lot of information on this slide. Let me just sum it up. The contract itself will be coming to you in form of an rca. A renewal of a five-year

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contract with solix to perform automatic enrollment. Currently we pay $500,000 for that process, for that service. And then there's been some additions throughout the years. And our new rca, you will see the price has gone up for the base and the additional recommendation costs have been added as well. So you will see an increase in the total contract amount reaching close to a million dollars. There's a final line there in the gray, annual total without staff approval recommendations. So while the recommendations are in the solix contract and they are in the price that's on the rca, we don't have to initiate all of the services. And if we don't initiate the last three recommendations that staff does not agree with, we would bring that cost down slightly. And each year you'll see it drop a little bit from the annual total to the total in the gray bar. With that, the next steps that you'll see is -- I already actually have this rca reviewed by electric utility commission and it was passed contingent upon we conduct the cost benefit analysis, and that's the analysis that I've shared with you. On August 18th you will see the rca come before you for your authorization. Are there any questions? >> Gallo: Councilmember Zimmerman. >> Zimmerman: Thank you. Could you go back to page 2, and I know this is the automatic enrollment history and that's fairly new in 2012, but can you give me some context as what happened in prior years? And if I would speculate, I'd say maybe Austin energy was

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spending around half a million a year to do the -- to qualify people who had applied to get into the program. >> That's correct. We were doing a manual process where we would have customers apply with applications and we would process those applications. >> Zimmerman: And your estimate was it was about half a million a year when you decided to contract out? >> That's correct. That's correct. >> Zimmerman: Then I want to jump ahead to the cost benefit analysis, and I would really appreciate it if we could have Mr. Robbins just comment on these. And I think that's on page 4. I guess the frustrating thing is the area where we could get the most savings. And remember, I heard you mention, I've heard this before many times, people will say, well, you know, we have to have these cost reductions for the people that need it most. And what I need to tell you from the constituents I talk to everybody wants rate relief. So there's a little bit of maybe disconnect and a feeling of from constituents to say, well, what do you mean I don't need a reduction in my utility bills? My water bills, electric bills are too high, I need relief. And when they hear we're going to provide a subsidy to those who need it most, it creates a wedge in the community. There's automatic segregation, this is troubling from a policy viewpoint. But it's -- does the council object to having Mr. Robbins briefly talk about the cost benefit ratio and how it fits into his expectations? >> Gallo: Mr. Robbins, would you like to come up and address some of those questions. >> Tovo: Chair, can I ask, I don't know if we have other people representing the euc who also reviews this and provided that recommendation, but if we're going to have public testimony we invite

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others to comment on it. >> Gallo: I think this was a question asked by one of the councilmembers that Mr. Robbins could respond to. My understanding that this will come back to the council so there will be ample opportunity for other stakeholder groups to come forward with their@ recommendations. >> I'm grateful for the opportunity to respond. Thank you, councilmember. And I more or -- I mean I only saw this an hour ago so I haven't evaluated everything, but it all looks -- I guess it would be slide 4. It all looks good except for two of the six recommendations. One is more than one property where it says that the cost is $50,000 and the savings is 140. My suggestion would be that instead of spending $50,000 a year given to solix, and I'm not anti-solix, but I think this would be more cost effectively done by a clerical staff at Austin energy to simply have somebody go through it one or two months of their 12-month salary and go through the high income zips and find out who has two or more properties. It's what I do. It's pretty simple. And instead of $50,000 it would probably cost you more like 12. The other one would be income verified participants where Ms. Gutierrez has said that you can't get a pay-back. That is not what I think. And having gone through this in awful boring detail, and I've probably looked through

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two or three thousand names by now if not more, I'm going to get you are going to get considerably more back than you put in. Ms. Gutierrez who said that this would be a $33,000 startup and a 10,000 -- $10,000 annual fee thereafter, and I just proved to you a few moments ago that you could get that $10,000 back in one zip code in one municipal utility district. So no, I do not agree with her assessment on that, but I do not know how they derived their estimate. >> Zimmerman: Thank you. Thank you, Mr. Robbins. >> Gallo: Are there any other questions? I have a question, please -- a couple of ones and following up on the income verification of participants. My guess is there are many other organizations that are already doing income verification and it seems like that a partnership could be developed to be able to pull that information into the system without actually having to duplicate that. Have you looked and will you be able to look at the possibility of doing that before this comes back to us? I'm guessing that housing may already be doing that with some of the affordable housing components, so it just seems like there might possibly at the very least be other city departments that are verifying income and in addition to city departments I think there are a lot of other agencies that do that as part of the services they provide. >> They are, and we are relying on that income verification as part of the automatic enrollment project. So the eligibility criteria that we've put in the tariff takes into account that each of those beneficiary programs that we've selected has some type of income qualification, verification process. Performed by the agency that delivers the benefit.

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And so taking advantage of that we would no longer have to perform that income verification because we're utilizing the very recipients of the benefit where the [inaudible] Is done prior. So we eliminated the need for income so we eliminated the need for income verification by taking on those eligibility criteria that -- it's already performed. So we did not anticipate needing to do it again within our program. >> Gallo: Okay. Thank you. Then within other question. I'm just confuse why the current year contract for the base contract is 500,000 and it would be going up so substantially to 713. >> The reason for that increase is the 500,000 was based on an enrollment level of about 25,000 participants, and that's what we anticipated back in 2012, when we wrote the tariff. However, we all know that we've been at about for the to 42,000 participants for the past two years, and so this new cost reflects the new enrollment level. >> Gallo: Even with the potential participants that are dropping off? You feel like you will still be at those levels? >> We will if -- and if we do implement the recommendations where the participants drop off, we won't pay. We only pay for those that are enrolled. And so that price will drop accordingly. >> Gallo: Okay. All right. Thank you. Any other questions, councilmembers? Councilmember Houston. >> Houston: Thank you again Ms. Guiterrez, for all you've done over the last year that I've been here. I really appreciate your work. >> You're welcome. >> Houston: And your compassion. So thank you. I have a question about slide four at the bottom. How many customers are in the

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top two tiers? >> Let me do -- I have some backup calculations here. And that might be the one where I don't have the numbers. I can get that for you. I do know that the exact number. We did an analysis about six months ago, and we were able to discern those customers that are hitting the top two tiers. And so I don't have the number here with me, but I can provide that to you. >> Houston: Thank you. And why do you suspect that they're hitting the top two tiers. >> Well, there's two reasons. One might be that they're in the high-value home, and so we will identify those folks through the other screening process and hopefully those will opt out. So the ones that remain are hitting the tier because they are truly low-income and they may be living in substandard homes where the consumption is a reflection of poor energy conservation, so the home may be not sealed properly, roofing may have issues and they may even have inefficient appliances. Again, we have another program that will address that, and that's our weatherization program. But in the meantime there needs to be some relief and that's what this discount provides. >> Houston: So when you find out those people, then, the weatherization or one of the case managers will go out and have the conversation about ways to decrease the amount of electricity used? >> Absolutely. >> Houston: Okay. >> That's what's happening today. >> Houston: Are some of those people on your medical vulnerable program and might need it for oxygen or other kind of equipment? >> That definitely could be the case. We do have many cap participants that are also medical vulnerable participants and we'll have, as a result, equipment in the

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home that requires the use of electricity. >> Houston: Okay. Thank you. >> Gallo: Any other questions? All right. Thank you so much. >> You're welcome. >> Good morning, mayor, council. My name is Dan Smith. I'm the vice president of electric service delivery. As mark stated, I'll talk to you a little bit about the upcoming rca that we have for telecomm make ready. And that's being pulled up. >> Brief overview of the ask, we're requesting to be able to enter into cost reimbursement agreements with the licenseees, and licenseees are telecommunication companies, cable companies, franchise video service companies, and we'd be asking for $1.5 million per year, up to four years, for a $6 million total ask. This is something that is scheduled for the August 18 council meeting, and this was designated as a critical business need in accordance to council-approved purchasing procedures. That's because this is related to doing these agreements with companies we already have a license with. Just kind of a bit of background is Austin energy has approximately 165,000 electric polls and today we estimate or actually account

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for 365,000 poll attachments. As he stated, this is wireline, not wireless, so these are things you already see on our infrastructure today. There's actually 30 plus entities that have wireline attachments, companies you're probably familiar with, AT&T, Time Warner, Google, but there's also other entities like schools and government agencies as well. So the purpose of these infrastructure license agreements, the sec and PUC outlines and really requires public utilities to allow wireline attachments, and so as such we do enter into license agreements with these companies. The licenseees' responsibilities are to pay for the costs to actually make the polls accessible or ready to be able to attach to. That's the Normal requirements. Under agreements for large deployments, Austin energy is required to take care of polls that would be broken or rotten or otherwise non-compliant. And as you're probably familiar with, you know, some of these companies do have aggressive deployment schedules and one, notedly Google fiber at this point. Just to kind of give you a little visual on it, this actually shows an example of a make ready situation. So on the left there it's kind of hard to see but to try to describe you have a pole that has roughly four -- you can see at the very top of the pole is the electrical distribution lines. As you go down that pole you actually hit a street-lighting fixture, and then below that

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are the coming or video or wireline attachments. In this particular case they had to go into and make another space for a wireline attachment to attach. The benefits of doing this is it does allow a single contractor to come in there and do this particular work, so there's definitely some increased efficiencies. I think it also reduces the public exposure and the public involvement side of that. It helps to facilitate system reliability and ensures public safety, it reduces the environmental impact to this. It allows Austin energy to focus encore business without really impacting some of those aggressive schedules that licensees have on their deployments and it accelerates improvements and maintenance on Austin energy systems and all. So those are, in brief, the quick things there. And then just to let you know as a -- what the background is, all this work will be done consistent with Austin energy standards, as well as the national electric safety code, the reimbursement costs are competitive and consistent with what we are currently using for this type of work on our distribution system, and it's also consistent with applicable dsnbr goals. So that's a real quick run through of this. I'm happy to answer any questions that you might have. >> Gallo: Are there any questions? Councilmember Houston. >> Houston: You may have -- thank you again for the presentation. >> Yes, ma'am. >> Houston: You may have talked about this already at some other point but if you could remind me, do they pay anything to Austin energy for the use of the poles? >> Yes, ma'am. >> Houston: That negotiated on a case-by-case basis? >> No, ma'am.

The FCC actually sets that so that's an actual rate that is consistent. And so they do rent space effectively to be on our infrastructure. >> Houston: And can you tell us what that rent is? Do you remember?

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>> I should -- off the top of my head I don't recall. I can certainly give that to you. I want to say it's something of the magnitude of $10 per pole her attachment per month and all. But we do make multimillion dollars a year in income by these pole attachments. If you'd like, I can get you the details on that. >> Houston: I'd appreciate it. >> Sure. >> Houston: The other thing is, we've had some ongoing concerns about wires just hanging from polls, and constituents aren't sure how to identify who to call when they find them. I found one on 12th street the other day wrapped around a stop sign, and so who do we call when you find wires just hanging from poles and we don't know who they belong to? >> Sure yeah. So we've got a couple of things. One, 311 works, that app. We're actually using 311. The other thing is on the Austin energy website we've now set up in our infrastructure asset management a specific place on the website to hit and it will generate an email that goes to actually the crew -- the inspection group that I have, and they'll actually go out, send somebody to the situation, determine whose infrastructure is involved and then contact them. >> Houston: So for people who don't have an app and don't go to the website, can they call 311 and that will get to you? >> Yes, ma'am. >> Houston: Okay. Thank you. >> You bet. >> Gallo: Any other -- mayor pro tem tovo? >> Tovo: That's a really good question, councilmember Houston. I appreciate you asking it. Occasionally I've had to call 311 about that and they often ask me what kind of line is it hanging, and, honestly, I don't usually have any requested considered. I wonder if it's possible. I agree not everyone has website access but if you have that information on your website it might be useful to have the kind of photo that you just provided us with with little arrows saying which lines are which so if someone calls 311 they can say, well, it looks -- from the

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photograph it looks like it might be a telecommunications line. >> Appreciate the comment, and we'll take a look at that. >> Tovo: Thanks. >> You bet. >> Mayor? >> Mayor Adler: I think all the council offices have been contacted by telecommunications companies because everybody seems to be wanting to place their lines on poles and there's -- is this related to the study that the city is doing to be able to resolve those issues? Is this how this is being resolved? Is that separate from this? >> In -- I believe -- and I apologize. That was -- the question is probably related to a lot of the wireless? Okay, yes, sir. You asked for a status of where that is? Or -- >> Mayor Adler: I'll take a status of that and how that relates if at all to this. >> The quick status is the multidepartmental -- cross-departmental task force or team that worked on this has actually completed their analysis and work and actually sent somebody to the city manager's office. So the next aspect will be the city manager's office taking the recommendations and then that will move forward to ultimately the council's P.U.C., the committee. As far as how this relates, you know, in our situation we're -- we currently do not allow wireless attachments to our infrastructure. We are preparing ourselves and gearing up for -- depending on how the recommendation comes out of council -- comes out of the city manager's office and ultimately out of council, that may necessitate and direct us to allow wireless attachments. And that could be on some of the same infrastructure. But as you can see, a lot of our infrastructure is already fairly subscribed, which means a lot of our poles won't really house the wireless equipment. But it will be treated

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potentially in a similar manner. >> Mayor Adler: Okay. Thank you. >> Yeah. The one comment that I would make, and I appreciate councilmember tovo's, you know, comment, as well as councilmember Houston's, is we do -- you know, we deal with power problems. We get a lot of calls for downed communication wires. And so they're not power lines but, nevertheless, we do at least find out who the owner is and notify them accordingly. But I'd love to be able to -- my comment is I'd love to be able to -- everybody just knew and we didn't get those calls anymore at all. >> Gallo: Any other questions, councilmembers? Anyone else? All right, thank you very much. >> Thank you. And who will be handling the next item? >> Mark drive, vice president for regulatory affairs and corporate communications. Good morning. And thank you for setting aside this time today and for the meetings to come to review Austin energy's electric rates and financial profile issues that, as you know, are critical to the long-term health and vibrancy of our community. It was last June when Austin energy came before you for the first time to discuss the coming cost of service and the creation of this process. Today I want to very briefly review why we are here, both from a financial and process perspective. I'll also step you through Austin energy's proposal and

