

Decision Point List for Austin Energy's 2015 Cost of Service Study and Update to Retail Rates

DP #	IHE PG#	Issue	Austin Energy	ICA	IHE	Decision?
I-A	19	Total revenue requirement	614,414,933	575,698,933	563,477,211	
I-B	21	Non-nuclear decommissioning reserve				
		Decker Creek funding	14,000,000	6,263,158	14,000,000	
		Fayette Power Plant funding	3,750,000	2,925,000	2,925,000	
		Sand Hill Energy Center funding	1,692,308	867,850	867,850	
I-C	32	Internally generated funds for construction	88,341,455	82,256,610	88,341,455	
I-D(1)	44	Retail transmission expense	116,885,952	n/a	116,885,952	
I-D(2)	52	Wholesale transmission revenue	62,129,919	n/a	74,300,000	
I-E	63	FPP defeasement fund	-	-	-	
I-F	76	STP amortization period	No change	n/a	No change	
I-G	79	Uncollectible expense	16,054,751	10,199,660	10,199,660	
I-H	89	Economic Development Department	9,090,429	Include in GFT	-	
I-I	95	Loss on disposal of assets	7,170,039	6,370,039	7,170,039	
I-J	99	AE's share of costs related to UCC	26,188,016	15,816,414	15,816,414	
I-K	104	Rate case expenses	585,977	370,644	370,644	
I-L	106	Outside service contracting	8,925,683	n/a	8,925,683	
I-M	109	Current vs. proposed reserve fund policies	Proposed	Defer to Council	Defer to Council	

DP #	IHE PG#	Issue	Austin Energy	ICA	IHE	Decision?
I-M(1)	109	If choose current, required reserve funding?	11,590,703	n/a	11,590,703	
		Working Capital	70,080,491	n/a	70,080,491	
		Strategic (Emergency Reserve)	93,440,655	n/a	93,440,655	
		Strategic (Contingency Reserve)	93,440,655	n/a	93,440,655	
		Rate Stabilization Reserve	107,412,480	n/a	107,412,480	
		Repair & Replacement	72,825,880	n/a	72,825,880	
		Funds requested over 3 years	34,772,108	n/a	34,772,108	
I-M(2)	114	If choose proposed, policy changes?				
		Working Capital	60 days cash	45 days cash	45 days cash	
		Strategic Reserve	Eliminate	Eliminate	Eliminate	
		Emergency Reserve	Eliminate	Eliminate	Eliminate	
		Contingency	60 days cash	60 days cash	60 days cash	
		Rate Stabilization Reserve	Eliminate	Eliminate	Eliminate	
		Power Supply Stabilization Reserve	90 -120 days net power supply costs; sweep PSA credits as needed	90 days net power supply costs; no credit sweep	90 days net power supply costs; no credit sweep	
		Repair & Replacement	Eliminate	Eliminate	Eliminate	
		Capital Reserve	50% last year depreciation plus balance to achieve 150 days cash on hand	50% last year depreciation plus balance to achieve 150 days cash on hand	50% last year depreciation plus balance to achieve 150 days cash on hand	
		CIP Fund	No change	No Change	No Change	
		Total amount of reserves	150 days cash	150 days cash	150 days cash	
I-M(3)	109	If choose proposed, required reserve funding?	3,398,129	3,398,129	3,398,129	
		Working Capital	93,440,655	70,080,491	70,080,491	
		Contingency	93,440,655	93,440,655	93,440,655	
		Power Supply Stabilization Reserve	125,314,560	107,412,480	107,412,480	
		Capital Reserve	100,426,568	141,688,812	141,688,812	
		Funds requested over 3 years	10,194,385	10,194,385	10,194,385	
I-M(4)	114	Accounting of non-nuclear decommissioning	O&M Expense	Reserves	Reserves	
I-N(1)	126	Include proceeds from sale of ECC property	No	Yes	Yes	

DP #	IHE PG#	Issue	Austin Energy	ICA	IHE	Decision?
I-N(2)		Recognize transfer of various properties				
	128	Seahom	No	n/a	No	
	130	Ventura Drive	No	n/a	No	
	131	Burleson Drive	No	n/a	No	
	133	Holly Street	No	n/a	No	
II-A(1)	136	Functionalization 311 Call Center	Customer	Distribution	Customer	
II-A(2)	139	Allocation of admin & general labor costs	Labor and direct assignment	O&M and direct assignment	Labor and direct assignment	
II-A(3)	143	Functionalization of service connection fees	Distribution	Customer	Customer	
II-B	145	Classification of production costs	Demand	Demand and Energy	Demand	
II-C	149	Allocation of production costs	12CP	BIP	12CP	
II-D(1)	168	Transformers & capacitors				
		Classification	Demand	Energy	Demand	
		Allocation	Sum Max Demand	Weighted Energy	4NCP	
II-D(2)	174	Classification of meters	Customer	Customer and Demand	Customer	
II-D(3)	177	Classification of services				
		Classification	Demand	Customer	Demand	
		Allocation	Sum Max Demand	Customer	Sum Max Demand	
II-D(4)	179	Allocation of distribution costs	12NCP	12NCP	12NCP	
II-E(1)	182	Allocation of uncollectible expenses	Direct Assign	Revenue Requirement	Revenue Requirement	
II-E(2)	185	Allocation of meters				
		Meter expense	Weighted Customer	Weighted Customer	Weighted Customer	
		Meter reading	Customer	Weighted Customer	Customer	
II-E(3)	188	Allocation of marketing and advertising	Customer and direct assignment	Weighted Customer and direct assignment	Customer and direct assignment	
II-E(4)	190	Allocation of service connection fees	Sum Max Demand	Weighted Customer	Sum Max Demand	

DP #	IHE PG#	Issue	Austin Energy	ICA	IHE	Decision?
II-F	192	Allocation of EES	Weighted Direct	System rate	System rate	
III	200	Revenue distribution/spread	AE recommendation	Spread on revenue ratio	AE recommendation	
IV-A	210	Include billing adjustment factor	Yes	Yes	Yes	
IV-B	212	Add seasonality to Power Supply Adjustment	Yes	Yes	Yes	
IV-C(1)	216	Future changes to Residential customer charge	Open to change in next five years	No change from \$10 per month	No change from \$10 per month	
IV-C(2)	224	Adjust Residential tiers	Levelize slope somewhat	Opposes increase to Tier 1	AE recommendation	
IV-C(3)	230	Eliminate seasonality in base rates	Yes	Yes	Yes	
IV-D	232	Changes to non-residential customer charges	Rebalance fixed vs. variable recovery	OK but concerned about future changes to S1 cust. charge	OK but concerned about future changes to S1 cust. charge	
IV-E	234	Launch load-shifting voltage rider	Yes	n/a	AE recommendation	
IV-F	237	Adjust S2 and S3 billing determinants to include 20% load factor floor	Yes	Yes	Yes	
IV-G	239	Houses of Worship				
		Maintain average rate cap	No	Yes	No	
		Maintain weekday only demand charge	No	Yes	No	
		Study weekend demand customers	Yes	Yes	Yes	
		Continue HOW support	Yes	Yes	Yes	
V-A	245	Implement commercial Value of Solar now	No	No	No	
V-B	249	Implement Community Solar program now	No	No	No	
V-C	251	Amend Residential VOS tariff	Yes	Yes	Yes	
VI-A	253	Funding discounts for outside COA customers	Inside COA pay for discount	AE pay for discount	Inside COA pay for discount but allocate like Rate Case Expense	
VI-B	256	Rates for inside v. outside COA customers	Keep \$5.8M discount	Keep \$5.8M discount	Keep \$5.8M discount	

Decision Point List for Austin Energy's 2015 Cost of Service Study and Update to Retail Rates

DP #	IHE PG#	Issue	Austin Energy	ICA	IHE	Decision?
VI-C	261	Piecemeal ratemaking	Set PSA, Reg, and CBC in annual budget	No base rate changes outside full review process	Strongly consider all-in rate review	
VI-D	264	Disallow service area lighting	No	n/a	No	
VI-E	267	Disallow power production costs	No	No	No	
VI-F	276	Future studies	Yes	Yes but include stakeholders	Yes but include stakeholders when reasonable	
VI-G	279	Income verification for CAP	No	No	No	
VI-H	282	Improve customer satisfaction ratings	In progress	Develop more plans	Defer to Council	
VI-I	284	Include stakeholders in pilot program planning	No	Yes	Defer to Council	
VI-J	287	Launch Pick Your Own Due Date when ready	In progress	Yes	Yes	
VII-A	289	Eliminate late fees	No	Eliminate only for CAP customers	Eliminate only for CAP customers	
VII-B	293	Primary 2 Regulatory Charge design	Yes	n/a	Yes	

Decision I-A: Revenue Requirement

Question: Should City Council adopt Austin Energy’s proposed base revenue requirement of \$614,414,933?

Background: The base revenue requirement is the amount money that Austin Energy needs to collect each year in order to pay for its annual expenses, reserve funding, and general fund transfer. It does not include pass-through charges, like the Power Supply Adjustment, Regulatory Charge, or Community Benefit Charge.

The proposed revenue requirement includes the original \$17.45 million reduction offered in January 2016 as well as the \$7.08 million reduction related to Customer Assistance Program revenues. Thus, AE’s combined proposed base revenue requirement decrease is \$24,548,098.

Recommendations:

Staff	ICA	IHE
Yes.	No. The ICA recommends a total revenue requirement of \$575,698,933.	No. The IHE recommends a total revenue requirement of \$563,477,211.
	This represents an additional decrease of \$38,716,000.	This represents an additional decrease of \$50,937,722.