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then discuss how we will move forward in the consideration of that proposal. >> Gallo: May I stop you just for a second and ask council a question? >> Yes. >> Gallo: Council, as we go through this presentation, would council prefer to ask questions as we go to each slide or wait to ask questions until we've completed all the slides as part of this presentation? Do you have a preference, anyone? >> Madam chair, I might note just for council's information, that the slide presentation is primarily a review of Austin energy's proposals. You will then be hearing from the impartial hearings examiner on his report and recommendations to the council, and then Austin energy's outside council will have -- counsel will have some remarks responding to the hearings examiner. >> Gallo: I would suggest, unless there's a suggestion otherwise, that we let you go through the slides and then before we start the presentation for the impartial hearing examiner that the council be allowed to ask questions of ae's rate proposal. >> Garza: Can I suggest some flexibility in that? Because sometimes there's a question and you go through the entire presentation and had it been answered there would have been more understanding initially, but I understand it's better to wait until the end. >> Gallo: So if you have a question, kind of get my attention so that I know to stop. Okay? Thank you. Mayor pro tem. >> Tovo: Chair, can I get a sense of sort of how the meeting -- and I now understand those pieces of it in terms of the presentation, and then will we then hear from the public about the rate case? Is that kind of the lay of the land for the rest of the day? >> Gallo: These are just presentations with an opportunity for the council to ask questions. But there is no posting for public dialogue as part of the presentation today. >> Tovo: Do we have an -- and I apologize. I maybe missed -- are we hearing from the public today about the rate case? >> Gallo: No. Those would be part of the public hearings that are

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scheduled towards the ends of the month -- end of the month. >> Tovo: Thank you. >> Gallo: Let me just -- hold on just a second. Since you asked the question again, let me mention that again. So for the two next work sessions on August 15 and August 22, we will have the Normal citizen communication, which is ten minutes, two minutes appease. And then in -- ad piece. In the public hearing meetings, August 29, that's when there is time for public input. >> Thank you. The council last set base rates for Austin energy in 2012, and by the term "Base rates" we're talking about the cost of debt service and operations and maintenance for services and infrastructure. As you've heard time and time again, that was the first base rate increase in fully 18 years. The changes that we're considering today and over the next month are an extension, you might call it a tune-up of the changes adopted in 2012. At that time Austin energy was experiencing a sustained degradation in its financial performance. That degradation was best demonstrated by declining reserves, imbalancesmo customer csses and rates that were not aligned with strategic objectives. The council approved a $71 million increase, which was appealed to the public utility commission, where we settled successfully with the outside city customers resulting in a $66 million annual increase, $66 million increase. Council adopted numerous other adjustments to align with strategic objectives. We created the five residential rate tier structure, we established the regulatory charge to recover the costs of our access to the ercot transmission grid and adopted the community benefits

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charge. The ongoing process is a continuation of 2012. The changes adopted then have lowed Austin energy to recover a strong financial position. As a result, the cost of service study shows that we can reduce customer rates while ensuring the sustainability of the utility's financial health. The process in 2012 is very long and challenging, much more extend than the process that we are going through now. After a year of engagement with the community and the electric utility commission, council began its deliberations in 2012. Council set 13 meetings over six months, including three public hearings with well over a hundred speakers from the public. Before its final approval, council held over 20 individual meetings. I think it's fair to say that by the end everyone agreed that next time we should try something different. At the council's final public hearing on June 7, 2012, Mr. Tom Smith, a public citizen spoke before the council and said this "Before you go through your next rate characterization it would be a really good idea for you to do what the public utility commission does, and that is bring in a hearings exam mer to do the heavy lifting on the quantitative things, looking at the cost of service and then bring back a number of things for your decisions so that you take out probably about 60% of the quantitative things that needed to have been looked at more deeply in this process, but it still gives you ultimately the say about what those numbers ought to be and allows us to be able to have policy direction from the council." The council took Mr. Smith's advice and adopted a rate ordinance that requires rates be reviewed every five years, that council consider hiring an impartial hearings examiner and that council hire a consumer advocate to represent the interests of residential, small commercial and house of worship customers. We have followed that direction in this proceeding

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we are discussing today. We held our first council rate briefing in June of 2012, where we discussed at that time the design of a process implementing council's guidance and staff has adhered strictly to that process. Because my holding fast to the process, we ensured that this effort is fair to all customers. Also at the June meeting, Austin energy shared its objectives in this process. Those objectives include that it must be a transparent process with robust public improvement and it has been. The process must be fair for all parties and we have worked hard to ensure fairness. Maintain a focus on affordability. I think we have done so. The rates must adhere to established laws, state laws and city policies, and I think we have done so. And in the end, the result must maintain the financial integrity of Austin energy and the city of Austin. We are doing that today and over the next weeks. The council held three training sessions on rate may late last yeah, including two sessions with Mr. Mark. In December Austin energy presented the results of the cost of service analysis to the council. Austin energy explained at that time that while we're on the path to restoring the financial health of Austin energy, there are continuing financial challenges. Those challenges include insufficient recovery of fixed costs, where I mean the costs of our infrastructure. Recall that Mr. Bochamp's training highlighted allocation of fixed costs is the fundamental challenge of rate making, especially today with the challenges of the modern utility with expanding infrastructure needs at a time

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of level or declining demand. We also explained the challenges that Austin energy is in fact experiencing declining average usage among residential customers, which is consistent with the council's goals by creating a financial challenge. The utility continues to be dependent on high users and hot weather to recover costs, and that is not consistent with our goals. These issues are most challenging due to the changes in residential customer usage but similar outcomes are possibly on the horizon for commercial customers with the expansion of distributed generation. Nevertheless, with the financial recovery we were able to reduce rates by $24.6 million. We are also proposing some modifications to rate design to stabilize revenues. First I want to share with you a quick review of the cost of service results. As you know, the cost of service study suggested that we can reduce base rate revenue by $24.6 million. The study confirmed what I think we all knew, and that is that commercial and industrial rates are above the council's goal for competitiveness that would be in the lower 50% of rates across the state. We also have customer class allocation imbalances, which have improved but continue. We've made significant progress since 2009. Our 2012 test year in aligning revenues with cost of service. Nevertheless, the commercial and industrial customers continue to subsidize the residential class. This slide which we showed you in December summarizes the cost of service challenge that we have among our customer classes.

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The slide shows the percent deviation of each customer class from cost of service and it also presents in absolute terms in the bold numbers the dollar value deviation from cost of service. If you start from the left, you can see that the red bar is Austin energy in total. We believe that we're -- have $24.6 million in revenues above cost. That's 3.8% of our base rate revenues. However, the residential class and the smallest commercial customers are below cost of service, including the residential class, 17.5%, excuse me, below cost of service at 46.3 million below cost of service. The class that is the most above cost of service is secondary too. Those are mid-size commercial customers, who are 27.2% above cost of service for a total of $42.3 million. I would note that these results are based on Austin energy's cost of service analysis. Other participants in this proceeding had their own estimates, and the hearings examiner made some cuts and so other participants cost of service conclusions would differ from this somewhat. I know that you know by now and that you will hear later today the hearings examiner affirmed many of Austin energy's proposals but has made a recommendation that we reduce rates on the order of 63 million, well above Austin energy's proposal, and approximately equal to the increase that the council approved in 2012. While Austin energy appreciates the efforts of the

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hearings examiner in schlepping his recommendations, Austin energy will discuss over these meetings that we believe you should reverse several of the hearings examiner's recommendations, which will result in the end of the process in a revenue reduction that brings value to our customers and assures the long-term financial health of the utility and the city. I'd like to briefly review Austin energy's proposal so that we have a common basis for the discussion to come. On the issue of cost allocation, there are dozens of different categories of costs that are allocated to different types of customers in the cost of service model. Those allocation issues can be contentious among members because it's a zero sum gain among the customer classes. In the discussion of the -- impartial hearings examiner today you may hear about several cost allocators where the impartial hearings examiner recommended changes from Austin energy's recommendations. Some of those allocators include the treatment of the costs of the 311 call center, clarification of costs of transformers and captors, the allocation of uncollectible expenses, and energy efficiency services charges. The most significant cost allocation issue, because it's the largest cost item, is always the production cost allocator. You may recall that Austin energy recommended using the 12cp or 12 coincident peak method. 12cp is a middle ground between the base loan intermediate peak or bip method favored, and that favored by the industrial customers, and the hearings examiner did affirm Austin energy's use of the 12cp method in the process. I'd like to briefly review Austin energy's recommendations and then conclude with some comments on the process going forward.

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Beginning with seasonality, you'll recall that one of our proposals is to eliminate the differently between the -- differential between the summer and non-summer base rates. We find there is limited cost justification supporting seasonal rates. Our costs don't vary by season so the rate should not vary by season. At times the seasonal fluctuation is potentially burdensome on our vulnerable customers who may have much higher bills in the summer than the winter and difficulty paying those bills and we have proposed adopting seasonality in the power supply adjustment, where there is cost variability between seasons, but we found that the seasonality factor in the power supply adjustment is much smaller than the seasonality factor that is currently in our base rates. With regard to residential customers, as you know in 2012 the council adopted a five tiered residential rate. Our current five-tier rate design we've found and we've discussed with you previously recovers insufficient revenues for most customers because with declining residential usage -- with declining residential usage, that is a stability concern that we have for our long-term future. So our recommendation is to slightly flatten the five residential tiers to better align with cost of service and to improve the stability of our cost recovery. I want to assure you that the rates will retain a tiered structure, providing price signals to encourage conservation and energy efficiency investments. We showed you this chart earlier this year, where the green line shows you a customer's bill at different levels of usage.

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You can see that the five tiers are indicated in the shaded boxes. The kind of brownish line is cost of service, and our average customer during this time period had average usage of 903-kilowatt hours a month, but our costs are only recovered at 1400-kilowatt hours a month, so that you can see most of our customers and all those customers in tier one and two and many of the customers in tier three are paying below cost so we are extremely dependent on customers in those upper tiers to fully recover our costs. This makes us very vulnerable to weather swings and creates a challenge and incentive in compatibility related to the success of our energy efficiency programs. Briefly, for outside city customers, we are recommending that we maintain the $5.75 million differential for outside city customers that was agreed to in the 2013 settlement. Switching now to commercial rates, as you know, the council made substantial modifications to the commercial rate structure in 2012. We are for the most part recommending that we maintain those modifications. We did conduct a cost study this year to look at the boundaries between the different secondary customer classes, and based on that study we are recommending that we maintain the 10-kilowatt boundary between the s1 and s2 customers. But we are recommending that we adjust the boundary on the top side between the s2 and s3 customers to 300 kilowatts

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from today's 50 kilowatts and that comes out of our cost study. I would note of the 23 parties that were involved in our process, not one party challenged this issue in their testimony or in the hearings and the hearings examiner did affirm this. And as well for commercial customers, we are recommending the elimination of the seasonality. There are a number of discounts embedded in our commercial rates. We are recommending that we maintain the existing discount for inpatient school districts -- independent school districts. We are then recommending we provide state accounts a discount in conclusion of the current contract at 2017 and we add a military discount, about a $95,000 addition. We are also recommending that for all these commercial customer types receiving a discount that we set the discounts in a uniform manner at 20% off of base rates. We have also recommended that we conclude the transition time period, providing a rate cap for house of worship accounts. I know that is an issue that you have received a lot of comments about, and we look forward to discussing that with you. Finally, we have recommended that we add a load factor floor for low load factor customers in s2 and s3 classes, and that is a recommendation that addresses the issue that has been raised in the past about the concern for demand charges for small commercial customers. So how do we propose to allocate the $24.6 million rate reduction? For residential customers, because residential customers are well below cost of service, Austin energy's recommendation is to hold the total base rate reduction --

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the total base revenue collection from residential customers constant. I have noted that we proposed to implement some revenue neutral adjustments within the residential class to improve revenue stability and note that there is also an additional reduction in the regulatory charge that is proposed in the budget adoption. For commercial customers, our initial objective was to assure that no secondary or primary non-residential class would receive an increase after all, this is a rate decrease patrol. We've proposed D proposal. We've proposed to hold small secondary, the s1 class, constant as they are below the cost of service. The largest would go to the midsized commercial customers, secondary two and secondary three who would receive the majority of the reductions and fully $12.3 million in our proposed reductions go to the s2 class. For primary our largest customers and some of the largest employers in the community, we have proposed to bring those customers as close as feasible to cost of service. For the transmission two or t2 class we propose to bring that class to cost of service in accordance with the t2 tariff, which is a small increase, however, there is a three-year transition period prior to that increase being passed through under the terms of the tariff. And with all these changes, the team worked to assure a rational projection progression of rates across customer classes as customer load increases. That ensures that as customers move from one rate class to another, with growth in their load, that they don't experience sudden increases or declines in bills. So this slide brings those

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proposals together and shows you the differential in cost of service by customer class as it exists today and is as proposed. Again according to Austin energy's cost of service model and other participants in our proceeding have some different perspective on some of these, but you'll see that in the green bars, which represent the proposal, the red has gone away. So we have distributed the $24.6 million reduction across the commercial classes. Residential and secondary one's deviation from city of Austin of certainly, the residential remains at 17.5% below cost of service because we have not recommended directing any of the revenue to those customers. The largest dollar decline is in secondary two, which would see a $12 million reduction, and that brings them from 27% above cost of service to 20.9% above cost of service, and you can see the differentials for the remainder of the customers. So in sum -- in sum, Austin energy's proposal ensures the long-run financial stability of the utility in the city. It also provides rate reductions to customers above cost of service, eliminates cost of service misalignment, but does not eliminate subsidies entirely and maintains incentives for conservation while improving revenue stability. I want to speak a little bit to next steps. As you'll recall in the spring the council adopted a schedule calling for a series of five meetings this month to review Austin energy's rates. Today you have the opportunity to hear from the impartial hearings examiner and ae's response to his recommendations. Next Monday you're scheduled

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to hear from the parties to our proceeding, and then the following Monday, the 22nd, to receive the recommendations of the electric utility commission. We anticipate you'll spend that delay in deliberation on these issues and at the end of the day provide guidance to city legal to draft a rate ordinance for your consideration. And then as the chair noted, there are public hearings scheduled for the 25th and the 29th, which is scheduled for your adoption of the rate ordinance. I want to speak just briefly about the issue that you've probably heard about regarding settlement. We advised you back in may that we would meet with the parties to determine whether there may be common ground to reach agreement on any or all of these issues. All participants recognize, I think, that Austin energy cannot settle anything. We can only advise the council as to the benefit of any agreement. We also recognize that any agreement must be unanimous or near unanimous among the parties. Over the last month, we have had discussions with a number of participants. Those discussions are ongoing. In the event that we can reach common ground on any or all issues, we will bring that agreement to you for your consideration during this process. And my last comment is on keeping the budget and the rates straight. The rate numbers and the budget numbers are not the same. As we have discussed this year, the rates are based on a historic period, test year 2014. While the budget covers 2017 fiscal year spending targets. At the end of the rate review process, you will adopt base rates, as well as policies that determine how the past-through charges will be set. But the -- but the level of those pass-through charges will be set in the budget.

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The city budget office will return to you at the end of September with an amended budget that reflects the rates and policies adopted in the rate ordinance. So thank you for your attention this morning. We'll now hear from the impartial hearings examiner, Mr. Freddy Herrera, who will be followed by Austin energy's outside council, Thomas bercado, and we look forward to your questions and robust discussion. >> Gallo: Thank you. At this point we'll pause to see if the council has any questions based on the presentation so far. Councilmember kitchen? >> Kitchen: Thank you very much. I had some questions about slide 12. So if we could put that up again. I think I'm understanding what you're saying. I just want to make sure. So what this is showing us is that the reductions are distributed across the commercial categories, commercial and industrial? >> Yes. >> Kitchen: So none of it is distributed to residential? >> Yes. Austin energy's recommendation is that the $24.6 million reduction all be distributed to commercial customers as residential customers are well below cost of service. >> Kitchen: Earlier you had talked about the seasonal adjustment also. >> Yes. >> Kitchen: Is the net effect of the recommendations, when you look at both the seasonal adjustments and this distribution of reductions, are there any increases at all to any category of residential? >> Yes. So -- >> Kitchen: [Overlapping speakers] >> The residential class as a whole remains at the same revenue collection, but we have proposed two changes in the residential. Class one is to eliminate the seasonal adjustment, and the other is to squeeze down the tiers. So what you'll find is that residential customers with

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very low usage, and there are residential customers of all types with low usage in these expensive condos downtown and also low-income customers in multi-family home, customers at the lowest tier would have a small increase, on average $1.50, $2 a month, though their winter bills would come up more and the summer bills would come down. Customers in kind of the middle area will have a small decrease and, again, they'll see an increase in winter bills, and then customers in the highest tiers -- and recall that no customer is in a single tier all year-round. They move around quite a bit. Customers who experience the highest tiers in the summer will see a larger decrease because their summer bills will come down from the higher tiers and winter bills will come up a little bit. >> Kitchen: When you say increase or decrease, you're talking about the net effect? >> The net effect, yes, in the lower tiers $1.50 a month and then middle tiers and upper tiers is a decrease. >> Kitchen: Okay. So just one other question. Looking at this chart, just help me remember, the primary two and the primary three categories, give me an example of who that is or what kind of entities. >> Actually, primary three is mislabeled because that should be primary four. There are no primary three customers today. >> Kitchen: Okay. >> There are two customers in the class primary four. >> Kitchen: Okay. >> And that is nxp semi conductor and Samsung Austin semi conductor, both sides the p4 pair I have in the fall so they're served in the p4 class. Primary two would include a large data center, some of the large hospitals, other kind of

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industrial facilities and primary one would be smaller hospital facilities, maybe some of the largest officer buildings, there's a few schools in primary. Secondary is the broad array of commercial customers. >> Kitchen: Okay. Then I think you mentioned for us the dollar amount of these percentage decreases? >> Yes. >> Kitchen: Could you tell me the dollar amount across all of these classes? >> So for secondary two, Austin energy's proposal is a $12.3 million reduction. For secondary three, it's a $3.2 million reduction. Primary one is $2.5 million. Primary two is $4.4 million. And primary three or primary four is $2.3 million. And this chart is in percentages, so it's a little hard to map those dollar values to the percentages. If we showed this chart in absolute terms it would show that big distinction in s2. >> Kitchen: Okay. Thank you. >> Gallo: Any -- mayor pro tem? >> Tovo: Thank you. And I know we'll have an opportunity to hear some different perspectives on these issues, but I wanted to give you an opportunity to talk about -- well, first of all, I guess my question is can you help me? I feel like I've seen the percentage increases broken down by class of residential, by tier use within the residential class. But I'm not immediately able to put my hands on it. Can you tell me how that breaks down, how the residential increase and decreases breaks down by tier usage? >> Councilmember, we did present you some information about that in January, and I thought the charts were a little unintuitive so we're working up a new format for that. And I can show that you for

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cap customers today, and then we're -- we'll be working that up for other customers shortly. >> Tovo: I'll look back to January, to those charts. Since the tier -- since those in our lowest class tier one are those who are bearing the increase in the residential class, do you know what that percentage is? What is the percent increase in their bill? For tier one. >> I'll have to get back to you with that. >> Tovo: Okay. Then as I understand it, those in the upper tiers are going to experience a proposed -- a decrease under the proposal. >> Yes, they would I think I know we're going to hear other perspectives on it but I'll just say it concerns me that the increase in the residential rates are being borne by those who are using the least amount of energy and that seems counterintuitive to our conservation goals, among others. So I just wanted to hear from Austin energy's perspective why that's the proposal. >> It's a balance issue, mayor pro tem. The five rate tiers and the seasonality were developed to stimulate conservation and it's absolutely clear, I believe, that they have stimulated conservation. But as customers in those top tiers conserve and as more and more of our community is shifted to an urban environment, where we're not collecting sufficient revenue in the top tiers to maintain -- to maintain revenue stability. So we're proposing, you know, a little shift, a flattening of the tiers to ensure that customers who are in the low tiers are paying sufficient revenue and we're not dependent on hot weather and high usage to recover that revenue, which is contrary to our objectives. >> Tovo: Okay. Thank you for providing that perspective. And I'll just say to my colleagues this is something that we talked a lot about in

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the first rate case, about that first tier and the basic fee, and I'll just note this as a point of concern that we're -- and I think we'll be able to evaluate that a little better once we see the percentage increase in that first tier's bill -- I mean in the first tier's rates compared to the percentage decrease in those upper tiers. But thank you for that response. >> And I am -- excuse me. I'm reminded by Mr. Dombrowski that one of our additional proposals is we do a number of interim studies after this rate proceeding. Some of which would be focused on the tiers to determine if we have the right rate points. We'd like to do a study of kind of the minimum sustainable amount to any customer to assure that we have the right -- I guess the life line break point and recognize that those customers who are the most vulnerable, who are using the lease electricity, are representing properly in the tiers. >> Gallo: Councilmember Houston? >> Houston: Thank you so much. I brought my electrical bill so I could speak -- ask questions based upon a senior citizen on a fixed income. I can't tell. I think I've used first tier, second tier, and three tier, the third tier, and my bill is 129.84. And so what I'm hearing you saying is that you're gonna collapse the five tiers to how many? >> It would still be five tiers. >> Houston: Okay. >> But we would propose raising the rate in the first tier a little bit and lowering the rate in the top two tiers a little bit and some other small adjustments. >> Houston: That's what you mean by flatten. >> Yes. >> Houston: Okay. For this average customer, would that mean that my

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bill -- my bill would go up? >> How many kwh did you use in that one? >> Houston: Kwh per day? >> Over the course of the month? >> Houston: Over the month, hold on, hold on, hold on. >> It's in that bar chart. >> Houston: Bar chart is a little over a thousand. >> I believe that your rate would go down slightly during that month, but in other months it may -- where you useless, for instance, April or October, which are usually very low demand months, your bill would go up a little bit. But in August and September it would go down more. >> Houston: So there would be no consistency at all? I mean -- >> It depends on your usage of electricity because from month to month your usage is in different tiers. So given that bill, in August you might be in the top of tier three or into tier four, but in April you would likely be in the bottom of tier two. And so during April, when your usage is low, you'd have a small increase. But during August you'd have a larger decrease. It all depends on your usage pattern. >> Houston: Okay. Thank you. >> Gallo: And so it would also level out the bills a bit, rather than having more of the spikes? >> That's right. I think, you know, we're all concerned about peak bills for everyone, but particularly for our most vulnerable customers, and so by leveling out the bills, as you said, we can take a little bit off the top of a customer's bill in the summer and perhaps prevent them from falling into nonpayment or late payment or getting on some kind of payment arrangement. >> Gallo: Okay. Thank you. Mayor? >> Mayor Adler: Over the last year or so, I think we've heard conflicting information as to the relationship between need and usage levels.

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Whether there's a correlation between the lower tiers and -- and economic position. Is there any definitive work on that issue? >> Well, mayor, what I'll tell you first is that we've looked at our cap customers compared to our non-cap customers, and as far as average usage, they look just the same. Essentially just the same. So there's cap low-income customers in the bottom tiers and there's low-income customers in the upper tiers. I note earlier that councilmember Houston asked Ms. Guiterrez a question about cap customers falling into different tiers, and she didn't have that chart with her, but I do have the chart. And so if you consider the difference between April and August, April, an extremely low usage month, you'd find that 38% of cap customers' usage met is in tier one, 38% in tier one and 45% in tier two. That's in April. That's virtually all -- 80 plus% of the cap customers are in tiers one and tiers two. But if you look at August instead, 7% of cap customers are in tier one and 22% of cap customers are in tier two. So it's gone from 80% of customers in the lowest tiers in a cool month to 29% of cap customers in the lower tiers in a hot month. And then if you look at the top tiers, in tier four and tier five in April, there's only 4% of cap customers are in tier four and tier five in April, but in August it's over for the %. 40%. So cap customers are in the lower tiers. Cap customers are in the upper tiers, as are all customers. A lot of the rate pressure on cap customers has to do with

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how we respond to weather. And the changes in usage that we have. But our look comparing this type of data for cap customers with other customers shows they're basically similar and they're all across the board. >> Mayor Adler: Is there a way for you to weight that analysis so that you could see what the annual impact would be of the flattening that you're proposing on the lower-income or cap customers? >> I can show you a couple of examples. You have a slide, if you'd like to go through it, of three cap customers. One with very low usage, one with middle usage, and one with higher usage. And I can show you the month to month changes among those customers if you'd like. Can you put that slide up? >> [Off mic] >> Yes. >> Mayor Adler: And are there bills -- their bills roughly the same month to month? Absolute dollars? >> I would have to -- yes. In absolute dollars, taking aside the cap discount, I -- I believe that the average low-income customer's bill is about the same as the average non-low-income customer bill because the customer profiles look very similar. >> Mayor Adler: I was asking a little bit different question. But let me let you do your chart first and let me see if I still have the question. >> Okay. If you look at that middle section, that is -- that's -- this is a real customer. Customer on the cap program. Whose average monthly usage is 974-kilowatt hours a month. You can see by the size of the bars that usage is much lower in the winter and spring or -- spring and fall shoulder months than in the summer. This is denominated by dollars

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but not in usage. For that middle customer you can see in a low-usage month like February was this year, they would get a $6.66 increase in their bill but in August the reduction is almost $20. And so on average that customer would have a $1 a month decrease. So that's kind of an average customer who is up in tier three most of the time but goes into tier four during the summer. If you look at the even larger customer, you can see that they have an increase in the shoulder months of six, seven, eight, $10, but in the summer months that customer is having a decrease of as much as $28. This is a 1500 kwh a month customer so their average usage is bottom of tier four. So that customer gets a $2.05 decrease per month -- $2.50 per month. The 500kwh a month customer in this example has about a $2 monthly increase and it follows the same pattern, and an increase in the winter and shoulder months but a larger decrease in the summer months. I would note this is on top of the approximately $100 million in power supply adjustment decreases we've had in the last year, which for a tier one customer would be about $5, $5.50 a month already. There's been a $5.50 decrease in the bill -- decrease in the bill for a tier one customer tier 1 customer. >> Mayor Adler: Layering on this the relationship between tier and economic status, I think what you said was the cap customers are

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disproportionately represented in the -- was it the April or in the summer? >> In April almost all the cap customers will be in low tiers -- or yes, almost all of the customers will be in low tiers, but in the heat of the summer many of them will be in the upper tiers. And that's similar to all of our customer base. >> Mayor Adler: It couldn't be for all your customer base, right? Because if people are moving -- is there -- I guess everybody uses more in the summer, but the question is -- I'm trying to figure out if there's a way to weight -- it's still -- I guess what you are saying is that the cap customers mirror is general population regardless of the month. >> Yes, sir. >> Mayor Adler: Thank you. >> Gallo: Councilmember pool. >> Pool: Thanks. Thanks, Mr. Dreyfuss. I'm looking at my bill now because councilmember Houston got me going on this and I don't use very much electricity, it turns out. My highest month looks like 1098 kilowatts and lowest 273. So I'm in the lower tier -- >> And have you taken advantage of all our energy efficiency programs? >> Pool: I have including new windows and upgraded our hvac system. So -- and I live in a house that was built in 1954 so I know that it's possible to make our homes efficient. But what I'm worrying about on