Next Steps:

- If Council chooses not to adopt the proposed revenue requirement, proceed to *Decision I-B: Non-Nuclear Decommissioning Reserves* in order to determine which expenses should be reduced that lower the total revenue requirement.
- If Council chooses to adopt the proposed revenue requirement, proceed to *Decision II: Cost Functionalization and Allocation*.

Decision I-B: Non-Nuclear Decommissioning Reserves

Question: Should City Council adopt Austin Energy's proposed non-nuclear decommissioning reserve annual funding level of \$19,442,308?

Background: Non-nuclear decommissioning funding is required to pay for the eventual retirement and decommissioning of Austin Energy's non-nuclear fueled power plants: Decker Creek Power Station, Fayette Power Plant, and Sand Hill Energy Center.

The proposed revenue requirement includes annual funding amounts of:

Decker Creek:	\$14,000,000
Fayette Power Plant:	\$3,750,000
Sand Hill:	\$1,692,308

Recommendations:

Staff	ICA	IHE
Yes. The amounts are based on studies conducted by outside experts. DCPD uses a site-specific engineering estimate. FPP and SHEC use cost benchmarking estimates.	No. The ICA recommends the following annual funding amounts: DCPD: \$6,263,158 FPP: \$2,925,000 SHEC: \$867,850 Reductions discount the conservative estimates recommended by the consultants.	No. The IHE recommends the following annual funding amounts: DCPD: \$14,000,000 FPP: \$2,925,000 SHEC: \$867,850 DCPD is maintained because it is based on a site-specific engineering estimate. FPP and SHEC are discounted because the estimates are based on benchmarks.
	This would be a decrease of \$9,386,300.	This would be a decrease of \$1,649,458.

Next Steps:

- The next proposed reduction to the revenue requirement is *Decision I-C: Internally Generated Funds for Construction*.
- If all necessary reductions to the revenue requirement have been made, proceed to *Decision II: Cost Functionalization and Allocation*.

Decision I-C: Internally Generated Funds for Construction

Question: Should City Council adopt Austin Energy’s proposed annual funding amount of \$88,341,455 for internally generated funds for construction (“IGFC”)?

Background: IGFC represents the portion of capital improvements Austin Energy pays with cash each year. It is based on the total annual capital budget, less cash received from customers for capital projects, and multiplied by the equity/debt ratio. Finally cash received from customers is added back because it is money to be used for funding customer-specific capital projects.

AE’s proposed calculation is as follows:

Annual CIP	\$158,169,688
Less Cash from Customers	(18,513,221)
Net CIP	\$139,656,467
Equity ratio	50%
Equity portion of CIP	\$69,828,234
Add Cash from Customers	18,513,221
Total IGFC	\$88,341,455

Recommendations:

Staff	ICA	IHE
Yes. The annual CIP is based on the FY 2015 actual CIP amount. Cash from customers is based on Council policy, and the equity ratio is based on Council policy.	No. The ICA recommends a total of \$82,256,610. The reduction is achieved by using a 3-year average CIP. This lowers the annual CIP amount to \$146 million from for purposes of this calculation.	Yes. The IHE agrees with Austin Energy’s recommendation.
	This would be a decrease of \$6,084,845.	

Next Steps:

- The next proposed reduction to the revenue requirement is *Decision I-D(1): Transmission Costs*.
- If all necessary reductions to the revenue requirement have been made, proceed to *Decision II: Cost Functionalization and Allocation*.

Decision I-D(1): Transmission Costs

Question: Should City Council use Austin Energy's test year 2014 retail transmission expense of \$116,855,952?

Background: Retail transmission expense is paid to Distribution Service Providers across the ERCOT region to pay for Austin Energy's access to the ERCOT transmission system. Austin Energy's retail customers pay the retail transmission costs through the Regulatory Charge.

The base revenue requirement excludes pass-through charges (like the Regulatory Charge).

Recommendations:

Staff	ICA	IHE
Yes. This amount is used to calculate the Regulatory Charge and has been removed from the calculation of retail base rates.	No recommendation.	Yes. The IHE agrees with Austin Energy's recommendation.

Next Steps:

- The next proposed reduction to the revenue requirement is *Decision I-D(2): Transmission Revenues*.
- If all necessary reductions to the revenue requirement have been made, proceed to *Decision II: Cost Functionalization and Allocation*.

Decision I-D(2): Transmission Revenues

Question: Should City Council adopt NXP/Samsung's proposal to use projected FY 2015 wholesale transmission revenue instead of the test year 2014 cost of service revenue amount?

Background: Wholesale transmission revenue is collected from Distribution Service Providers across the ERCOT region to pay for their access to the part of the transmission system that is owned and operated by Austin Energy. Wholesale transmission costs and expenses have been removed from the cost of service study because Austin Energy's retail customers do not pay for wholesale transmission expenses.

Recommendations:

Staff	ICA	IHE
No. The test year revenue amount should be used because it mathematically eliminates any possibility that retail customers could subsidize or be subsidized by wholesale transmission customers.	No recommendation.	Yes. The IHE recommends wholesale transmission revenue should reflect projected FY 2015 amount.
		This proposal reduces the revenue requirement by \$11,397,812.

Next Steps:

- The next proposed reduction to the revenue requirement is *Decision I-E: Fayette Power Plant Debt Defeasance*.
- If all necessary reductions to the revenue requirement have been made, proceed to *Decision II: Cost Functionalization and Allocation*.

Decision I-E: Fayette Power Plant Debt Defeasance

Question: Should City Council adopt Public Citizen/Sierra Club’s proposal to establish a separate fund restricted to pay the outstanding debt associated with Fayette Power Plant? Annual funding of \$31.5 million has been proposed.

Background: Fayette Power Plant is a coal-fired power plant partially owned by Austin Energy (with Lower Colorado River Authority, which is also the operator). In the *Resource Plan to 2025*, City Council preliminarily planned for Austin Energy to cease its operations at FPP in 2023. AE anticipates there will be outstanding bond debt in 2023.

Recommendations:

Staff	ICA	IHE
No. AE and LCRA have not yet agreed to terms, City Council has not adopted a plan to exit FPP, and the proposed amount would eliminate the proposed base rate reduction.	No. There are no terms of agreement with LCRA, City Council has not adopted an exit plan, and AE could use sinking fund payments instead.	No. The IHE concurs with Austin Energy’s recommendation.

Next Steps:

- The next proposed reduction to the revenue requirement is *Decision I-F: Debt Service Associated with South Texas Nuclear Project*.
- If all necessary reductions to the revenue requirement have been made, proceed to *Decision II: Cost Functionalization and Allocation*.

Decision I-F: Debt Service Associated with South Texas Nuclear Project

Question: Should City Council adopt Paul Robbins’ proposal to accelerate repayment of debt associated with South Texas Nuclear Project (“STP”)?

Background: Austin Energy owns a 16% share of the South Texas Nuclear Project (with CPS Energy and NRG). Austin Energy’s debt associated with STP was recently refinanced in order to take advantage of historically low interest rates. The bonds are projected to be finally paid off in 2041.

Recommendations:

Staff	ICA	IHE
No. Nuclear Regulatory Commission (“NRC”) is currently reviewing an application to extend STP’s license to operate. No decision should be made before NRC makes its final ruling.	No recommendation.	No. The IHE concurs with Austin Energy’s recommendation.

Next Steps:

- The next proposed reduction to the revenue requirement is *Decision I-G: Uncollectible Expense*.
- If all necessary reductions to the revenue requirement have been made, proceed to *Decision II: Cost Functionalization and Allocation*.

Decision I-G: Uncollectible Expense

Question: Should City Council adopt Austin Energy's proposed uncollectible expense amount of \$16,054,751?

Background: Uncollectible expense (aka bad debt) represents the amount of revenue Austin Energy is unable to collect from its retail customers each year. Because it is a government agency, AE cannot write off this bad debt; therefore, all customers must pay for the uncollected revenue as an added expense in their rates.

Recommendations:

Staff	ICA	IHE
Yes. The proposed amount is the FY 2014 uncollectible expense, adjusted lower to remove the impact of changes that cause a large but temporary increase to uncollectible expenses.	No. The ICA recommends a total of \$10,199,660. This is calculated by using a five-year average ratio of uncollectible expense to total revenues instead of using the FY 2015 amount.	No. The IHE agrees with the ICA's proposal and recommends a total of \$10,199,660.
	This would be a decrease of \$5,855,091.	This would be a decrease of \$5,855,091.

Next Steps:

- The next proposed reduction to the revenue requirement is *Decision I-H: Economic Development and Community Programs*.
- If all necessary reductions to the revenue requirement have been made, proceed to *Decision II: Cost Functionalization and Allocation*.

Decision I-H: Economic Development and Community Programs

Question: Should City Council adopt NXP/Samsung's proposal to eliminate Austin Energy's funding for the Economic Development Department?

Background: The City of Austin's Economic Development Department historically has received a large percentage of its funding from Austin Energy. Two years ago, the Council adopted a plan to spread the funding requirement across more City of Austin departments.

Recommendations:

Staff	ICA	IHE
No. EDD provides important business development work for AE by recruiting new electric customers to the service territory.	No, in part. The ICA recommends funding be rolled into the overall General Fund Transfer.	Yes. Economic development is not a reasonable or necessary expense to provide electric utility service.
		This would be a decrease of \$9,090,429.

Next Steps:

- The next proposed reduction to the revenue requirement is *Decision I-I: Loss on Disposal*.
- If all necessary reductions to the revenue requirement have been made, proceed to *Decision II: Cost Functionalization and Allocation*.