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the -- putting aside my participation in Austin energy, and this is kind of similar over time for me, putting that aside, for the regular customer who is committed to conservation and efficiency with electricity, is the flattening or the narrowing of the tiers going to cause those who are trying to turn down their usage knobs, is that going to -- what effect will that have? Have you all looked at that? >> We -- we haven't been able to conduct a predictive study as to what the impact would be on our energy efficiency programs, but I'll tell you that we would still have a five tier program. Those five tiers are still fairly steep, not quite as steep, and Ms. Kimberly and her team are working very hard to update the programs, attract customers, get customers into those energy efficiency programs and we continue to be on track to meet the very aggressive goals that the council has set for you. And I believe we'll continue to remain on track even with this change, but have we done a specific predictive study, no, we have not, but on that agenda of studies that we will be doing over the next few years is beginning to zero in on how customers respond to the tiered rates. We've done a little bit of work about that. We would like to do a lot more. >> Pool: Do you have a time estimate on when ae and miss Kimberly might have some results for us? >> That would still be a while

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out and subject to identification of resources to do that and approval by council, but it's on our agenda. >> Pool: Okay. And then one more time can you walk us through the changes to the rates per tier? Right now the lower tier is 2,000 kilowatts. Is that right? And that's a flat rate that up to that point the rate for that, and then do you have a slide that shows the tiers with the changes to the charges? >> I do. >> Pool: What number is that? >> Gallo: If I could just interrupt for a second, I think we've asked you to actually print the attachments you are referencing in some of those so councilmembers will have those available pretty shortly. >> Sure. So this is the residential, our residential proposal. At the top is the customer, the $10 customer charge which we are not proposing to change. Then the second block is the summer tiers, and you can see the existing rate in the middle and the proposed rate on the right-hand side. So in tier 1 in the summer we're proposing to keep that rate the same. In 2 we're actually proposing so reduce the tier 2 rate. And as well reduce all of the summer rates with the top rate for the fifth year coming down about a penny. In the nonsummer months you can see that we proposed to increase the bottom tier up to the summer rate, leave the second tier the same, and then raise just a bit the third, fourth and fifth tier. >> Pool: And looking at this I remember that 2,000 gallons of water, I said 2,000 kilowatts but actually 2,000 gallons of water on my

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water bill. The first tier is less than 500-kilowatt hours. >> So in any month that you were below 500kwh, your rate would be 3.3 cents. >> Pool: And that would stay the same. Are these tiers -- the summer tiers are the ones that are existing now is that correct is that correct? >> Yes. >> Pool: So the new rates combine summer and nonsummer together -- >> In that right-hand column. >> Pool: The right-hand column. So the first tier, zero to 500 in the summer, is the same as the nonsummer first tier. >> Yes. >> Pool: Okay. Great. Thank you. >> Gallo: Mayor pro tem? >> Tovo: So that last chart, and I understand we're going to get those copies and that will be interesting. I started to look at those customers and try to figure out what their -- what their bills would look like after the changes, and I think that last tier is going to -- would recognize about a $30 decrease over the course of the year, and the second tier -- well, in any case I shouldn't throw out the numbers because the chart kept disappearing and I couldn't be sure of my math. I think it would be useful to have that and know how many customers we're looking at in each of those tiers. And so if you've got -- where would be the best place to find that information? Is it already in some of the rate filings? Have others -- have some of the interveners asked for that information? >> We have -- as I mentioned and as Ms. Gutierrez discussed earlier, we do know for the cap customers how many customers are in each tier each month. >> Tovo: And which -- what document would I look at for that information? >> Well, I have that -- >> Tovo: The one you are going to give us. Okay. >> And I have asked the staff

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last week to generate the same information for customers who are not in the cap program, and that is a custom computer program that has to be developed to make sure to get that done right. So I anticipate having it shortly but I don't have a time line on that. >> Tovo: Thanks. If it was somewhere in the rate filings, I just wanted to go look it up. Okay, thank you. >> Mayor Adler: Because what makes that hard is that people are moving from one tier to another tier. >> Yes. >> Mayor Adler: So if you just look at a tier to see what that impact is, you don't -- it doesn't tell you about an average customer. >> And that is why I presented the customer bill information the way that I did to show you the change from month to month. >> Mayor Adler: But the work that you are going to do is going to help us see what the real impact is on an average -- actually cap and noncap customer. That would be helpful. >> I'm reminded that in our presentation in January we did provide you some bill impact summaries and those are in our January filing as well as we can forward to you again. >> Mayor Adler: If you would report that, I would appreciate it. >> We're doing some work right now in the same format and I showed you the cap customers so you can get a better sense of what a real customer's uses pattern looks like. >> Casar: To further comment, I found the chart to be helpful because I do happen to have that customer chart he was holding up so you could see how someone's bill might increase slightly during the winter months, the same bill increases more in the summer months because they actually exist in all of those tiers at any point in any given year.

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But then to get to -- so I think those questions will hopefully be resolved if what Austin energy's point comes true where we see that cap usage -- or noncap usage is less tied to, say, a social justice perspective and we're trying to decide how incline a -- isolating it to that question I think will be helpful for the group if indeed cap customers' usage patterns map out just like everyone else's. The staff is putting together everyone else's usage patterns. >> I would note that this data is available because of a pir filed by Mr. Paul Robbins earlier this year that led us to produce that data. >> Casar: You got a head start. Then to hop forward to potentially what I think the next question from the dais once you get us that information is that when we were looking at the rate impacts that you laid out, it really seemed to me that the biggest change was not just the tier flattening or compression, but actually the summer versus winter rate changes, when you were really looking at what the real changes for the average customer. And I understand that within your proposal it's kind of hard to untangle at least looking at that what's up on the screen right now, untangle what is rate flattening versus summer rates, but it may be helpful as you prepare through computer programs and models what the bill impacts might look like, if it does come down to this council wanting to keep the tiers as sharply inclined as they are but modify seasonality or keep seasonality and modify the tiers, it may be helpful to compare what happens if we don't keep both but we take your recommendation on one but

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not on the other to see what the impact is on customers because right now that chart you put up includes both and it's hard to tell how much comes from one and how much comes from the other because they are kind of one thing. >> Right. We may not be able to do those comparisons on the fly, but we can certainly assess -- >> Casar: I think that people on the fly may have those questions and then we'll be a bit stuck. And so if you could start helping us see how much of that impact is from the seasonality change versus from tiers, at least give us some framework to think about those two. I know they get combined in this chart and I understand why, but I think people will debate those as different and I think there certainly is a -- I understand the benefit that you all have laid out to people not having panics all of a sudden in the summer even more than they already would from their increased usage. So I understand that and if people -- it might be helpful for us to separate those two variables is what I'm saying. >> Okay. >> Gallo: Any other questions? Councilmember Garza. >> Garza: I'm looking at slide 6, and so there's summer tier rates and nonsummer tier rates, right? Is that correct? >> Yes. >> Garza: Okay. So on slide 6 it says the average monthly residential bill, is that -- does that take into account the different tier rates for -- >> That's just strictly an average. >> Garza: Okay. >> And so on average our customers using 900kwh a month, but on average in order to recover costs a customer would have to use 1400 kwh a month. We under recover most of the year until the middle of the summer we catch up because of hot weather and high bills, and then we begin to recover

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our costs. That's just not a very stable pattern in which to deliver service. >> Garza: And I -- I have concerns too about -- and I know it's a tough position to be in to encourage our residents to conserve and then we leave our energy utility in a bind. That being said, I think what would be helpful is to know for those first three tiers to know exactly the percentage, like for example tier 1, what percentage of the cost of service do they pay? Just so when we're trying to decide -- if there's people that pay 20% of the cost of service, I would like to know that information in deciding whether to raise it to 25% or 30%. So if you could provide that information. >> I believe we have that information. >> Garza: Thank you. >> Gallo: Any other questions? Councilmember Houston, excuse me. >> Houston: Do customers have the option to levelize in the proposed structure you are suggesting? >> Yes, ma'am, that -- the levelized bill option wouldn't change. >> Houston: Okay. Thanks. >> Gallo: Anyone else? I think before we move into the presentation of the impartial hearing examiners, let's take a quick 10-minute break. That way -- that way we will all be here for the full presentation, won't be popping up and down because I think it will all be good information. It is 11:15. We will start back at 11:25. [Brief recess]

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>> Gallo: Councilmembers, it's 11:25. If we could gather back. We have all six -- we have a quorum present so if we could start with the presentation, and thank you for allowing us a quick break. We've been up here since 9:00. All right. Greg, do you want to come up to the dais so we can start? Thank you so much. Thank you and welcome. >> Thank you. Mr. Dreyfuss, how do we get your -- Mr. Dreyfuss isn't here. Councilmember Gallo, let me know when you are ready. He would like to get this off the screen if we could. >> Gallo: I think we're trying to do that.

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We're waiting for ctm. Here you go. >> Gallo: I think it is ready for you. Do you need some assistance in -- >> No, I don't. I apologize. I wasn't sure if you were ready for me to go or not. And I don't have a power point presentation, I apologize. As swift as these things movie have not had time to prepare that for you. I was the partial hearing examiner selected by council for this process to review Austin energy's rates. I've got to tell you I have the privilege of representing cities across the state and I'm not aware of any other city in the state that goes through the type of process that Austin energy does with regard to its municipally owned utility. As Mr. Dreyfuss noted at the outset that the goal of this proceeding was to -- from my view not necessarily replicate precisely what the public utility commission does with regard to setting rates and the processes it has in place, but it's 20 use that as a guide in how to move forward and provide for more meaningful participation by your customer base. Which is what the PUC does when an investment utility comes in to change rates, it provides a process by which affected ratepayers may present their views to first the administrative law judges at the state office of administrative hearings and then secondly and ultimately to the public utility commission and the commissioners at that agency. So what we had here was,

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again, a process that looked to the PUC for guidance in how to move forward and we had the opportunity just as at the PUC for intevenors, ratepayers particularly, to submit written presentations whether they be in question and answer format like we're seeing at the PUC or just a narrative on what they thought the correct out come should be for energy's rates. There was the opportunity to undertake discovery just as you would in any litigation and there was a hearing that allowed parties to conduct cross-examination of Austin energy's witnesses and then of the intervener's witnesses as well. Probably the one area that -- in the process that was a controversial issue and one that is difficult to address was access to data that Austin energy considered to be competitively sensitive and not subject to disclosure under the public information act and therefore is not available to all the parties. Absent that one difference, the process was very similar to the PUC processes. The other difference was the time frame. While the public utility regulatory act mandates that a rate case at the PUC be processed from day one to end within 185 days, there's an opportunity to extend that if the hearings last longer than X amount of time you get an extension, a two for one extension on hearing dates. Usually at the PUC there's an agreement reached with the utility whereby they extend their proposed effective date which has the effect of giving the commission and the parties additional time to prosecute the case and you end up having about nine months to prosecute the case, maybe a bit longer depending on complexity of the case. Here we didn't have that opportunity. The case was -- Austin energy filed its rate filing package

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on January 25th and the deadline for concluding it was toward the end of at least our processing of it was toward the end of July, middle of July, which is a very compressed time schedule. Having said that, most of the players that were involved in the proceedings before the proceedings over which I presided are very familiar with the processes that the commission has and are accustomed to working in that type of time compression, if you will. But it is nonetheless a very challenging process. With regard to the setting of rates, and Mr. Dreyfuss touched upon this in his presentation to you this morning, there is a marked distinction between how the public utility commission sets rates and how, for example, you will set your budget. This is not a budget process. We are not talking about -- in the rate review, we were not talking about whether Austin energy should go out and buy three more bucket trucks and invest in the money you were discussing earlier with regard to the changes that are needed or -- for the cap program. We're not talking about that type of process at all. Instead what the public utility commission does and what we did in this proceeding is to look at an historical test year. In this case it was Austin energy's fiscal year ending September 30, 2014. That is vastly different than looking forward in a budget process. What the PUC does and what utilities that are -- that bring their rate cases to the PUC is to look at historical test year, and a test year is any 12-month period ending on a calendar quarter. Utility gets to pick it. Look at the investments and expenses that were incurred during that period, adjust it for known and measurable changes that occurred after that period, and move forward and set rates on that. That is the exercise that we

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went through here, not at all what you are about to or what you have been doing with regard to budget not only for Austin energy but for the other departments within the city. And I wanted to make sure that we kept that distinction clear because we're not dealing with a budget item, we are dealing with expenses and investments that Austin energy made historically. Some of those may have changed after that historical period ended and how you take those into account. And what you typically try to do is you try to normalize the expenditures that a utility makes. So for example if there was a catastrophic failure of some type, there was a tornado in the Austin area and it ripped out a lot of Austin energy's assets that required extraordinary expenditures and operations and maintenance expenses as well as capital spend yourself, you would look back historically more than likely to see what the Normal amount of expenditures were for those types of widgets, if you will, that Austin energy was having to go out and purchase and come up with a normalized amount so that you don't [inaudible] True rates. What we're trying to do is set rates based on historical data moving forward. To try to capture what those expenses as you move forward. So there's a little bit of forward looking but most of it is looking backwards in terms of the expenses and the investments. Generally in a rate case, and sometimes we even break it down that way, we did not hear, although as a practical matter that's take way it ended up being, in a general base rate case, the case breaks down into two phases. You have the revenue portion where you establish the revenue requirements, also called the cost of service. What does it cost this service to provide service to ratepayers. The words revenue requirement

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and cost of service are used interchangeably. Not to get confused with a class cost of service study that identifies how those expenses are allocated to the different customer classes. That would be phase 2. Once you get through phase 1, then the way I've always explained it to my different clients is that in the revenue requirement phase, most of the guns are aimed at the utility. Everyone is going after the utility, you want too much, everyone wants lower electric rates, lower gas rates, lower water rates, lower rates. When you get to the cost allocation and rate design phase, phase 2 of the proceeding, everyone's guns are aimed at everybody else. Because in this particular game you don't want to get the big size of the pizza, you want the smaller size of that pizza. That's what the class cost of service study is about, that's what allocation is about. Revenue requirement is simply identifying how much money the utility needs to function, to provide its services. In this proceeding, as I mentioned, we started in January with the rate filing package by Austin energy. Ultimately culminated in a hearing toward the end of may, I think we started may 31 and ended on June 2, maybe June 1. The intevenors and the Austin energy filed their closing briefs and closing brief is simply a summation of usually and primarily the factual points that were made during the process so that everyone has something in writing. They submitted those to me. I reviewed those and issued my partial hearing examiner report on July 15 and this past Friday a supplemental report based on what we call exceptions to the report. In this proceeding the exceptions took on more the nature of a request for reconsideration of a particular recommendation that I would be make to go the council. The exception or the reconsideration is simply to