Decision I-I: Loss on Disposal

Question: Should City Council adopt NXP/Samsung's proposal to eliminate Austin Energy's funding for Loss on Disposal of Assets? AE's proposed funding amount is \$7,170,039.

Background: Loss on Disposal of Assets is an accounting practice that recognizes the expense of disposing of certain assets before they have reached their full value.

Recommendations:

Staff	ICA	IHE
No. Each year, AE must dispose of certain assets before they have been fully depreciated. It is a recurring expense and will continue in the future. The \$7 million requested amount represents actual FY 2014 losses.	In part. The ICA recommends a total of \$6,370,039. This is calculated by taking the average loss for the years FY 2011-2013.	No. The IHE recommends full funding.
	This would be a decrease of \$800,000.	

Next Steps:

- The next proposed reduction to the revenue requirement is *Decision I-J: Customer Care*.
- If all necessary reductions to the revenue requirement have been made, proceed to *Decision II: Cost Functionalization and Allocation*.

Decision I-J: Customer Care

Question: Should City Council adopt NXP/Samsung's proposal to allocate more costs associated with the Utility Customer Center ("UCC") to other City of Austin departments?

Background: The Utility Customer Center provides and maintains the automated utility customer management call center, local payment centers, and the billing system. The UCC handles service requests and billing for the City of Austin Water Utility, Resource Recovery department, Austin Energy, Watershed Protection department, and Transportation department, among others. The UCC's budget is housed in the AE Fund and other COA departments transfer money to the AE Fund to pay for their share of the costs.

Recommendations:

Staff	ICA	IHE
No. AE and AWU customer service requests tends to be more complicated and require more time to resolve than service requests for other COA departments. Allocation is based on a long-used study and shifting costs would inappropriately increase rates for customers of the other utilities without allowing for those customers to address the proposed increase.	Yes. The ICA recommends allocating more of the UCC's costs to other COA departments. The ICA recommends using NXP/Samsung's proposed methodology to allocate costs back to other COA departments.	Yes. The IHE recommends allocating more of the UCC's costs to other COA departments. The IHE recommends using NXP/Samsung's proposed methodology to allocate costs back to other COA departments.
	This would be a decrease of \$10,371,602.	This would be a decrease of \$10,371,602.

Next Steps:

- The next proposed reduction to the revenue requirement is *Decision I-K: Rate Case Expenses*.
- If all necessary reductions to the revenue requirement have been made, proceed to *Decision II: Cost Functionalization and Allocation*.

Decision I-K: Rate Case Expenses

Question: Should City Council adopt NXP/Samsung's proposal to extend the amortization period for rate case expenses to five years?

Background: Electric utilities are typically allowed to recover the cost of conducting extensive rate reviews from their customers. The costs include external consultant and legal support but not internal staff time. Austin Energy proposed to amortize the cost over three years.

Recommendations:

Staff	ICA	IHE
No. Even though AE does not intend to bring another rate review for five years, Council can always mandate an earlier review. Collection over three years will ensure that there is not a time when ratepayers are paying for two different rate reviews at the same time.	Yes. The ICA recommends amortizing the cost over five years. The ICA recommends this change because AE does not intend to bring a new base rate review for five years from now.	Yes. The IHE concurs with the ICA and recommends amortizing the cost over five years.
	This would be a decrease of \$215,333.	This would be a decrease of \$215,333.

Next Steps:

- The next proposed reduction to the revenue requirement is *Decision I-L: Outside Services*.
- If all necessary reductions to the revenue requirement have been made, proceed to *Decision II: Cost Functionalization and Allocation*.

Decision I-L: Outside Services

Question: Should City Council adopt NXP/Samsung's proposal to eliminate Austin Energy's funding to hire Information Technology support services?

Background: Austin Energy hires outside contractors to supplement its in-house IT staff. These contractors augment permanent staffing for special projects, system upgrades, and other IT-related projects.

Recommendations:

Staff	ICA	IHE
No. Austin Energy has incurred this expense every year and has no plans to stop contracting with outside service firms for this critical support function.	No recommendation.	No. The IHE recommends full funding.

Next Steps:

- The next proposed reduction to the revenue requirement is *Decision I-M: Reserves*.
- If all necessary reductions to the revenue requirement have been made, proceed to *Decision II: Cost Functionalization and Allocation*.

Decision I-M: Reserves

Question: Should City Council maintain its current financial policies related to Austin Energy's reserve funds?

Background: City of Austin Financial Policies Nos. 11, 15 and 16 (related to Austin Energy) are adopted by the City Council each year, and they authorize the existence of and target funding levels for each of AE's reserves. AE has recommended the City Council adopt new policies related to reserve funds in order to make them more transparent to the community.

However, until the Council alters its financial policies, Austin Energy must propose a base revenue requirement founded on current policy.

Recommendations:

Staff	ICA	IHE
No. Austin Energy conducted an extensive review of the Reserve Fund policies and target funding levels per Council direction. AE recommends adopting new policies based on that study.	Defer to Council.	Defer to Council.

Next Steps:

- If Council chooses to adopt the current Reserve Fund policies, proceed to *Decision I-M(1): Current Reserve Fund Amounts*.
- If Council chooses not to adopt the current policies, proceed to *Decision I-M(2): Proposed Reserve Fund Policies*.
- The next proposed reduction to the revenue requirement is *Decision I-N: Property Transfers*.
- If all necessary reductions to the revenue requirement have been made, proceed to *Decision II: Cost Functionalization and Allocation*.

Decision I-M(1): Current Reserve Fund Amounts

Question: Should City Council adopt Austin Energy's proposed annual funding of \$11,590,703 in order to reach target funding levels under current financial policies?

Background: City of Austin Financial Policies Nos. 11, 15 and 16 (related to Austin Energy) are adopted by the City Council each year, and they authorize the existence of and target funding levels for each of AE's reserves. Austin Energy's proposed base revenue requirement is founded on current policy. Assuming Council chooses not to change policies, the following revenue would be required:

Reserve	Funding Policy	Funding Amount
Working Capital	45 days cash on hand	\$70,080,491
Strategic Reserve (Contingency)	60 days cash on hand	\$93,440,655
Strategic Reserve (Emergency)	60 days cash on hand	\$93,440,655
Strategic Reserve (Rate Stabilization)	90 days net power supply costs	\$107,412,480
Repair & Replacement	50% prior year depreciation	\$72,825,880
Total Funds Required		\$437,200,161
Funds Available		\$402,428,053
Funds Needed		\$34,772,108

Austin Energy proposes to collect these funds over a three year period.

Recommendations:

Staff	ICA	IHE
In part. Assuming Council chooses not to change policies, then staff recommends this funding level.	No recommendation.	In part. Assuming Council chooses not to change policies, then IHE recommends this funding level.

Next Steps:

- If Council chooses not to adopt the current policies, proceed to *Decision I-M(2): Proposed Reserve Fund Policies*.
- The next proposed reduction to the revenue requirement is *Decision I-N: Property Transfers*.
- If all necessary reductions to the revenue requirement have been made, proceed to *Decision II: Cost Functionalization and Allocation*.

Decision I-M(2): Proposed Reserve Fund Policies

Question: Should City Council adopt Austin Energy’s proposed new reserve fund policies?

Background: At Council’s direction, Austin Energy conducted an extensive review of its financial policies and goals. One major result of this study is a set of new reserve fund policies that would replace the current funds authorized by Council. The study recommends clarifying the intent of the reserves and use of funds, and suggests new funding levels that are commensurate with AE’s financial obligations. Recommended changes include:

Working Capital.....	Maintain
Strategic Reserve umbrella	Eliminate
Contingency Reserve.....	Maintain
Emergency Reserve	Eliminate
Rate Stabilization Reserve	} Change to Power Supply Stabilization Reserve and move out of Strategic Reserve
Repair & Replacement Reserve	

Recommendations:

Staff	ICA	IHE
Yes. The proposed reserve fund structure more closely aligns with AE’s current operations and financial operations. The proposed policies also make AE’s reserves more transparent as compared with current policies.	In Part. The ICA recommends that AE not sweep PSA credits into the Power Supply Stabilization Reserve if the Reserve is below target funding level.	In Part. The IHE recommends that AE not sweep PSA credits into the Power Supply Stabilization Reserve if the Reserve is below target funding level.

Next Steps:

- If Council chooses to adopt the proposed policies, proceed to *Decision I-M(3): Proposed Reserve Fund Amounts*.
- The next proposed reduction to the revenue requirement is *Decision I-N: Property Transfers*.
- If all necessary reductions to the revenue requirement have been made, proceed to *Decision II: Cost Functionalization and Allocation*.

Decision I-M(3): Proposed Reserve Fund Amounts

Question: Should City Council adopt Austin Energy's proposed target reserve fund levels? Net funding requirement under the proposed policies is \$3,398,128.

Background: At Council's direction, Austin Energy conducted an extensive review of its financial policies and goals. The study recommends suggests new funding levels that are commensurate with AE's financial obligations. The total target funding for all reserves is 150 days cash on hand. Fund recommendations are:

Reserve	Funding Policy	Funding Amount
Working Capital	60 days cash on hand	\$93,440,655
Contingency Reserve	60 days cash on hand	\$93,440,655
Power Supply Stabilization	90 to 120 days net power supply costs	\$125,314,560
Capital Reserve	50% prior year depreciation plus balance to achieve 150 days cash on hand	\$100,426,568
Total Funds Required		\$412,622,438
Funds Available		\$402,428,053
Funds Needed		\$10,194,385

Austin Energy proposes to collect these funds over a three year period.

Recommendations:

Staff	ICA	IHE
Yes. Funding levels are appropriate given AE's financial and operational obligations.	In part. The ICA recommends changing Working Capital to 45 days cash and changing Power Supply to 90 days net power supply costs. The ICA agrees with the total 150 days cash on hand target.	In part. The IHE recommends changing Working Capital to 45 days cash and changing Power Supply to 90 days net power supply costs. The IHE agrees with the total 150 days cash on hand target.
This would be a decrease of \$8,192,575.	This would be a decrease of \$8,192,575.	This would be a decrease of \$8,192,575.

Next Steps:

- If Council chooses to adopt the proposed policies, proceed to *Decision I-M(4): Non-Nuclear Decommissioning Reserve*.
- The next proposed reduction to the revenue requirement is *Decision I-N: Property Transfers*.
- If all necessary reductions to the revenue requirement have been made, proceed to *Decision II: Cost Functionalization and Allocation*.

Decision I-M(4): Non-Nuclear Decommissioning Reserves

Question: Should City Council adopt Austin Energy’s proposal to treat non-nuclear decommissioning reserves as an operating expense?

Background: Non-nuclear decommissioning funding is required to pay for the eventual retirement and decommissioning of Austin Energy’s non-nuclear fueled power plants: Decker Creek Power Station, Fayette Power Plant, and Sand Hill Energy Center. These funds are set aside to be used when decommissioning activities commence. Reserve funds are established as percentage of annual operations and maintenance expenses.

Recommendations:

Staff	ICA	IHE
Yes. Accounting practices dictate that these funds should be treated as an O&M expense.	No. The ICA recommends the funds be accounted as reserves only.	In part. The IHE recommends that reserve fund calculations exclude non-nuclear decommissioning expense.
No change from proposed reserve fund levels.	No change from proposed reserve fund levels.	No change from proposed reserve fund levels.

Next Steps:

- The next proposed reduction to the revenue requirement is *Decision I-N(1): Property Transfers—ECC*.
- If all necessary reductions to the revenue requirement have been made, proceed to *Decision II: Cost Functionalization and Allocation*.

Decision I-N(1): Property Transfers – Energy Control Center

Question: Should City Council adopt Paul Robbins’ proposal to recognize \$14.5 million in proceeds from the sale of the Energy Control Center Property in 2015?

Background: The City of Austin sold the property on which the old Energy Control Center was cited in November 2015 for the final phase of the 2nd Street redevelopment effort to West Avenue. Austin Energy did not include the sales proceeds in its test year 2014 cost of service study.

Recommendations:

Staff	ICA	IHE
No. Proceeds from this sale are a one-time, non-recurring event and do not represent revenue that AE will receive each year and that can be used to offset annual expenses.	Yes. Proceeds should be reflected so as to minimize future debt obligation at the System Control Center on Montopolis Drive.	Yes. Proceeds should be reflected so as to minimize future debt obligation at the System Control Center on Montopolis Drive.
	This would be a decrease, amount depending on how it is accounted.	This would be a decrease, amount depending on how it is accounted.

Next Steps:

- The next proposed reduction to the revenue requirement is *Decision I-N(2): Property Transfers—Various*.
- If all necessary reductions to the revenue requirement have been made, proceed to *Decision II: Cost Functionalization and Allocation*.

Decision I-N(2): Property Transfers – Various locations

Question: Should City Council adopt Paul Robbins’ proposal to require the City of Austin to provide compensation for the transfer of properties located at Seaholm South Substation, 2406 Ventura Drive, 3400 Burleson Drive, and/or Holly Street Power Plant?

Background: The City of Austin has transferred various parcels of property between its departments. These transfers have occurred over the past twenty years.

Recommendations:

Staff	ICA	IHE
No. These properties were transferred prior to the last rate review, which was the appropriate time to question the transfer protocol.	No recommendation.	No. These properties were transferred prior to the last rate review, which was the appropriate time to question the transfer protocol.

Next Steps:

- This is the last revenue requirement issue discussed in the formal IHE process. Examine other issues as needed and then determine the final, total base revenue requirement.
- Next, proceed to *Decision II: Cost Allocation*.

Decision II: Cost Functionalization and Allocation

Question: Should City Council adopt the cost functionalization and allocation methodologies proposed by Austin Energy?

Background: Once the base revenue requirement is determined, the next step is to assign each of the utility's costs to a particular function the utility provides. AE's four functions are service to Customers, Distribution service, Transmission service, and Power Production.

The functionalized costs are then allocated across the various customer classes based on a formula of how much that class contributes to the provision of those services. Some costs can be directly assigned; other costs must be allocated using a methodology to determine the fair and appropriate amount of expenses that each class should bear. Different costs are assigned on different methodologies based on the characteristic of the cost and the profile of the customer class. Changes to those methodologies ultimately impact how much more or less a class of customers must pay.

Recommendations:

Staff	ICA	IHE
Yes.	No. The ICA advocates for several changes to cost functionalization and allocation.	In part. The IHE recommends changing five allocators.

Next Steps:

- If Council chooses not to adopt the proposed cost functionalization and allocation methodologies, proceed to *Decision II-A: Functionalization of 311 Call Center* in order to determine which costs should be allocated differently.
- If Council chooses to adopt the proposed cost functionalization and allocation methodologies, proceed to *Decision III: Revenue Distribution*.

Decision II-A(1): Functionalization of 311 Call Center

Question: Should City Council adopt Austin Energy’s proposal to assign costs associated with the 311 Call Center to the Customer function?

Background: The 311 Call Center fields calls from Austin-area residents regarding any number of services or programs offered by the City of Austin. Costs for the 311 Call Center are shared by City of Austin departments based on an allocation methodology developed by CFO’s office. Austin Energy’s share of those costs is partly attributable to the call center’s roll as a back-up call center for emergency operations.

Recommendations:

Staff	ICA	IHE
Yes. Assigning costs to the Customer function recognizes the inherent function of the call center is to serve customers.	No. The ICA recommends assigning these costs to the Distribution function because the call center serves a role in emergency operations. The IHE also notes that CFO’s office assigned the center’s costs associated with disaster recovery directly to Austin Energy and that these are the largest share of 311 Call Center costs AE must pay.	Yes. The IHE concurs with Austin Energy’s recommendation.

Next Steps:

- The next proposed change to cost functionalization and allocation is *Decision II-A(2): Functionalization of Admin and General Labor Costs*.
- If all necessary changes to cost functionalization and allocation have been made, proceed to *Decision III: Revenue Distribution*.

Decision II-A(2): Functionalization of Admin and General Labor

Question: Should City Council adopt Austin Energy’s proposal to assign costs associated with Administrative and General (“A&G”) Labor (FERC 920) using a Labor allocator?

Background: Accounting code FERC 920 captures labor costs that are not directly assigned to specific operations (e.g., engineers at power plants are coded to power production). A&G labor costs are allocated across the utility’s functions so that each operating unit shares in a portion of these A&G labor costs (e.g., sharing a portion of the Executive staff or the Human Resources staff).

Recommendations:

Staff	ICA	IHE
Yes. AE directly assigns management A&G costs at the power plants where possible and then allocates the remainder using a method that recognizes the inherent administrative nature of these labor costs. The result is a fair distribution of costs across classes.	No. The ICA recommends allocating using a non-power supply O&M ratio because administrative and management costs are more closely tied with overseeing expense levels and therefore A&G labor tend to be more focused on the more expensive aspects of utility operations.	Yes. The IHE concurs with Austin Energy’s position.

Next Steps:

- The next proposed change to cost functionalization and allocation is *Decision II-A(3): Functionalization of New Service Connection Fees*.
- If all necessary changes to cost functionalization and allocation have been made, proceed to *Decision III: Revenue Distribution*.

Decision II-A(3): Functionalization of New Service Connection Fees

Question: Should City Council adopt Austin Energy's proposal to assign costs associated with new service connections to the Distribution function?

Background: Each time a customer initiates service, Austin Energy incurs costs to establish service. These costs are incurred whether the service is to connect a new customer or to reconnect an existing customer.

Recommendations:

Staff	ICA	IHE
Yes. Assigning these costs to the Distribution function recognizes that connection fees are fundamentally linked with AE's distribution infrastructure.	No. The ICA recommends assigning these costs to the Customer function because the cost is associated with serving a customer and not with the infrastructure costs.	No. The IHE concurs with the ICA's position.

Next Steps:

- The next proposed change to cost functionalization and allocation is *Decision II-B: Classification of Production Costs*.
- If all necessary changes to cost functionalization and allocation have been made, proceed to *Decision III: Revenue Distribution*.

Decision II-B: Classification of Production Costs

Question: Should City Council adopt Austin Energy's proposal to classify costs associated with power production as demand-related costs?

Background: Classification of costs helps determine how a cost should be paid for by customer classes. If a cost is classified as energy-related, then the cost is typically recovered through an energy rate (\$/kWh). If it's related to demand or the number of customers, then it is typically recovered through a fixed rate (\$/kW or \$/month).

Power production costs include non-power supply operations and maintenance expenses at AE's power plants. Fuel costs, fuel transportation costs, and purchase power agreement costs are not included in power production. They are included in the Power Supply Adjustment.

Recommendations:

Staff	ICA	IHE
Yes. Production costs are incurred when ERCOT wholesale prices warrant unit dispatch. Because prices can spike throughout the year, AE must maintain fleet readiness throughout the year. These costs should be considered fixed expenses that do not vary in short-term. Thus, non-power supply related production costs are classified as demand-related.	No. The ICA recommends classifying these costs as both demand and energy related. While dispatch happens every five minutes, the power plants only produce energy when customers demand it and therefore there is a fixed component to the cost.	Yes. The IHE concurs with Austin Energy's position.