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inform the presiding officer that a party believes the presiding officer got something wrong for whatever reason in the report. That's what that opportunity is for. So based on those filings that I received on August 1, we agreed to a schedule up front. The initial exceptions were submitted on the 22nd of July, and then the reply exceptions were submitted on the first of August. I submitted my supplemental report on the 5th of August. So again, a very tight schedule moving forward. Mr. Dreyfuss also mentioned the number of parties that had intervened in this proceeding. There were about 25 parties that intervened representing just about the entire spectrum of your rate class. Of those there were about 12 who actively showed -- showed up at the hearings themselves and about six to seven depending on the issues that actually undertook cross-examination of the witnesses that were presented. So it really dwindles down as you go through the process and you see those that are most interested and most active participate in the hearings. At the beginning of the process we also identified with parties' input and I would issue what I called impartial hearing examiner memorandum that would identify pre-hearing types of issues and one of those issues was the scope of the hearing. Generally speaking the scope of the hearing was [lapse in audio] How those costs are Cal late amongst the different customer classes. Key in that was what was not to be addressed in this proceeding. And there were a handful of

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issues that I concluded were outside the scope of the proceeding based on how the council moves forward with its budgets process and how it moves forward with its rate study process. One of those issues was the prudence of Austin energy's fuel and purchase power -- power supply contracts outside the scope of the proceeding. The level of the regular la story charge, outside the scope of the proceeding. In a more traditional sense, and this will become more evident as I go through the individual adjustments that I am proposing to what Austin energy presented, the transmission cost of service that Austin energy incurs. Whether Austin energy should use a cash flow basis to identify its cost of service or whether it should use a debt service coverage requirement approach. Those were outside the scope of the proceeding. From my view, the commission allows its rules, refer to it. A cash flow approach a utility gets to select which way it wants to move forward. Austin is not a investor owned utility so it does not have equity in the traditional sense of if you think of center point or Asmus or Texas gas service where there is an estimated cost of equity for what it cost if somebody wants to invest in their common stock, what kind of return, your return on equity, would you expect. Austin energy is not that type of utility. It is governmently owned. It does not have a return in the traditional sense. The other thing that was outside the scope of the proceeding was any investments -- the prudence of any investments that Austin energy had made after 2009, fiscal year 2009. And the reason for that that of the the basis of the prior rate case so those decisions

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have been made. What investment Austin energy made up to that time have been subject to review or the opportunity for review, so those were outside the scope of the proceeding. The punch line in all of this is that Austin energy requested a decrease in its rates of about $24.6 million. Based on my review and the evidence presented by the other parties as well as Austin energy, from my view, in my initial report I suggested a decrease of about $63 million. In reviewing the exceptions to my report, I found that there was one area that I thought needed modification that has to do with the utility customer center and expenses associated with that that represents an additional $10 million. What I am unsure of is whether this is a direct dollar to dollar reduction to Austin's revenue requirement or whether there are flow-through effects, maybe it's greater or less than that. From my view based on the exceptions that the parties filed, based on the evidence presented in the hearings, my view is that instead of a $24.6 million decries, it should be $63 million or perhaps $74 million depending on the last adjustment. And what I would like to do is touch upon the major adjustments that were made and then discuss some of the issues where I did make an adjustment where I accepted Austin energy's presentation. The first one that I come to is the decommissioning fund for nonnuclear plants. Fpp, fayette power project, the decker plant's units and Sam hill energy center. >> Gallo: Could you -- since there's not a power point, could you direct us to what page in your report as you talk about the different components so the

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councilmembers can forward to those? Thank you. >> You are going to make me read now. It starts on page 21. You will find my discussion probably close to page 30 or thereabouts. In that particular adjustment, what I took from the evidence was that I viewed that Austin energy made a pretty good presentation on what its decommissioning costs were for decker. It had a specific study for decker. It had a general idea of when the plant was going to be retired. I know that retirement date has been pushed forward, but I also agreed you need to do have some type of reserve fund in order to take care of these types of issues. Which is why I discounted the argument that said we don't even know when it's going to be returned, therefore you should include nothing for that event. But I think there's a general consensus that we know that event is going to happen and it's going to be in the foreseeable future, therefore I thought it animal to include amounts for the retirement of these plants and dismantling of these plants for the three plants, decker, fpp and she Scheck. Where I agreed with Austin energy was with respect to the amount it was requesting for F pp and Scheck. First of all, they didn't have specific study for what it would cost to retire those plants. It was based on bench mark. Benchmarks are fine, but in my review, test what your specific study shows with a bench Mack to see if you are

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in the ball pack or way outside. From my view what we had was the second part, just a bench mark study of what it would cost to retire those amounts. I went for a lower amount for a reserve amount for fpp and for Scheck. For fpp, Austin energy was requesting $3.75 million. I went with an amount 2.925. And for Scheck instead of $1.7 million, about half of that $867,000 and some change, and that's why you see a difference between what Austin energy requested of $19.4 million for reserve accounts and what I'm recommending of $17.8 million. The next item is the issue dealing with internally generated funds for construction. And it's -- as the label describes, funds that Austin energy generates with revenue that its receiving from ratepayers as opposed to going out and borrowing money for it. The bigger issue there was whether you should use a 50 to 50% debt equity ratio in calculating the equity portion, the generated cash amount when salting what you needed for internally generated cash. Energy looks for capital improvement projects at the cip budget and amounts to determine what its internally generated cash should be. And Samsung, instead of the $139 million associated with cip, they were viewing it to be $125 million, and instead of a ratio of 50/50 for equity

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and debt, they were proposing a 60/40 split, 60% associated with debt give energy efficiency programs the amount of debt you would issue, you would need less cash generated from your current rates which reduces the amount markedly. Given the council's policies, financial policies for Austin energy and given that the council has not adopted any changes in its reserve policies, I felt that the more prudent approach was continue with that policy until the council decides to make some changes with its reserve funding policies. So I accepted Austin energy's proposals for that. The amount of funds going into the reserve will be affected by the overall change in revenue that the utility will collect. With regard to internally generated funds for construction, I didn't make any changes to what Austin proposed. They asked $88.3 million in the cost of service and I agreed $88.3 million was the correct amount. One of the more controversial issues we dealt with and this is on page 44 in my report, that's where the discussion starts of the summary of the parties' positions and ultimately my recommendation will be toward the end of that section there, was the use of transmission revenue as an off set to Austin energy's proposed revenue requirement. Generally it boiled down to this. In its presentation in schedule a, which is the summary of all utilities presentations in a rate case where it presents to you all the O and M expenses, all the revenue coming in, its investment, what it believes the return should be and generally overall what its revenue requirement is. That's what schedule a is. That's why it's at the very beginning. In that schedule Austin energy showed an off set of about

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$62 million to its revenue requirement. Pardon me. Based on revenue it was receiving from its transmission operations on the wholesale side. What mxp and Samsung pointed out in presentations to the commission in 2014 and 2015, Austin showed the equivalent number for that number to be $175 million and the other $76 million. What I couldn't reconcile based on the presentation made by Austin energy and the other parties is why Austin energy was showing $62 million as the off set amount to its revenue requirement in this proceeding, but had told the commission it needed $75 million or $76 million for an equivalent element within its cost of service. I agree with Austin energy that the council has no jurisdiction to change a utility's transmission costs of service rates. That's within the pursue of the public utility commission and not council. But when Austin energy -- I felt it was a stale number. It went back and looked at its test year and it showed it had a number of $68 million for that element. For that wholesale revenue. It adjusted that downward to $62 million. Which means you are taking away the amount of off set that would otherwise occur. And I couldn't reconcile based on the evidence presented to me why in this proceeding we're using either 62 or 62, but get before the PUC, Austin energy is presenting a number of 75 million or 76 million. They also presented in a report that they issued that their fourth question revenue associated with this element was $74.3 million. I took that number as opposed

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to the 75 and 76 as something that was close to what had actually happened for their fourth quarter. And I justed the 74 million-dollar -- thank you very much. I used the $74.3 million as the off set that compares to the 62 million-dollar off set that Austin energy used. That's a swing of $12 million. That is not an in substantial adjustment to their revenue requirement. I'm sure you will hear from Austin energy later telling you why I got that wrong. That is my reasoning for why I reduced their revenue requirement by that amount. It wasn't because I thought the Austin city council had jurisdiction over transmission. Even in the outset of the case we had excluded the setting of transmission rates from this proceeding because you don't have any jurisdiction to do that. What I couldn't reconcile is the disparity between the $62 million and the $74 million on the other hand. I use the $74 million as an off set to Austin energy's revenue requirement. With regard to their retail transmission costs, I made no changes to that. I left it as they presented it. They presented a number of $116.9 million as their transmission expense recovered through the regular la story charge and I left that unchanged. I couldn't see it was affecting the base rates in this proceeding in any manner. There's also a recommendation by public citizen and see era club that the council -- the fees debt associated with the fayette power project. Which would have an in effect of increasing rates from 24 to $31 million based on the evidence presented to me. What came out during the hearing was that -- well, the notion of pre-paying your debt sounds like a good thing to do and you eliminate that element

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of cost particularly when you are reducing rates and you have extra cash in order to do that. What was pointed out and I think it's well founded by Austin energy is that there are legal obligations that prevent the council from doing that. Which made that a -- beyond a risky proposition of paying off that debt early. It was not something we knew was going to happen. We know fayette is going to be retired at some point. It's different setting aside dollars in your reserve funds to address the retirement of fayette power project. Deifiesing debts early raises some trickly legal issues and I agreed with Austin energy that you should not accept public citizens and Sierra club's recommendation to defees debt early. A similar situation with the south Texas project. At any point, councilmember Gallo, you asked earlier whether you want questions kept to the end or interspersed, I'm am comfortable answering questions at any point. At any point you have a question, please interrupt me. Another element of Austin energy's revenue requirement that I moved was with regard to uncollectible expense and you will find that starting on page 79 of the report. With regard to uncollectible expense, I thought that the independent consumer advocate had the better argument on that with regard to calculating what that amount should be. Remember we talked about normalizing expenses for -- that the utility will incur. When I looked at the uncollectible amount of -- the bad debt, if you will, that

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Austin energy was went wanting to include was $16.1 million. The consumer advocate was recommending $4 million for that cost element. Based on the evidence presented, it appeared to me Austin energy had relied more on recent changes in its uncollectible expense instead of looking at a longer period of time for what those should be. When I looked at the average uncollectible expense over five years and over seven years, the amounts ranged from $8.4 million to $10.2 million. Those were much closer to what the independent consumer advocate was proposing. It appeared there was a much more normalized expenditure and I recommended an amount of $10.2 million for collectible instead of the $16.1 million that Austin energy had requested. Another item that was fairly controversial was expenditures that Austin energy undertakes for what many characterize as nonutility services. And we're talking about the economic development and community projects. Based on what Austin energy requested, they wanted $9.1 million for these economic development projects. Most of the parties that said anything about this said you should not include that in electric utility rates because it's not related directly to electric utility rates. No party with test to the fact there was a benefit from undertaking economic development he was to attract more commerce to the city and that has an indirect benefit obviously not only 20 the city for its tax base but also for the utility in diversifying its customer base. But it was a very tenuous relationship, I felt, between those functions and the

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provision of electric utility service. So I excluded the expenditures for the economic development community projects. The $9.1 million, from Austin energy's cost of service on the rationale that it was not directly related to the provision of electric utility service. The next item that we dealt with was the loss on disposal of assets. You will find that discussion starting at page 95 of my report. As Austin disposes of sectors sometimes it has losses on those is assets. Nxp and Samsung argued that that was not a known and measurable -- known -- yes? >> Zimmerman: Sorry. What page does the economic development discuss we just had, what page was that on? Before you go on? Sorry. >> That starts on page 89 and you'll find my discussion probably closer to page 93 or 94. >> Zimmerman: Perfect. Thank you. >> With regard to loss of the dispose of assets, nxp and Samsung concluded you should exclude that as did the consumer advocate on the notion it was not a known and measurable amount. While I looked at the evidence, while we may not know of particular asset that Austin energy is going to sell and dispose of maybe at a loss, what Austin energy was able to show is that historically it continually had some amount of assets they've sold at a loss. And that amount was about the $7.26 million, so I accepted Austin energy's recommendation on that and found their evidence to be credible on that point and included the $7.2 million as a loss on disposal of assets as an element of their cost of service. The next item was a bit more difficult for me in terms of

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how to treat the expenditure. This has to do with the customer care starting at page 99 and more specifically with the utility customer service and then more specifically with how you deal with the cost of handling complaints. Austin had included, I believe it was, $20 million that it allocated to other departments for the costs associated with the ucc, and that included a variety of functions that it performs. Initially -- and nxp/samsung had suggested an exclusion of about $10 million on the theory that it was -- and it was clear. The evidence showed that that particular function served not only Austin energy, but the water department, the wastewater department, and the resource recovery department. It didn't just serve Austin energy. My initial recommendation was to include that because I thought Austin energy had made a good argument do say -- to say, well, it's more complex than that. We are -- the allocation that we're using is based on a 2002 study that kp&g did for us many years ago and the council has repeatedly approved that and, therefore, we should include the entirety of the amount as recovered from Austin energy ratepayers. When I received the exceptions I was persuade by the independent consumer advocate and the group of ratepayers that referred to themselves as the Austin energy low-income customers that Austin energy had simply failed in its burden of proof of showing these expenditures should be allowed 100% recovered from Austin energy ratepayers. So I reversed myself on that and excluded from their cost of service the $10.3 million that nxp and Samsung were proposing. Under the theory that, one, they didn't present sufficient