Next Steps:

- The next proposed change to cost functionalization and allocation is *Decision II-C: Allocation of Production Costs*.
- If all necessary changes to cost functionalization and allocation have been made, proceed to *Decision III: Revenue Distribution*.

Decision II-C: Allocation of Production Costs

Question: Should City Council adopt Austin Energy’s proposal to allocate production costs using the ERCOT 12 co-incident peak (“12 CP”) methodology?

Background: Production costs are typically allocated to customer classes based on each class’ use of the power plants at a particular point in time. Some methods allocate on a single peak hour of the year while others will allocate on a ratio of all 8,760 hours of the year.

Austin Energy proposes to allocate production costs based on how much each customer class demands energy during the hour each month of the year that the ERCOT system realizes its peak demand (12 CP).

Recommendations:

Staff	ICA	IHE
Yes. Production costs are incurred when AE’s power plants are dispatched to the ERCOT wholesale market. Dispatch is based on the price of the unit compared with the market price at any given 5-minute interval. Prices can spike anytime of the year, not just in the summer months. Therefore, AE calculates each class’s contribution to the 12 monthly ERCOT peaks and assigns production costs based on those ratios.	No. The ICA recommends allocating these costs using the “Baseload, Intermediate, and Peak” method, which assigns costs based on the type of power plant that would typically be operating when a customer class reaches its peak demand.	Yes. The IHE concurs with Austin Energy’s position.

Next Steps:

- The next proposed change to cost functionalization and allocation is *Decision II-D(1): Classification of Transformers and Capacitors*.
- If all necessary changes to cost functionalization and allocation have been made, proceed to *Decision III: Revenue Distribution*.

Decision II-D(1): Classification of Transformers and Capacitors

Question: Should City Council adopt Austin Energy’s proposal to classify costs associated with transformers and capacitors as demand-related costs?

Background: Classification of costs helps determine how a cost should be paid for by customer classes. If a cost is classified as energy-related, then the cost is typically recovered through an energy rate (\$/kWh). If it’s related to demand or the number of customers, then it is typically recovered through a fixed rate (\$/kW or \$/month).

Transformers and capacitors are an essential part of the distribution system infrastructure which help regulate the flow of electricity from substations to customers at the proper voltage level.

Recommendations:

Staff	ICA	IHE
Yes. Costs related to transformers and capacitors are based on the amount of electricity flowing through them at any given time, measured in a kW rating. AE must install transformers and capacitors that are able to meet the maximum demand placed on that part of the system at any point in the year. This is a traditional demand-related cost analysis. AE allocates these costs using a method called “Sum of Maximum Demands” which considers year-round demand impacts.	No. The ICA recommends classifying these costs using a summer-weighted energy methodology that recognizes the role transformers and capacitors play in mitigating line losses.	In part. The IHE concurs with Austin Energy’s classification as demand but recommends NXP/Samsung’s proposal to allocate using the 4 non-coincident peak method.

Next Steps:

- The next proposed change to cost functionalization and allocation is *Decision II-D(2): Classification of Meters*.
- If all necessary changes to cost functionalization and allocation have been made, proceed to *Decision III: Revenue Distribution*.

Decision II-D(2): Classification of Meters

Question: Should City Council adopt Austin Energy's proposal to classify meter costs as customer-related costs?

Background: Classification of costs helps determine how a cost should be paid for by customer classes. If a cost is classified as energy-related, then the cost is typically recovered through an energy rate (\$/kWh). If it's related to demand or the number of customers, then it is typically recovered through a fixed rate (\$/kW or \$/month).

Meters measure the amount of energy a customer consumes over a given period of time and the maximum amount energy demand at any moment.

Recommendations:

Staff	ICA	IHE
Yes. Costs related to meters are directly associated with the number of customers in a class.	No. The ICA recommends classifying these costs as a blend between customer and demand-related costs because AE uses meter data to inform its demand-side management and energy efficiency programs.	Yes. The IHE concurs with Austin Energy's position.

Next Steps:

- The next proposed change to cost functionalization and allocation is *Decision II-D(3): Classification and Allocation of Services*.
- If all necessary changes to cost functionalization and allocation have been made, proceed to *Decision III: Revenue Distribution*.

Decision II-D(3): Classification and Allocation of Services

Question: Should City Council adopt Austin Energy’s proposal to classify costs associated with services as demand-related costs and allocate these costs using the Sum of Maximum Demands methodology?

Background: Classification of costs helps determine how a cost should be paid for by customer classes. If a cost is classified as energy-related, then the cost is typically recovered through an energy rate (\$/kWh). If it’s related to demand or the number customers, then it is typically recovered through a fixed rate (\$/kW or \$/month).

“Services” refers to costs associated with providing new service and extensions of service to customers.

Recommendations:

Staff	ICA	IHE
Yes. Costs related to services are ultimately associated with the cost of the service drops, which tends to escalate as projected demand increases.	No. The ICA recommends classifying these costs as Customer-related. This change would reflect common industry practice.	Yes. The IHE concurs with the Austin Energy’s position.

Next Steps:

- The next proposed change to cost functionalization and allocation is *Decision II-D(4): Allocation of Distribution Costs*.
- If all necessary changes to cost functionalization and allocation have been made, proceed to *Decision III: Revenue Distribution*.

Decision II-D(4): Allocation of Distribution Costs

Question: Should City Council adopt Austin Energy’s proposal to allocate costs assigned to the Distribution function using the 12 non-coincident peak (“12 NCP”) methodology?

Background: Costs assigned to the Distribution function include the cost of maintaining, upgrading, and repairing poles, wires, conductors and transformers used to deliver electricity to the end-use customer from the bulk transmission system. Allocation methodologies assign these costs across the customer classes based on how customers in those classes use the system.

The 12 NCP methodology analyses each customer class’s peak demand in each month of the year irrespective of whether that peak occurs at the same time as the ERCOT system or the AE system peak.

Recommendations:

Staff	ICA	IHE
Yes. 12 NCP appropriately recognizes the year-round demand placed on AE’s distribution system and the utility’s requirements to operate and maintain the distribution system to meet customer needs.	Yes. 12 NCP allocates these costs more fairly as compared with 4 NCP because classes with high demands outside the summer season would be somewhat insulated from costs if only the four summer months are considered.	Yes. 12 NCP appropriately recognizes the year-round demand placed on AE’s distribution system and the utility’s requirements to operate and maintain the distribution system to meet customer needs.

Next Steps:

- The next proposed change to cost functionalization and allocation is *Decision II-E(1): Allocation of Uncollectible Expenses*.
- If all necessary changes to cost functionalization and allocation have been made, proceed to *Decision III: Revenue Distribution*.

Decision II-E(1): Allocation of Uncollectible Expenses

Question: Should City Council adopt the Independent Consumer Advocate’s proposal to allocate costs associated with uncollectible expense (bad debt) as a ratio of class revenue requirement?

Background: Uncollectible expense represents the amount of revenue Austin Energy is unable to collect from its retail customers each year. Once the appropriate amount of expense to be recovered is determined in *Decision I-G*, the Council must determine how those costs are assigned to each of the customer classes. Changes in allocation methodology change the total amount of revenue required from each class to pay for the costs.

Recommendations:

Staff	ICA	IHE
No. When able, costs should be directly assigned to customer classes so that a direct link to cost causation can be maintained. AE proposes to allocate these costs directly to the classes responsible for incurring the cost in the first place.	Yes. Allocating uncollectible expenses using the ratio of class revenue requirement allows more customers to absorb the cost and avoids placing undue burden on any given set of customers.	Yes. Allocating uncollectible expenses using the ratio of class revenue requirement allows more customers to absorb the cost and avoids placing undue burden on any given set of customers.

Next Steps:

- The next proposed change to cost functionalization and allocation is *Decision II-E(2): Allocation of Meter Expense and Meter Reading*.
- If all necessary changes to cost functionalization and allocation have been made, proceed to *Decision III: Revenue Distribution*.

Decision II-E(2): Allocation of Meter Expenses and Meter Reading

Question: Should City Council adopt Austin Energy’s proposal to allocate costs associated with meters and meter reading using weighted customer allocators?

Background: Meters and meter reading are the primary way for the utility to monitor the amount of electricity a customer consumes over time and demands at any given point in time. Data from meters are the basic points of information for use in developing customer bills, rates, and service programs.

Recommendations:

Staff	ICA	IHE
Yes. Meter expenses should be allocated using a weighted customer allocator so as to account for variations in meter types for specific customer groups. Meter reading should be allocated based on the number of customers because the cost to read the meter has little to do with the type of meter installed.	In part. The ICA supports allocating meter expenses on a weighted customer basis, but recommends that meter reading be allocated on the same basis in order to reflect the higher cost of serving accounts with larger meters.	Yes. Meter expenses should be allocated using a weighted customer allocator so as to account for variations in meter types for specific customer groups. Meter reading should be allocated based on the number of customers because the cost to read the meter has little to do with the type of meter installed.

Next Steps:

- The next proposed change to cost functionalization and allocation is *Decision II-E(3): Allocation of Marketing and Advertising*.
- If all necessary changes to cost functionalization and allocation have been made, proceed to *Decision III: Revenue Distribution*.

Decision II-E(3): Allocation of Marketing and Advertising

Question: Should City Council adopt Austin Energy’s proposal to directly assign some of and allocate the remaining costs associated with marketing and advertising partly based on the number of customers in each class?

Background: Austin Energy uses marketing and advertising to communicate with its customers about special programs, safety tips, and policy objectives.