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information from which we could determine how much was really associated with the provision of service to Austin energy electric ratepayers as opposed to the other departments that are served by that same center. That was the gist of it. They didn't provide the information. They hold all the information and they failed in their burden of proof. I also, in my thought processes, likened this to an affiliate transaction that the PUC would deal with. Affiliate transactions under the public utility regulatory act are subject to a higher degree of scrutiny because of the potential for some breathen law deals between one affiliate and another affiliate. In the past, if a utility did not present sufficient evidence with regard to its affiliate transactions, the public utility commission would have excluded the entirety of the amount. That legislation was changed, I forget what year that change occurred, but now if a party is contending that a utility is not allocating the sufficient amount of expense to an affiliate that shouldn't be recovered from the ratepayers, the burden kind of shifts to that party to show how much the commission should include as opposed to excluding the entirety of the amount. On that point I thought that nxp and Samsung's witness, Ms. Fox, did a good job of coming up with an allocation system based on billing revenues and number of meters, number of customers that each particular department had in allocating the expenses away from Austin energy and, hence, that's where the $10.3 million reduction comes from. The next item is a fairly small one, and it has to do with the rate case expenses that Austin energy has incurred over the course of time since this last -- rate case. The amount is about $600,000, so in the greater scheme things, it's not a huge amount. The issue there was how you -- what length of period you used to amortize the expenses, over

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what period of time will you recover those from the ratepayers and then they go away because you fully amortize the amounts. Austin energy proposed a three-year amortization period. I want went -- I went with a five year based on some of the evidence presented by some of the interveners under the theory that Austin energy wouldn't be coming in but once every five years to modify its rates. That's what the council's policy is, that's what Austin energy said it's gonna do. I thought five years was a more appropriate time time frame for the amortization of the rate case expenses. They may come in sooner, they may not. Based on the evidence presented in this case I thought the five years was a more reasonable time period over which to amortize the rate case expenses. Another item in which I did not make a change was with regard to outside services, contract services. Nxp, first of all, Austin energy included about $6.8 million in its cost of service for outside services. Nxp suggested that that be zeroed out because they were not a known and measurable change. It was expenditures that should be brought within the utility itself, shouldn't be used -- using as much outside contract services. I thought Austin energy had the better argument on that, in that it showed historically it's always used and likely will continue to use outside consultant services, and I thought the $6.8 million was representative of what a Normal expenditure would be for Normal outside consultant services. The next item that I'll address has to do with reserves. And it was one of the more contentious issues in the rate case. Reserves are addressed at -- starting at page 109 through 114 of my report. And then, again, they're addressed in the policy section, dealing with how you want to deal with reserves

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moving forward. I didn't make any change to the amount of revenue that Austin energy wants to include or costs Austin energy wants to include in this proceeding for its reserve amount. It asked for $11.5 million to -- in its cost of service. Nxp suggested that that be zeroed out and that no amount be included and, therefore, a variety of reasons. The amount of money to include in reserves is driven almost entirely by the council's policy. The council hadn't changed its policy with regard to what the reserve amount should be, how they're gonna be calculated, how much to include. So I didn't feel it was within my purview to change that amount and I accepted the amount that Austin energy had proposed. That amount will change depending on what the bottom line is that you approve in terms of an overall cost of service because the reserves are in part tied to the o&m expenses that Austin energy incurs. With regard to the reserve policy, what I have recommended in my report is that you accept many of the recommendations made by Nugen is a study they conducted of Austin energy and the city's reserve policies. Generally, and I don't know that I need to go into each one of those individually, but generally they better identify what the reserve is for. For example, the strategic reserve, emergency reserve and the contingency reserve are eliminated. You maintain the contingency reserve. There is a rate stabilization fund that is now being renamed the power supply stabilization reserve, which more closely ties it to the power supply issues that are dealt with outside of a generate case like this one.

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The -- there was a reserve called the remove, repair, replacement reserve that is now called, I think more appropriately, the capital reserve and it's funded at 50% of whatever the depreciation expense was in the prior year. There's a capital improvement plan reserve. I made no changes to that. It seemed to characterize what it was for fairly clearly, and the amount that goes in there I thought was fairly clearly identified. So in sum, with regard to the reserves, what I recommended to council is that it adopt Nugen's study policies. Where I did differ with what Austin energy was proposing was with regard to the number of days of funds that it should have on hand with regard to funding of those reserves. For example, with the great stable -- rate stabilization fund Austin energy proposed an amount from 90 to 120 days. The independent consumer advocate believed that a more appropriate amount was 90 days and that was sufficient, and I went with their recommendation of a 90-day number of days to calculate the amount of funding for the rate stabilization reserve. Similarly, with regard to cash working capital, the commission has a standard rule -- first of all, you look at a -- at the number of days for that reserve. The commission's number of days is 45 days of cash working capital on hand of your operating expenses. What Austin energy proposed was 60 days, taking into account that it has the obligation to make a transfer from the electric revenue funds to the general fund. In my view, in looking at the general fund, with regard to cash working capital, not in its entirety, that is not an element that's included with the public utility commission views as an expenditure to

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include in calculating your cash working capital. So I left it at 45 days, which is the commission standard. But in general I thought the recommendations that Nugen made with regard to its reserve policies were sound. They clarified what the funds were for, and identified how much money you would have on hand, and I thought those were positive changes. The next issue I'll deal with is revenues associated with the sale of the energy control center. In 2015, I think it was November 2015, Austin energy received $14.5 million for the sale of that property. But it shows up nowhere in its cost of service. Austin energy's argument was that that was way outside of the test year that we talked about earlier and, therefore, you shouldn't take it into account. The evidence that was presented at the hearing showed that with regard to the new facility that took the place of what was sold, that Austin energy had issued debt for that and that Austin energy had included the operating expenses for that within its proposed rates. To me it didn't make sense that they would have a pool of $14.5 million for the sale of that property and yet still, again, issue debt associated with that. So I took into account the $14.5 million as an offset to their revenue requirement. Again, that's one of the more controversial recommendations in the report. Again, it moves a lot of money around in terms of the effect it has on Austin energy's cost of service. There were several other recommendations made with regard to the transfer of assets where Austin energy had sold property. Mr. Robbins in particular was

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proposing that Austin energy be -- that the general fund reimburse Austin energy for the transfer of those assets. Many of those assets, the transfers occurred some time ago. I just did not think it was an appropriate thing to take money from the general fund and shift it back over to the electric utility related to the transfer of those assets. With regard to -- I'm gonna move on now to the second phase dealing with cost allocation and rate design. >> Casar: Chair? >> Gallo: Yes. >> Garza: Right before you go into that one, on the energy control center property issue, you mentioned that it was a $14.5 million sale, but I have written down here in my notes that the difference between your recommendation and Austin energy's was about 4.8 million. Is that right? In other words, the difference is not the full 14.5 million, but is, instead, about a third of it? >> I believe that's correct. Again, that's one of those elements why I don't know it has a dollar for dollar impact on the revenue requirement or whether it's some proportion of that that affects the actual revenue requirement. I can't think of an example right now with regard to a municipally owned utility. For example, when you're setting rates for an investor-owned utility and you take into account their return return -- equity and you come up with a revenue requirement, it's not simply a matter of summing up what your operating expenses were and your return is and you come up with a dollar amount. You have to gross it up for tax purposes. I don't know if this is one of those things where you have to either gross it down or gross it up in order to come up with the effect of the $14.5 million in proceeds from the sale of that asset. >> Casar: So how would you advise that if -- the proper

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thing is not the full amount but some proportion of those about $15 million, how would you advise that we best figure out what the proportion of it? >> From my view, whatever the 100% of that -- those proceeds should go to Austin energy. Whether 100% means $14.5 million is what I'm not sure of. If that means $8 million then that's what we use to reduce the cost of service that Austin energy is requesting. But I'm not -- I just don't have the information to know whether it is a dollar for dollar effect. I suspect Mr. Dreyfus and the other individuals at Austin energy could let us know that and maybe Mercado could inform us when he comes up and speaks. My main point is that there were proceeds that came, in costs associated with its replacement that are included in the cost of service, the ratepayers should get the benefit of that -- of the net proceeds of that sale. >> Casar: Right. Because the revenue -- because the cost of service includes the costs, and so on the revenue side you maintain that we should also -- if we're being charged for the of the replacement we should get the benefit of the sale and that all makes sense to me and what I guess what I'm trying to figure out is, here, from having -- from my staff having gone through this road down the difference between your recommendation and theirs is only 5 million, which is about a third, and so I was trying to figure out where the 10 million -- where those other 10 million go. Perhaps I could follow up with you later and just indicate to the dais that -- >> And I apologize. I can only address it at the conceptual level. I know what the proceeds were for the sale of the asset. I don't know what the direct impact is on the revenue requirement. >> Casar: Thank you.

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>> I don't know how much detail you want on the cost allocation and functionization of the different assets that Austin energy has. I agreed with them that a 12 coance dent peak allocator for their production plant is more appropriate. Because of the fact they're in a ercot market, they don't dispatch their units as was done in a more traditional sense, for example, with a fully bundled utility, up in the panhandle, south power in northeast Texas or El Paso, and even if those markets it's changing a bit, it's not simply a matter of dispatching your base load followed by your next most expensive generation, intermediate load and then followed -- supply, rather, followed by your most expensive, your peak units. The evidence established that that's not how Austin energy dispatches its generating unit, which is why I discounted the bip approach method of allocating costs. And why I discounted nxp and Samsung's approach of using a four -- average in excess four coincident peak approach of allocating production costs because it didn't seem to fit the Austin energy model. Austin energy is in a unique position, as are CPS energy, Brownsville, other utilities of size that participate in ercot. They are -- they have their own generation, but at the same time they're competing and taking advantage of cheaper power that may be out there in the market in ercot because of the interconnected transmission grid that we have, which is why I went with a 12cp method of allocating the costs.

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There were some elements where I allocated it -- frank the functionalization of the 311 call center. I propose that that be allocated based on the number of customers because it seems to be a function of how many customers call in as opposed to how much money you expend on distribution, for example. Those costs aren't -- didn't seem to fluctuate. They weren't a function of how much you expend on distribution. With regard to service connection fees -- I'm looking for that in my report. Those are about page 190, 191 of the report. Again, those -- Austin energy proposed we use a distribution function for those types of expenditures or those fees. And I thought the independent consumer had a better argument that those fees aren't -- they don't change with the investment in distribution. Instead, they're simply a reaction to someone, either connecting -- disconnecting service, initiating service, more customer driven so I went with a customer allocator on that as opposed to distribution. With regard to allocation of transformers and captors capacitors, I agreed with Austin energy. Initially I had gone with a four coincident peak allocator for transformers. In rereading the evidence and

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reviewing the exceptions I think Austin energy made a good argument that the sum of maximum demands put on by the customers is a better approach to that. It takes into account the diversity of the customer loads amongst your classes, as you were discussing earlier, just with regard to the residential class, you'll have a variety of customers that are using very little energy or using a lot of energy. And you need to take that into account. I thought that Austin's approach better accounted for that. >> Gallo: Can you excuse us just for a second. I want to do a time check with council. I know that economic development I believe starts at 2:00 this afternoon. Is that collect? Is that correct? For those of you on that? So I would assume that councilmembers that serve on that would like some type of lunch break before we end, after we end this and start. So do you have an approximate idea of how much longer? I don't want to rush you -- >> No, no. I was about to turn to rate design and probably your three favorite topics, and that is residential tiered rates, the cap on rates for houses of worship and the seasonal rates and then that would conclude my remarks. >> Gallo: Okay. So about how long do you think that will take without questions? >> Without questions, I'd say ten minutes at the outside. >> Gallo: Okay. Then we'll have questions and then I think staff wants to address some of the report also. Staff, any idea about how long that will take? >> I can talk as long or as short -- >> Gallo: Okay. All right. >> 15 or 20 minutes probably. >> Gallo: Okay. Super. It's almost 12:30 so with the goal of breaking at 1:30 so that councilmembers will have an opportunity to be able to grab a bite to eat before those that start the economic development committee. >> And, honestly, with -- I'm

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sorry. >> Gallo: Did did you have a question? >> Tovo: Are we scheduled to hear from the independent consumer advocate as well today? >> Gallo: I do not believe so. Are we? No. >> Tovo: Not today. After we hear from the interveners will we have an opportunity to redirect questions to the hearings examiner and others? In other words are you planning oncoming next week? >> No. You plan to be here 15th, 22nd and I think the 25th, something like that. >> Tovo: That's great so we can ask questions if we don't have the opportunity today. Thanks. >> Gallo: Thank you. >> With regard to the residential, the tiered rate structure for residentials and the seasonal rates and the house of worship discount, I don't have much more to add to what Austin energy has already told you. I agreed with their presentation on the tiered rates. I thought that minimizing the difference between the first tier and the second tier was a good thing, and I thought that by reducing the rates for the higher -- the latter two tiers, you helped consumers more in the summer when they're consuming more, so I thought it was a good change overall. I forget who said it. Nobody likes rates -- I think, it was councilmember Zimmerman who said his constituents are concerned about electric rates, period, irrespective of where you fall within the economic spectrum and I think that's a valid concern. But I believe that the changes that Austin energy is proposing for its tiered rate structure are a step in a good direction. With regard to the house of worship discount, I was personally conflicted with that but I couldn't find any cost basis to Jif continuing the house of worship discount. The other thing that stuck in my head was they've had notice for some time this rate was going away. The biggest thing was their

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consumption patterns and the amount of demand that they place on the system isn't really different from some other customer classes that have the same consumption patterns, and strictly looking at it from a cost of service perspective and what it costs to provide service to that particular customer class, I didn't see a distinguishing feature. Again, on a personal level, I would have loved to have recommended the opposite, but I don't feel that it's consistent with what the direction the council has given Austin energy in terms of moving rates closer to their cost. Taking into account policy decisions that you want to make. And you do have the flexibility to do that point one of the things I stated in my report was that there is no sacrosanct class cost of service study. It is in large measure driven by where you sit. If you're the industrial customer you're gonna want to minimize the number of points that you look at in order to allocate production costs, for example. And if you're on the residential side, you're gonna want to use an energy allocator because it's better for you. There is no true class cost of service study. Similar with rate design. That is where the council has discretion to set the rates based on policy directives you want to take, policy goals you want to set. With regard to the how rate as it was called in the proceeding, I just didn't see a cost justification for it or distinction from other customer classes. With regard to the seasonal rates, I also thought it was a good recommendation by Austin energy to move that seasonality over to the power supply adjustment clause. That's where you can see the effect of it more quickly. You'll still see the

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distinction between the conditions but you can take into did the more quickly up and down the changes in the cost of power supply. That is my report to you this morning. I apologize, one, the report was so long. I'd be happy to try to answer any questions you may have. >> Gallo: Councilmembers, questions? Thank you. It was -- you know, it was long because it was detailed and it needed to be and thank you for all the work that you have done on this. >> Thank you. >> Gallo: I appreciate it. Councilmembers, any question? Councilmember kitchen? >> Kitchen: Just a quick question. We've had a discussion and we appreciate that of the -- the differences between what you're recommending, the 60 something million and what the staff has, the 20 something million. And we've had a discussion about what those differences entail, but can you just state for us what you think is the most significant of those differences? Significant meaning in your judgment that you really think needs to be changed? >> Relative to Austin energy's presentation? >> Kitchen: Yes. In other words, obviously the difference between the -- I don't have the numbers right in front of me, the differences between the two. I mean, what you're talking be in terms of 66 million is pretty significant so. . . >> I think just fundamentally, the transformation revenue, the household revenue is one of those items. >> Kitchen: Okay. >> I could see the council going a different direction on that. >> Kitchen: Okay. >> If you're persuaded by Austin energy that that is completely out of your bailiwick, you shouldn't be dealing with it at all. Again, I couldn't reconcile the discrepancy between 6 million, 62 million, what they presented at the P.U.C. The other one is -- and this is not new this year. You hear it -- it's about around for at least 30 years because that's when I started doing this kind of stuff.