Recommendations:

Staff	ICA	IHE
Yes. AE directly assigns a portion of these costs to Key Account customers. The remainder are assigned based on the number of customers in each class using an accepted industry allocation standard.	In part. The ICA supports directly assigning some costs to Key Account customers but recommends developing a weighted customer allocator because the expenses generally should be considered a cost of doing business and not inherently linked to the number of customers per class.	Yes. The IHE recommends direct assignment of some of the costs to Key Accounts customers and allocating the remainder using the number of customers in each class.

Next Steps:

- The next proposed change to cost functionalization and allocation is *Decision II-E(4): Allocation of Service Connection Fees*.
- If all necessary changes to cost functionalization and allocation have been made, proceed to *Decision III: Revenue Distribution*.

Decision II-E(4): Allocation of Service Connection Fees

Question: Should City Council adopt Austin Energy’s proposal to allocate costs associated with Service Connections Fees based on customer billed demand (“Sum of Maximum Demands” or “SMD”)?

Background: Service connections fees are incurred when a customer initiates new service or reestablishes existing service.

Recommendations:

Staff	ICA	IHE
Yes. SMD recognizes the cost related to services as dependent on the demand size of the customer.	No. The ICA recommends a weighted customer allocator because the expenses represent a cost of doing business and should be treated in part as general overhead.	Yes. The IHE recommends use of the SMD allocator.

Next Steps:

- The next proposed change to cost functionalization and allocation is *Decision II-F: Allocation of Energy Efficiency Service Charge*.
- If all necessary changes to cost functionalization and allocation have been made, proceed to *Decision III: Revenue Distribution*.

Decision II-F: Allocation of Energy Efficiency Service Charge

Question: Should City Council adopt Austin Energy’s proposal to directly assign the Energy Efficiency Service Charge based on a three-year average of costs incurred by the Residential class and non-residential classes?

Background: The Energy Efficiency Services Charge is a component of the Community Benefit Charge and recovers AE’s cost of providing energy efficiency, solar, and electric vehicle programs. While the rate is set by Council each year in the annual budget process, the method by which some of the pass-through charges is allocated was reviewed by the parties to the IHE review.

Recommendations:

Staff	ICA	IHE
Yes. Direct assignment of costs is the most fair way to attribute causation of the cost to customer classes. Using a rolling three-year average ensures that year-to-year changes in programming will not unduly or unfairly burden residential customers or non-residential customers.	No. The ICA recommends allocating the EES on a system-wide basis adjusted for voltage level because energy efficiency programs benefit more than just the customers directly receiving program services.	No. The ICA recommends allocating the EES on a system-wide basis adjusted for voltage level because energy efficiency programs benefit more than just the customers directly receiving program services.

Next Steps:

- This is the last cost functionalization, classification and allocation issue discussed in the formal IHE process. Examine other issues as needed.
- Next, proceed to *Decision III: Revenue Distribution*.

Decision III: Revenue Distribution/Allocation/Spread

Question: Should City Council adopt Austin Energy’s proposal on how to distribute the total revenue reduction across customer classes?

Background: Once the revenue requirement is established and cost allocation is determined, the next step in the process is to determine how to distribute the revenue reduction to the various customer classes.

Austin Energy has proposed adhering to the following principles:

- No customer class receives a revenue increase
- Use revenue to help correct inequities or irregularities in past rate design
- Distribute the remaining revenue proportionally to classes based on the class’s deviation to cost of service

Recommendations:

Staff	ICA	IHE
Yes. AE’s proposal delivers a large portion of benefit to classes that are furthest above cost of service, corrects some fundamental irregularities in the rate design, and emphasizes importance of Council’s affordability goals.	No. The ICA recommends distributing revenues based on the ratio of class energy usage in order to allow all customers to enjoy the benefit of a system-wide rate reduction.	Yes. The IHE recommends AE’s proposal because it best balances the need for AE to move toward rates that more closely align with an accepted cost of service study, minimizes bill impacts, and adhering to accepted policies and practices.

Next Steps:

- There were no individual revenue distribution issues examined in the IHE review. Once discussion on the revenue spread is complete and a decision is made, proceed to *Decision IV: Rate Design*.

Decision IV: Rate Design

Question: Should City Council adopt Austin Energy's proposed changes to retail rate design?

Background: Rates are the mechanism by which the utility collects costs from customers based on the class revenue requirement and cost allocation decisions. Rates also reflect policy priorities of the community, Council, and Austin Energy.

Recommendations:

Staff	ICA	IHE
Yes.	In part. The ICA recommends several changes to retail rate design.	Yes. The IHE recommends adoption of the proposed rate design.

Next Steps:

- If Council chooses not to adopt the proposed rate design, proceed to *Decision IV-A: Billing Adjustment Factor*.
- If Council chooses to adopt the proposed rate design, proceed to *Decision V: Value of Solar Issues*.

Decision IV-A: Billing Adjustment Factor

Question: Should City Council accept Austin Energy’s proposed methodology to adjust billing units to account for differences between booked revenue and predicted revenue?

Background: Austin Energy adjusts billing determinants (*e.g.*, number of customers, demand measured in kilowatts, and energy measured in kilowatt-hours) used to calculate rates in order to reflect discrepancies caused by partial month bills, estimated meter readings, and errors in prior billing periods. AE’s adjustment factor was calculated on a system-wide basis.

Recommendations:

Staff	ICA	IHE
Yes. The adjustment is a reasonable industry practice and AE is unable to calculate the adjustment on a class basis due to a lack of class-level data.	Yes. The adjustment is reasonable, if not best utility practice.	Yes. The adjustment is reasonable, if not best utility practice.

Next Steps:

- The next proposed change to rate design is *Decision IV-B: Seasonal Power Supply Adjustment*.
- If all necessary changes to rate design have been made, proceed to *Decision V: Value of Solar Issues*.

Decision IV-B: Seasonal Power Supply Adjustment

Question: Should City Council adopt Austin Energy’s proposal to design summer and non-summer rates for the Power Supply Adjustment?

Background: The Power Supply Adjustment is a pass-through charge that recovers AE’s cost of fuel, purchase power agreements, and net wholesale market activities. While the rate is set by Council each year during the annual budget process, the methodology by which some pass-through charges are established was reviewed by parties in the IHE review process.

Currently, Council adopts one PSA rate that remains in effect for a 12-month period typically beginning November 1st of each year. This proposal asks Council to adopt two rates each year during the annual budget process: a non-summer rate to be in effect October through May, and a summer rate to be in effect June through September.

Recommendations:

Staff	ICA	IHE
Yes. Implementing a seasonal adjustment each year better reflects average wholesale market prices and fuel costs which tend to rise during the summer months.	Yes. The ICA supports Austin Energy’s recommendation.	Yes. The IHE supports Austin Energy’s recommendation.

Next Steps:

- The next proposed change to rate design is *Decision IV-C(1): Residential Customer Charge*.
- If all necessary changes to rate design have been made, proceed to *Decision V: Value of Solar Issues*.

Decision IV-C(1): Residential Customer Charge

Question: Should City Council adopt the Independent Consumer Advocate's proposal to lock the Residential customer charge at \$10.00 per month until the next cost of service study?

Background: Customer charges are fixed cost recovery mechanisms that do not vary with the amount of electricity consumed during any particular period. Recovery of fixed cost items using a fixed revenue mechanism aligns customers and the utility more closely to cost causation principles.

Recommendations:

Staff	ICA	IHE
No, in part. While AE did not specifically recommend an increase to the customer charge, the Residential class remains millions of dollars below its class cost of service. AE recommends that Council adopt some type of rate adjustment in the next five years to help reduce the inter-class subsidy residential customers receive from commercial customers.	Yes. The ICA disputes AE's customer charge cost of service and recognizes that customers cannot avoid paying fixed charges through conservation efforts.	Yes. The IHE found no credible evidence in the record to support a change to the \$10.00/month charge.

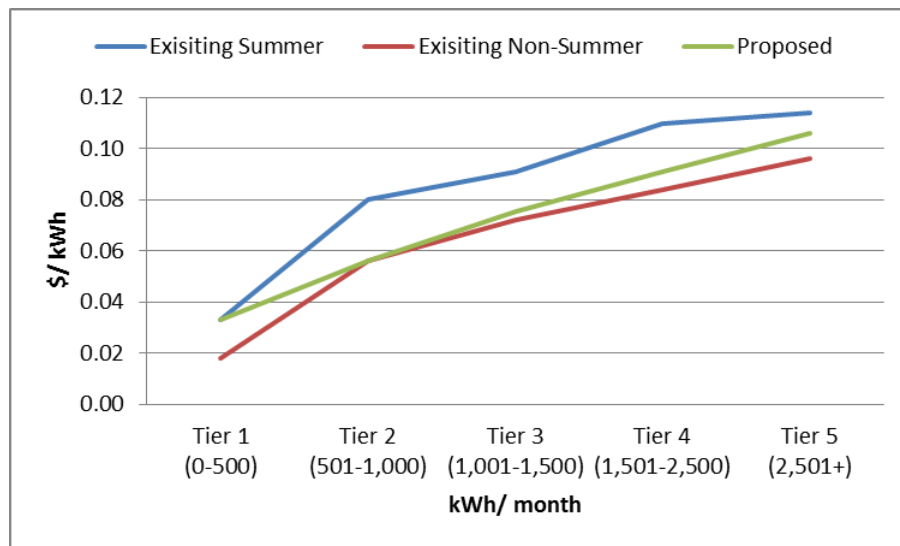
Next Steps:

- The next proposed change to rate design is *Decision IV-C(2): Residential Tiered Energy Rates*.
- If all necessary changes to rate design have been made, proceed to *Decision V: Value of Solar Issues*.

Decision IV-C(2): Residential Tiered Energy Rates

Question: Should City Council adopt Austin Energy’s proposal to modify the 5-tier energy rate structure for residential customers?