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Removing expenses from Austin energy that aren't related to the provision of electric utility service. And in my view, that was why I excluded the economic development projects from the cost of service that they -- it is not only not a utility service. It really rankles a lot of people because it's not a utility service and it brings on other challenges for Austin energy and the city. The issue of the reserve policy, I think is an important one for the council to grapple with and change. I think what Austin energy has presented through Nugen study is a step in the right direction so that you identify what your reserve policy is more clearly and what those reserve funds are more. >> Kitchen: Okay. Thank you very much. That's helpful. >> Casar: Sir, I had one more follow-up for you before you -- >> I'm sorry. >> Casar: -- Escape. So I specifically have said I'm not going to bring this up very much because, as councilmember kitchen's question indicated we have many decisions worth tens of millions of dollars and my housing on the house of worshippish it's a million dollar question and while there's a lot -- there will certainly be a lot of conversation around it, it's certainly in the scope of things a smaller decision. One way or the other in the scope of the rate case, I understand for individuals that are impacted by it, it could be a big issue. You said you hadn't seen much difference in the shape of their usage but my recollection from the last rate case was that part of the reason that that rate was set up was not necessarily houses of worship but actually sort of heavy on weekend use. Is it that some of that people receiving the house of worship discount don't actually have

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heavy on weekend usage and others do? Because my recollection of part of the reason that that was justifiable was not because folks who are houses of worship in particular but because they used most of their energy on, say, Saturday and Sunday when there wasn't as much demand on the rest of the system. If that's the case, is there good reason for us to actually have a heavy on weekend sort of rate as opposed to a house of worship type rate? I'm not trying to imply that we should. It's just a genuine question. >> No. It's a good question, and I don't have that degree of detail on precisely how the other -- what domes mind is ball fields -- comes to mind is ball fields or tennis courts that -- the city-owned tennis courts where you turn the lights on or maybe privately owned where you flip the lights on for just a little while but put a demand on the system, how you deal with it. That's the issue with the house of worship consumption pattern. If there is a rate that looks like that, then that's where they should go, that's where they should belong but this one treats them differently from other similarly situated customers that may have weekend demand that spikes and only on the weekend. If there is such a beast, then that's where your house of worship customers probably belong. But this one takes -- the house of worship discounts or rate count takes it a step further and pulls them out and gives them a special deal, if you will, and I didn't see that there was sufficient distinction between other classes, other customers that have similar patterns and they weren't getting a similar >> Casar:and so when you said they don't have significantly different rate -- or usage patterns, it is that there are a significant number of houses

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of worship that, in your view, use electricity just like lots of other commercial customers, but that they're -- so that there might be some houses of worship heavy on weekends but others are not is essentially what you've -- >> I think that's probably right. I mean, I certainly didn't conduct a survey of all houses of worship. I'm -- one of the things I did mention at the outset is my view of this was presented by the parties. I didn't go out on my own and try to investigate any of these issues. It was strictly what was presented by Austin energy and all the other interveners in the case. So my view is MI operating expensessic, if you will, constrained by what is presented. I am reactive so what is presented to me and I didn't affirmatively go out and try to find information on any rate class. >> Casar: Sure, I understand. I think maybe what I'm trying to get to, I'm sorry it took me a few questions to get there, is that in summary your position is because the house of worship rate is actually not set up as a heavy on weekend rate, it's just for houses of worship, regardless of when they use their -- >> That's the take that I -- that's what I took from what was presented to me. >> Casar: Thank you. That's helpful. >> Gallo: Any -- councilmember Zimmerman? >> Zimmerman: Thank you. Let me say quickly, I'm very impressed with the process here. I really, really appreciate this in-depth, rational analysis, different pots of view. I think everybody in here does a decent job of rational explanation their position. I wish I could have more in the decision-making process. I really appreciate it. >> Thank you. >> Zimmerman: I want to commend you and you've done a great job on this too. You're looking at both sides and explaining your rationale. On the economic development department, I think rankled is the right word, and I'm one of those people that have been rankled by this and I'm happy to see that removed.

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And I think your comments on that and your conclusion is just so powerfully rational that you can't say that this economic development $9 million has got anything to do with the cost of service. I think you're spot on. And I appreciate you bringing that up. And a final note on this, I have some critics who say that I'm unwilling to compromise. That's absolutely false. I did put in a budget amendment to abolish the economic development department but if we cut it by 9 million I'm there. I'll compromise on that in a California minute. >> Gallo: Mayor >> Tovo: I have some questions about that particular subject but given that you were looking at the testimony primarily and I'm really interested in kind of what the practices are outside of Austin, probably those are better directed to Mr. Mercado. So unless you considered some of that information with regard to your decision-making, how other municipally owned utilities account for economic development costs within their rate structures -- >> I did not. >> Tovo: Okay. Super. And then I do -- I would ask -- and I'll be prepared to ask some more questions about this when we come back, but if you could just touch on for a minute the cost of service allocate allocation method and why you went a different direction from the independent consumer advocate, that would be helpful. And where is this in your report? >> It is -- jats I can look through the table of contents. It isn't jumping out at me immediately. But that's okay. I'll find that in the report. If you can -- >> Page be 145 through 149. >> Tovo: Thank you. >> Is where you'll find that. The -- my thought processes on the independent consumer

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advocates' proposed allocator for production, they call it bip and there was another letter after it, but what sticks many my mind is bip, that allocates a significant portion of production based on energy. It has been -- it's a methodology that was, I'd say, en vogue probably 30 years ago, 25 years ago, when I started my career at the public utility commission, there was a great push for that. There was a pushback from the industry on coming up with something that was fair and what developed was the average and excess for coincident peak methodology that gives some weight to energy and also weight to the coincident peaks, the demand that the utility has to meet at an instance notice. Because of the disfavor that that particular allocation methodology had come into over the last 20 years, let's say, I didn't think that it was an appropriate methodology for Austin energy. And in particular because Austin energy is in ercot and deploys its generation based on the nodal market in response to what the market is doing, I felt that the 12 coincident peak approach was the better approach than either average and excess 4cp or bip, which is strictly almost -- it's very heavily waited toward -- weighted toward energy. Also, as I said earlier, there is no sacrosanct class cost of service study. It depends on where you're standing and how those costs are viewed. Everyone wants in this case that tiny piece of the pizza, and not the bigger slice. >> Tovo: Okay. Thank you. I appreciate that. And I also just want to add my thanks for this process. I think it's really -- been a

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tremendous success and I appreciate your role in it. >> Thank you. >> Gallo: Council, any other questions? No. Okay. Thank you very much. >> Thank you. >> Ready for me? Good afternoon, mayor, madam chairman, councilmembers. My name is Thomas bercado, I'm a regulatory attorney, I serve as outside counsel. My role is to help you sort through all this. And while you have worked with Austin energy on this matter back since January, ultimately y'all are my clients and my job is to help advise you on getting to the right outcome. I also assisted y'all for those that may not be aware back in the 2012 case, and so I've been representing the city of Austin actually going back to 2010. I want to start today by just refreshing you on some of the numbers. Austin energy is proposing a $24.5 million base rate reduction in this case. Our analysis of the report submitted by the independent hearings examiner, as well as his supplemental report last Friday, if all of his recommendations were adopted, that would result in about a $75.29 million base rate decrease. If you were to adopt the financial policy changes that Austin energy has proposed, that would increase the decrease by an additional $8.2 million, getting to an overall decrease of about $83.5 million. So you're looking at a range of $24.5 million proposed by

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ae versus 73.3 million by the examiner and that does include the recommendation contained in his supplemental report. That differential -- and before I say that let me also, to give you some department of, the independent consumer advocate that y'all hired to represent residential and small commercial interests in this proceeding, their initial case, their filed case and testimony, proposed about a $39 million base rate decrease. Now, in the brief they adopted the position of some other parties and ultimately got to a recommendation of a $63.2 million base rate decrease. Now I want to focus on the difference, the delta between what Austin energy is proposing and what the independent hearings examiner is proposing and that delta between 24.5 million and 73.5 million, nearly $51 million, and that's comprised of seven revenue requirement disallowances he's proposing, and he went through really all seven of them. I want to touch on five of those issues today and give you a little bit more background and context on those issues. D I'dike to STA with the wholesale transformation revenue issue because candidly that's the most important issue from an ae perspective. And as Mr. Herrera indicated, he looked at the company -- or, excuse me, Austin's revenue requirement, their cost of service study, and he saw that ae had included a $62 million number for transformation revenues that was approved in the last P.U.C. Case for transformation and that that number that was actually included in the filing on January 25 was on the order of $74 million. So in his opinion, there was 12 million, actually $12.1 million of additional revenues from the transformation business that

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could be used to offset distribution of retail rates. Now, stepping back for a moment -- and I know I visited with a number of you about this issue in the past, but I want to just go over it again at a high level -- Austin energy, while you may true as one entity that you oversee actually has two businesses, a transformation business a distribution or retail business. And as Mr. Herrera said, the P.U.C. Has exclusive legal jurisdiction or oversight of that transformation business and there's a reason for that. That's because back in the late' 90s when they deregulated the transformation business they wanted as part of deregulation for those that used the distribution system to be able to move power throughout ercot. So you can think of transformation, which is anything above 69kv, by the way, that's the large towers you see on the sides of the roads as opposed to the smaller polls and wires that go to our homes and businesses, that large transformation system, which you can think of like the highways over which electricity flows or the backbone lines is open to anyone who needs to use that system. And because of that, all distribution utilities throughout ercot pay into that regime, that paradigm to all of the transformation providers, including Austin energy. And so they receive revenues from all of those distribution utilities throughout ercot. Now, similarly, Austin uses that transformation system as well, and they pay into that system and they collect those dollars from their customers through the regulatory charge. The P.U.C. Sets up in a paradigm and set the rates for that entire framework. I should add with respect to wholesale transformation, Austin energy like other in the state file reports annually with the P.U.C. To ensure that their rates are neither too high nor too low.

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If they're too high, the commission has the authority to bring them in and review their rates through a proceeding, which they do a thorough examination of their costs and revenues and, if appropriate, lower those rates. Now, the concern that Austin energy has -- and I share this. This is my recommendation as well -- is that by mixing these two worlds, you create potentially subsidizations that could trigger some type of P.U.C. Review. In addition, the whole, respectfully to Mr. Herrera. He says he's not putting himself in the place of the P.U.C., I believe he is. It's for this reason, Austin energy basically takes a number and in this case it's their fourth quarter, 2014, 2015 expected revenue from transmission and they flow it through their model and then they pull it out and that number is bops the revenues they -- based pun the revenues noted during that time period. As was noted, the amount approved by the commission is $12 million less. The concern, however, is he's essentially saying that Austin energy is overearning by $12 million, but there's been really no examination whatsoever as to whether that is in fact true. I'll give you some examples. Most notably, that you have focused entirely on the revenue side without any review of the cost side. I would expect that ae's costs have changed significantly since the last case as well and indeed they may have gone up. More over there's been no examination, in fact ae hasn't even prepared an indication of whether their earned return is higher or lower than the amount of return approved by the P.U.C. In the last case. I don't mean to get too much in the weeds on this issue but suffice to say the determination of whether

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Austin energy actually has additional revenues on their transformation side of the business or not is something that would be determined only after a full proceeding at the P.U.C. Now, I would also add that the commission's intention is that those dollars would stay on the transformation side of the business -- transmission side of the business and reinvested in ae's transmission system. I will tell you, I'm not aware of the exact amount of those dollars, that transmission revenues that goes back into the transmission system. It was not an issue in the case. I don't know how much of those revenues that they actually keep and have as what you would refer to as a return. But what I do know is that if you simply look in their checkbook and you say, wait, today they've got $74 million and the P.U.C. Approved 62 million, I can move those to lowering distribution rates. The concern is, number 1, that you've only looked at one period of time and I've analogized this to a situation where you look at somebody's checkbook the day after payday and you say they've got a lot of money in their account but you don't look at the fact that they're about to pay all their bills for the month and that's the problem with not looking at the cost side as well. One concern would be if you were to make this determination just by looking at that one data point and saying, hey, there's 12 more million dollars we found here, we can lower distribution rates, you run the risk of the P.U.C. Saying, you know what? If ae has extra money we should lower their rates on the transmission side by some amount because we don't want distribution utilities throughout ercot paying those dollars and council taking those dollars and lowering distribution rates on the other side. If that were to happen not only would you have a case at the commission but you would run the risk you have a double

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whammy. And so that's the concern on that issue. >> Gallo: I think that councilmember Zimmerman is -- >> Zimmerman: Just a quick question. >> Sure. >> Zimmerman: It sounds like you're belaboring it. I think I got in the first 30 seconds. >> Okay. >> Zimmerman: So we disagree. Fair enough. And you have a great rational point. What would be the objection to getting an extra set of eyes at the P.U.C.? They have experts too, right? You get another set of eyeballs looking at the situation they might concur with you or they might concur with the examiner and say, ah, those increases aren't justified, right? To me it's a good thing to have the P.U.C. Take a look at it, get another set of eyes on it. >> I fully understand that, and I'm certainly not suggesting that the commission is not the reasonable forum to review transmission rates by any stretch. I'm simply saying if you were to make that decision to lower distribution rates by that amount before that case occurs, there's the possible financial harm to the city of a lowering of transmission rates when you've already swept some dollars away. >> Zimmerman: In which case the P.U.C. Would be the right place to go and say, hey, you didn't do this correctly, let's restore that next time around so. . . Anyway, but thank you for the notes. >> Sure. Moving on, just briefly, Mr. Herrera indicate that he had made an adjustment to the nonnuclear decommissioning proposal that Austin energy submitted, and specifically with regard to hand hill and fayette he made his disallowance based on the fact Austin energy had do a site specific study for those plants. Just to let you know the reason for that is those plants are set to have a tumblr date later in the future -- retirement date later in the future, as opposed to decker, and at this point, according to the consultant, there was concern about making assumptions about

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what future salvage rates and labor costs were going to be and because of that they relied upon a more generic study. That's something that can be modified in the future as we move closer to those retirement dates if necessary to ensure that there's adequate funds available to decommission those plants when that day does ultimately come. I want to talk about two other issues when Mr. Herrera also touched upon, economic development department and the utility customer center. And these are related in this manner. Both of these issues really touch on the utility's relationship with the city. The city as you all are aware has an economic development department that has a funding level of approximately 14 to $15 million annually. In the last case or prior to the last case, in 2012, Austin energy was paying for the entirety of that department. In fact it had a different name, egrso and it was housed within Austin energy. As a result of concerns raised in that case you lowered as a percentage their share of the cost of that department and now they pay slightly over 9 million of the roughly 14 to $15 million to fund that department. Now, the judge has stated that he believes that these dollars are not related to the provision of electric service and has recommended they be disallowed. A couple of points I want to share with you. First of all, while it may seem on its face like it's not related to the provision of electric service, I will tell you that the P.U.C. Has a long hours of allowing utilities to include such costs in their rates and indeed I've written a memo for you in the past that touches on this very issue back in the last case, and at that time when we did a survey of utilities, we found that a number of utilities do have significant amounts in their rates for these types of expenditures, although not on the level of what you have

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here, the 9 million for Austin energy. Second point I want to make you aware of is, from ae's perspective, this is a revenue neutral issue, meaning they collect $9 million from ratepayers, they hand it to the city to fund economic development department. If you were to adopt the independent hearings examiner's recommendation, then that simply means ae is not allowed to collect those dollars from ratepayers and as long as you don't ask them to continue to provide dollars to fund that department, it really has no financial impact on them. Which moves us to the next issue, which is related to that, and that's the utility customer center costs. In the supplemental report that came out on Friday, the examiner recommended that ae's share of funding for that center be reduced by $10.37 million. When you flow that through the model, it translates into about an $11.8 million impact. The reason for that is because it has an impact on the level of reserve funding that's necessary for ae. That's why there's a disconnect in the numbers. Basically his recommendation is that ae's share of funding the ucc should be reduced by 10.37 million and that the other departments that also benefit perfect that center should be increased by that amount. Excuse me. And so similarly, similar to the EdD issue, from an ae perspective, it's revenue neutral, meaning they collect those dollars and they pave that amount, and if you choose to lower rates by that amount, it has no impact on Austin energy unless of course they're asked to continue to come up with the dollars to

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fund that share of the ucc. The fifth issue that I wanted to visit about just briefly relates to the $14.5 million that Austin energy received as a result of the sale of the ecc. Now, it's Austin energy's position that those dollars were used to reduce debt obligations that were incurred for the construction of the new fc:system controls center. They also have indicated that they are exploring the feasibility of creating a separate subaccount within existing accounts to provide more concrete proof of how the money flows. But just to follow up on a question that came earlier of Mr. Herrera, that $14.5 million adjustment that he proposed, he didn't provide a specific recommendation on how it should be treated. He simply said that council should consider these as funds that are available. And so what ae did was, they took that amount and divided it by three, which is the amount of time period that they're proposing to replenish their reserve funds, and so that's why it translates into about a $4.8 million impact ass as opposed to a $14.5 million impact. And that's appropriate because it's basically an impact on their reserve levels. Those dollars went into working capital, and so since they're proposing to replenish or get their reserve funding to where they're proposing it should be in a three-year time period they've spread that out over the same period. Now, I will tell from you a P.U.C. Perspective, if this was an investor on utility before the commission, I think it's fair to say that the commission would view this as a one-time nonrecurring out of test year transaction that would have no impact on rates. But, nevertheless, the judge has recommended that this be

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taken into account in some manner because Austin energy did receive these dollars, and so that's how they've proposed to handle it. Those are the primary issues that I wanted to visit with you about. Oh, actually, I want to -- I glossed over something that I do want to go back to, and that's the utility customer center issue. Back about 14 years ago, when the city was deciding how much of those costs to allocate to the various entities that rely upon that center, they conducted a study, an allocation study. They hired KPMG to do an allocation study. KPMG made recommendations on how to allocate those costs and that's how we got to the point that we're at today. This was an issue in the last case as well, and council did approve that allocation methodology, and so, again, that's how we got to the point that we're at today. Whether you believe that's appropriate going forward or not remains to be seen, but I did want to give you that additional piece of information so that you had it. Those were the primary issues that I was planning on talking about. I know you're a little bit short on time. If there's other revenue requirement issues you want to hear about I'm happy to do that, as well as some of the -- such as the house if you want to hear about them or any of these others. >> Gallo: Councilmembers, any questions? No? So were you going to help us understand the process, will you be available at any of the other meetings to be able to answer questions that come up? >> Yes, I'll be at all the council meetings and I'm available at any time to give you really as much information as you need to help you reach the appropriate outcome. >> Gallo: Okay. Thank you. All right. Thank you very much.

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I'm sorry. Mayor pro tem? >> Tovo: Thank you. I had a couple quick questions. Can you remind us when that memo was sent? I've had no luck trying to locate it. >> Do you have your thack? >> Tovo: Oh, yes, sitting under my desk. >> It's in your notebook. You're talking about the -- >> Tovo: The memo you referred to about economic development. And if -- I don't want to put you on the spot but if you're able to maybe forward it to all of us, reforward it to us. >> Sure, happy do that. I think it was in mid-june of 2012 but I will forward that. >> Tovo: Okay. Thanks. Can you talk for just a minute about the bad debt, the differences in the proposals with regard to that debt? >> Sure. I'd be happy to. Basically when a customer does not pay their bill, other customers pick up that cost. It has no financial impact on Austin energy. The challenge that you have is finding the right amount to include in rates, and so you look at a historical test year, as Mr. Herrera said, and you decide, is that a reasonable amount to include in rates going forward? What is likely to be our experience going forward? Now, in the test year, Austin energy had about $20 million of bad debt. I will tell you, that's a very high number relative to other utilities in the state. And there's a number of policy reasons for that. They made an adjustment down to 16 million because they acknowledged that it was likely to be a lower number going forward and in fact their experience since the test year already began to bear that out. The examiner, based on evidence put on by other percentage, parties, chose a

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different path and said we should look at I believe a three-year period and based pun looking at that proposed a $10.2 million amount be included in rates, which is a reduction of $5.8 million to what Austin energy is proposing. And so ultimately it comes down to what's the right number, and I will tell you that since the test year Austin energy continues to experience lower levels of bad debt. You know, there was some concerns or some issues, I should say, back during the test year period relating to the billing system, when y'all suspended the disconnecting customers for a period of time. That led to higher amounts of bad debt. That's the $20 million figure I was referring to a moment ago. In addition, this -- the utility has engaged in a high number of payment arrangements with customers in order to assist them in being able to pay their bills. There is some concern from ae's perspective that at some point in the future customers may have to break those agreements and that the level of bad debt could go up. But there's no I think real evidence that that is the case at this point in time. But that's a -- simply a concern from Austin energy. In my reviewing of the evidence, I think it's -- you know, I would tend to agree with the examiner that the amount of bad debt has continued to decrease and so something less than the 16 million proposed by Austin energy I think is certainly appropriate. Whether 10 million is the right number or not, reasonable minds could differ, but it doesn't seem to be out of line with what the evidence shows. And what their experience has shown in the more recent time frame. >> Tovo: The 10 million you

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believe is not out of line? That's really helpful. I appreciate that. And I know when we -- when the subject comes up we often talk about the policy changes, which, again, I would just point out had a lot to do with the fact that, you know, this was a time period, as you mentioned, where the billing system had huge problems. You know, one article, for example, talks about the hundred thousand Austin energy customers who were hit by billing errors so, you know, the policy changes were in direct response to some of the jinohmous billing errors happening as a result of our system. I do think we've made systems moving forward that were helpful for Austin energy and helpful for the customers but thanks for weighing in on the bad debt issue. I appreciate that. Are there any other -- well, I guess we need to move on. >> Speaker2: I Normal us. >> I'd be interested in the points of controversy, and you've hit on some of them. >> Is there something in particular? >> Tovo: I'm interested in your position regarding the reserves for nonnuclear decommissioning if you had a minute to touch on that. >> Sure. You know, in a more typical scenario, a utility would begin to collect decommissioning dollars from the day that that plant goes into service. And in fact -- in fact the idea is that you want to match the collection of those expenses over the life of the asset in order to fairly allocate those costs to customers who use the output of that plant throughout its life. That was not done here, and I think there's a number of legitimate reasons why that's the case, but it wasn't done here. But pursuant to your direction, Austin energy is now required to begin to put aside decommissioning dollars within four years of the decommissioning of a plant, and that's why they proposed

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funding for fayette, sand hill and decker in this proceeding. And the examiner, when he spoke a moment ago, he agreed with that approach. And I think that, clearly, Austin energy needs to be putting away dollars to decommission these plants. And they are behind the gun on doing it because, as I said, you know, in decker, for example, I think went into service in the mid '70s and they're just now beginning to collect dollars to decommission that plant. More moreover, having been around for the holly experience we know that decommissioning of a plant can be very expensive. I think holly was on the order of 26 plus $000,000 to decommission that one planned, Austin is proposing [indiscernible] To decommission these three facilities. What's the right amount? Reasonable minds can certainly differ. I think it's also true that there's certainly some uncertainty with respect to plants that are not going to be retired until further out in the future. One of the things that we discussed was in order to give consumers comfort is there some way to make it -- add certainty that if, for example, ae were to overcollect for decommissioning one plant that those dollars could be earmarked to decommissioning subsequent plants, and then perhaps ultimately if they've overcollected to retire all three facilities could those dollars go back to customers in some manner. Honestly, I think that's the best outcome for everyone involved. Ae should not be overcollecting to decommission plants, but there's also this concern that they have to increase rates down the road because they have undercollected these amounts. And so my recommendation is that you err on the side of caution but put protections in place to make sure that consumers are not harmed. The experience has been that

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it's expensive to decommission these plants. The adjustment of 1.6 million by the examiner, you know, candidly is relatively small. Of course that would be over four years so it would be 1.6 times that amount but you run the risk that there's a shortfall that ae will have to collect down the road if you underfund it. So a lot of uncertainty, big dollars at stake, and if you can put in protections I think that's the best outcome. >> Tovo: And you and I had an opportunity to speak about the first part of what you said the other day, and I think that is a policy change we ought to consider moving forward so that as Austin energy, you know, moves forward with additional -- well, anyway, I think we ought to have a policy in place along the lines of what you suggested that that be zeroed said, where that decommissioning fund starts the day a new plant is put in place so we're collecting from the customers who are benefiting and not doing what's being proposed here, which is collecting the costs of decommissioning that plant from people who haven't necessarily been benefiting from that plant over the years. >> And as I said, that's typically how it's done, really throughout the country, normally investor run utility would collect the cost of their decommissioning through deprecation expense, which as a component includes decommissioning but that's not the case with a municipally owned facilitate, not the case with Austin energy because they didn't propose a fund when the plants went into service. One other thing that I meant to mention to y'all, and that is when I was talking about the numbers earlier, y'all did propose -- excuse me, adopt a 70 plus million dollar rate increase back in 2012 that was ultimately modified a bit because of our settlement over the P.U.C. You're looking at, you know, between a 25 and a 75 or $80 million rate decrease in this case.

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And one thing I think we would all agree upon is a concern about rates sort of whiplashing. So I would just -- I've been thinking by -- to myself throughout the last few weeks, what's the right number? What's the appropriate number here in terms of revenue requirement? And just one concern would be that if you start looking at numbers I think towards that higher end, as proposed by the independent hearings examiner, there's the potential of being in a position where you have to increase rates again sooner rather than later. I'm not saying that you shouldn't reduce rates to the appropriate level or customers aren't entitled to every dollar of decrease, but that is something that I'm struggling with and I think everyone who looks at this probably struggles with, getting to that right number. >> Gallo: Councilmembers, any questions? All right. I think we're good. Thank you so much. We appreciate your presentation and thank you to the others that presented today and the staff that's been here for all of the morning with us. And unless there are any other concerns or questions, a motion to adjourn? Great. Second? Councilmember tovo. All in favor? Any opposed? The motion passes unanimously. Thank you. [Adjourned]