Background: Energy rates are variable cost recovery mechanisms that change with the amount of electricity consumed during a particular period. Austin Energy employs a five tier, inclining block rate structure: as a customer uses more energy, the rate gets more expensive. AE’s proposal would change the slope of the rate increases as follows:



Recommendations:

Staff	ICA	IHE
Yes. Tier 1 rates currently are far below cost of service, which limits AE’s ability to recover costs to periods of hot weather and high consumption.	No, in part. The ICA does not recommend raising Tier 1 rates.	Yes. The increase brings Tier 1 rates moderately closer to cost of service while avoiding the potential for rate shock.

Next Steps:

- The next proposed change to rate design is *Decision IV-C(3): Residential Seasonal Base Rates*.
- If all necessary changes to rate design have been made, proceed to *Decision V: Value of Solar Issues*.

Decision IV-C(3): Seasonal Base Rates

Question: Should City Council adopt Austin Energy's proposal to eliminate seasonality from base energy rates?

Background: In addition to using a five tier, inclining block rate structure, residential energy rates currently increase for the four summer months of June through September. Non-residential customers also are charged a different energy rate during the summer months.

This proposal asks Council to adopt one rate that remains in effect for the full 12-month period.

Recommendations:

Staff	ICA	IHE
Yes. A single, year-long energy rate mirrors AE's cost structure more closely and is a more predictable rate design for customers allowing them to better anticipate their bills throughout the year.	Yes. The ICA supports Austin Energy's recommendation.	Yes. The IHE supports Austin Energy's recommendation.

Next Steps:

- The next proposed change to rate design is *Decision IV-D: Non-Residential Customer Charge*.
- If all necessary changes to rate design have been made, proceed to *Decision V: Value of Solar Issues*.

Decision IV-D: Non-Residential Customer Charge

Question: Should City Council adopt Austin Energy’s proposed rate design for the demand commercial and industrial classes?

Background: Like residential customers, commercial and industrial customers pay a fixed monthly customer charge that does not vary with consumption and pay energy charges that do vary with consumption. Austin Energy has redesigned customer, demand, and energy charges so as to rebalance some of the revenue recovery into fixed revenue mechanisms (i.e., increasing the customer and demand charges and lowering the energy charges). Additionally, the proposed rate design presents a logical progression of rates as demand increases so that if customers move in and out of different rate classes, potential bill impact volatility is minimized.

Recommendations:

Staff	ICA	IHE
Yes. Recovering a higher percentage of revenue through fixed charges more closely aligns with how AE incurs its costs. The logical progression of rates improves customer experience and eliminates incentives to change commercial or industrial rates classes in search of more favorable terms.	Yes, in part. The ICA supports Austin Energy’s recommendation but expressed concern about future increases to the customer charge for the smallest commercial class (Secondary Voltage 1).	Yes, in part. The IHE supports Austin Energy’s recommendation but suggested that future changes to customer charges for small and midsize commercial customers should be studied more thoroughly.

Next Steps:

- The next proposed change to rate design is *Decision IV-E: Load Shifting Voltage Rider and Other Demand Response Tariffs*.
- If all necessary changes to rate design have been made, proceed to *Decision V: Value of Solar Issues*.

Decision IV-E: Load Shifting Voltage Rider and Other Demand Response Tariffs

Question: Should City Council adopt Austin Energy’s proposed change to the Thermal Energy Storage (“TES”) tariff to create a discount rider for commercial customers that can reduce their year-round load using non-fuel based storage technologies?

Background: The current TES tariff encourages commercial customers to shift demand to non-peak hours. However, the TES tariff can be difficult to administer and customers can experience unfavorable delays in implementation.

Recommendations:

Staff	ICA	IHE
Yes. Changes to the tariff will enable use of battery storage and other emerging technologies, improve internal administration, and maintain an incentive to achieve load-shifting policy goals. AE agrees with some proposed changes suggested by Public Citizen to clarify the name of the program and to develop a pilot for a residential load shifting tariff.	No recommendation.	Yes. The IHE supports Austin Energy’s recommendation.

Next Steps:

- The next proposed change to rate design is *Decision IV-F: S2 and S3 20% Load Factor Billing Determinant Adjustment*.
- If all necessary changes to rate design have been made, proceed to *Decision V: Value of Solar Issues*.

Decision IV-F: S2 and S3 20% Load Factor Billing Determinant Adjustment

Question: Should City Council adopt Austin Energy’s adjustment to the billing determinants for Secondary Voltage 2 (with demand between 10 kW and 300 kW) and Secondary Voltage 3 (with demand greater than 300 kW) to account for the proposed 20% load factor floor?

Background: Load factor is the ratio between the amount of energy used over a given period of time and the maximum amount of power that could have been demanded during that same period. Customers with high load factors consume roughly the same amount of power all day, every day. Customers with low load factors are “spikey” in nature and have high peak demands compared with average consumption over time.

Austin Energy bills demand charges based on the customer’s actual peak demand. AE’s proposal limits the billed demand to a level that maintains a 20% load factor, based on the customer’s energy (kWh) consumption. Customer bills that reflect load factors greater than 20% will not be impacted.

In preparing the initial cost of service model that was released on January 25, 2016, Austin Energy did not include adjustments to billing determinants that accurately reflected the 20% load factor floor. The proposed billing determinant adjustment corrects that oversight.

Recommendations:

Staff	ICA	IHE
Yes. Adjusting the billing determinants corrects an error in the cost of service model and appropriately calculates the S2 and S3 commercial class revenue requirements.	Yes. The ICA supports Austin Energy’s recommendation.	Yes. The IHE supports Austin Energy’s recommendation.

Next Steps:

- The next proposed change to rate design is *Decision IV-G: Group Religious Worship Discount*.
- If all necessary changes to rate design have been made, proceed to *Decision V: Value of Solar Issues*.

Decision IV-G: Group Religious Worship Discount

Question: Should City Council adopt Bethany United Methodist Church’s proposal to continue the Group Religious Worship Account (also known as “Houses of Worship”) discounts, study weekend demand customers, and provide continuing support to HOW customers?

Background: In 2012, the City Council approved moving Houses of Worship accounts from the Residential class to the Non-Residential class corresponding with the customer’s peak demand. As a way to mitigate the impact of that change, Council approved two discounts: (1) a cap was placed on the average, all-in rate that a HOW account would pay; and (2) demand charges were assessed on weekday peak demand and did not include weekend peak demand.

Recommendations:

Staff	ICA	IHE
<p>No, in part.</p> <p>HOW accounts have had four years to transition into the new commercial rates. There is no cost of service basis for extending the discount.</p> <p>AE agrees with conducting a study of weekend demand customers and continuing to provide support for HOW customers.</p>	<p>Yes.</p> <p>The ICA recommends that Council continue the discounts until the next rate review because bill impacts are still a concern for many HOW customers, especially those with demand between 10 kW and 20 kW. The ICA also recommends that the study be conducted and continuing support be offered.</p>	<p>No, in part.</p> <p>The IHE supports Austin Energy’s recommendation.</p>

Next Steps:

- This is the last rate design issue discussed in the formal IHE process. Examine other issues as needed.
- Next, proceed to *Decision V: Value of Solar Issues*.

Decision V-A: Commercial Value of Solar

Question: Should City Council adopt Public Citizen/Sierra Club’s proposal to implement a commercial Value of Solar tariff in the FY 2017 budget and tariff documents?

Background: Currently, the Value of Solar method of calculating the costs and benefits of distributed solar photovoltaics to Austin Energy and its customers is only available to residential customers. Commercial customers currently use the Performance Based Incentive and/or net-metering for their solar PV installations. The proposal would adopt the VOS methodology for both residential and commercial customers.

Recommendations:

Staff	ICA	IHE
No. Austin Energy recommends, and has committed to, conducting a holistic review of its residential and commercial solar programs in order to develop refined tariff structures that match policy objectives and program costs. AE suggests that this study be completed prior to implementing a commercial VOS program.	No. The ICA supports Austin Energy’s recommendation.	No. The IHE supports Austin Energy’s recommendation.

Next Steps:

- The next Value of Solar issue is *Decision V-B: Community Solar*.
- If all necessary changes to rate design have been made, proceed to *Decision VI: Policy Issues*.

Decision V-B: Community Solar

Question: Should City Council adopt Public Citizen/Sierra Club’s proposal to implement a Community Solar tariff in the FY 2017 budget and tariff documents?

Background: Community Solar is a program that enables customers who are interested but unable for technical or financial reasons to participate in the deployment of distributed solar photovoltaic generation. Larger solar PV arrays are built and operated by the utility and customers can subscribe to the community solar program, receive the benefits of the renewable energy produced from the array, and help pay for the cost of the plant.

Recommendations:

Staff	ICA	IHE
No. Austin Energy is finalizing its review of potential Community Solar program subscription models. Developing and implementing a tariff now would be premature and not allow AE to roll out this new program with maximum efficiency. AE plans to present its final program to the community and City Council in the coming months.	No. The ICA recommends stakeholder review prior to program launch.	No. The IHE supports Austin Energy’s recommendation.

Next Steps:

- The next Value of Solar issue is *Decision V-C: Residential Value of Solar*.
- If all necessary changes to rate design have been made, proceed to *Decision VI: Policy Issues*.

Decision V-C: Residential Value of Solar

Question: Should City Council adopt Jim Rourke’s proposal to include a table depicting the methodology of calculating the Value of Solar in the VOS tariff?

Background: The Value of Solar tariff contains high-level language which describes the inputs and calculations for determining the VOS rate each year. The proposal would add language and generic formulae to the tariff to describe and define the components and calculations of the VOS rate more clearly.

Recommendations:

Staff	ICA	IHE
Yes. Austin Energy supports the recommended change.	Yes.	Yes. The IHE supports the recommended change.

Next Steps:

- This was the last Value of Solar issue discussed by the parties during the IHE review. Examine other issues as needed.
- Next, proceed to *Decision VI: Policy Issues*.

Decision VI-A: Funding Discounts

Question: Should City Council adopt the Independent Consumer Advocate's proposal to require Austin Energy to pay for the \$5.8 million discount it has offered to outside City of Austin customers?

Background: Outside City of Austin customers appealed the Council's 2012 decision to raise rates to the Public Utility Commission of Texas. The City of Austin and parties to that appeal settled the case and Austin Energy agreed to discount outside COA customer rates by approximately \$5.8 million each year. AE proposes to continue offering that discount in this rate review as a way to mitigate potential legal risks.

In the cost of service study, some inside COA customers pay for the cost of the discount. The ICA proposes that Austin Energy absorb the discount as a loss and reduce its cash reserves to pay for it.

Recommendations:

Staff	ICA	IHE
No. Cost causation principles suggest that the group that benefits from avoiding future litigation because of the existence of an additional discount should pay for the discount. In this case, inside COA customers benefit most directly from avoiding another PUC appeal, and, therefore, should bear the cost of the risk mitigation strategy.	Yes. The ICA suggests it is unreasonable for inside COA customers to pay for a benefit provided to outside COA customers and that AE continue to pay for the discount out of its margins.	No. The IHE recommends that Council adopt the discount but suggests that all inside COA customer pay for the discount using the same methodology as the manner in which rate case expenses are allocated.

Next Steps:

- The next Policy Issue is *Decision VI-B: Rates for Customers Inside and Outside the City Limits of Austin*.
- If all necessary changes to rate design have been made, proceed to *Decision VII: Statements of Position and Other Issues*.

Decision VI-B: Rates for Customers Inside and Outside the City Limits of Austin

Question: Should City Council adopt Austin Energy's proposal to maintain the approximately \$5.8 million discount for outside City of Austin customers?

Background: Outside City of Austin customers appealed the Council's 2012 decision to raise rates to the Public Utility Commission of Texas. The City of Austin and parties to that appeal settled the case and Austin Energy agreed to discount outside COA customer rates by approximately \$5.8 million each year. AE proposes to continue offering that discount in this rate review as a way to mitigate potential legal risks.

Recommendations:

Staff	ICA	IHE
Yes. Avoiding another appeal to the Public Utility Commission is in the best interests of the community, the City of Austin, Austin Energy, and its customers.	Yes, in part. The ICA agrees with the recommendation as long as the cost of the discount is paid for by Austin Energy and not its customers.	Yes. The IHE agrees with Austin Energy's recommendation.

Next Steps:

- The next Policy Issue is *Decision VI-C: Piecemeal Ratemaking*.
- If all necessary changes to rate design have been made, proceed to *Decision VII: Statements of Position and Other Issues*.

Decision VI-C: Piecemeal Ratemaking

Question: Should City Council adopt NXP/Samsung’s proposal to change the manner in which it sets pass-through charges, such as the Power Supply Adjustment or Regulatory Charge, and conduct a full analysis of all rates and charges every five years?

Background: Pursuant to the terms of the 2013 settlement of the outside City of Austin customers’ appeal of retail rates to the Public Utility Commission, pass-through rates are set each year during the annual budget process. NXP/Samsung’s suggestion would require a review process similar to this IHE review of base retail rates so that all rates—base rates, Power Supply Adjustment, Regulatory Charge, and Community Benefit Charge—are reviewed together at least once every five years.

Recommendations:

Staff	ICA	IHE
No. The PSA is structured so that if there is significant volatility in the wholesale market or in fuel prices, Austin Energy can pass the cost or benefits on to customers more immediately than a full rate review would allow. Additionally, there is an established formal public process for Council to receive customer input on the rates each year.	In part. The ICA recommends that no changes to base rates occur outside the context of a full analysis and public review process, such as the current IHE review.	In part. The IHE agrees with the spirit of NXP/Samsung’s proposal and recommends Council give serious consideration to the type of process that affords affected stakeholders the opportunity to review AE’s pass-through charges.

Next Steps:

- The next Policy Issue is *Decision VI-D: Service Area Lighting*.
- If all necessary changes to rate design have been made, proceed to *Decision VII: Statements of Position and Other Issues*.

Decision VI-D: Service Area Lighting

Question: Should City Council adopt AE Low Income Customers' proposal to disallow recovery of expenses associated with Service Area Lighting?

Background: Customers inside the City of Austin contribute to the recovery of costs associated with traffic lights and street lights on roadways maintained by the City of Austin. These costs are recovered through the Service Area Lighting component of the Community Benefit Charge. Customers outside the City of Austin do not pay this component pursuant to the terms of the 2013 PUCT settlement agreement.

Recommendations:

Staff	ICA	IHE
No. Provision of this public benefit is a core part of AE's mission. It is reasonable for the City Council to ask inside City of Austin customers to share in the cost of the safety and well-being of the community through this service.	No recommendation.	No. The IHE agrees with Austin Energy's recommendation.

Next Steps:

- The next Policy Issue is *Decision VI-E: Power Production Costs and Treatment*.
- If all necessary changes to rate design have been made, proceed to *Decision VII: Statements of Position and Other Issues*.

Decision VI-E: Power Production Costs and Treatment

Question: Should City Council adopt Data Foundry’s position that all costs associated with power production be disallowed from base rates?

Background: Austin Energy owns and operates several power plants and sells the electricity from these plants into the ERCOT wholesale market. Austin Energy also buys all of the electricity it needs to serve its retail customers from the ERCOT wholesale market. Data Foundry suggests that costs associated with power production sold into the wholesale market should not be borne by retail customers. The proposal would disallow approximately \$300 million in annual revenue collected from AE’s customers.

Recommendations:

Staff	ICA	IHE
No. Austin Energy is a vertically-integrated utility operating in a competitive wholesale market. As a municipally owned utility, AE’s retail customers should also be considered the owners of the wholesale generation portfolio. The owners bear the risk and cost of assets owned and operated for their benefit.	No. The ICA rejects Data Foundry’s understanding of how the wholesale market is structured and of the underlying statutory paradigm.	No. The IHE rejects Data Foundry’s understanding of how the wholesale market is structured and of the underlying statutory paradigm.

Next Steps:

- The next Policy Issue is *Decision VI-F: Studies Supporting Future Cost of Service*.
- If all necessary changes to rate design have been made, proceed to *Decision VII: Statements of Position and Other Issues*.

Decision VI-F: Studies Supporting Future Cost of Service

Question: Should City Council approve the list of future studies proposed by Austin Energy?

Background: Austin Energy proposed to conduct several studies in the interim period between rate reviews in order to develop a better understanding and better data sets of some different customer groups and policy objectives. Included in that proposed list of studies are:

- Analysis and refinement of residential tier structure, including conservation pricing signals through rate design
- Residential lifeline study of minimum energy required
- Multi-family cost analysis
- Analysis of three-phase customer costs
- Analysis and refinement of rates for Secondary Voltage 1
- Weekend demand customer study
- Downtown network rates

Recommendations:

Staff	ICA	IHE
Yes. These studies will help AE conduct a more thorough and detailed cost of service study in the next rate review.	Yes, in part. The ICA supports the proposed studies but suggests stakeholder groups should participate in the studies.	Yes, in part. The IHE supports the proposed studies but suggests stakeholder groups should participate in the studies to the extent reasonably feasible.

Next Steps:

- The next Policy Issue is *Decision VI-G: Customer Assistance Program*.
- If all necessary changes to rate design have been made, proceed to *Decision VII: Statements of Position and Other Issues*.

Decision VI-G: Customer Assistance Program

Question: Should City Council adopt Paul Robbins’ proposal to implement income verification as part of a stricter automatic enrollment system for customers seeking support from the Customer Assistance Program?

Background: AE automatically enrolls customers in the Customer Assistance Program based on a Council-approved list of state and federal programs which target low income and other vulnerable populations. Currently, AE does not verify the income of enrollees as the utility relies on the state or federal program’s eligibility criteria.

Recommendations:

Staff	ICA	IHE
No. Austin Energy has taken several steps in the past year to improve the CAP enrollment process and to minimize the number of enrollees who are not low income customers. AE recommends waiting to review actions taken to date and assess future steps when necessary.	No. The ICA agrees with Austin Energy’s recommendation.	No. The IHE agrees with Austin Energy’s recommendation.

Next Steps:

- The next Policy Issue is *Decision VI-H: Customer Satisfaction*.
- If all necessary changes to rate design have been made, proceed to *Decision VII: Statements of Position and Other Issues*.

Decision VI-H: Customer Satisfaction

Question: Should City Council adopt the Independent Consumer Advocate’s suggestion that Austin Energy develop a plan to improve customer satisfaction scores?

Background: Austin Energy regularly surveys its customers to assess its performance and service provision. Some recent surveys indicate that the utility could improve its customer satisfaction (“C-sat”) ratings.

Recommendations:

Staff	ICA	IHE
No. Austin Energy is in the process of addressing issues that appear to directly impact C-sat ratings. Any additional actions should be assessed following the implementation of these new plans.	Yes.	No recommendation.

Next Steps:

- The next Policy Issue is *Decision VI-I: Pilot Programs*.
- If all necessary changes to rate design have been made, proceed to *Decision VII: Statements of Position and Other Issues*.

Decision VI-I: Pilot Programs

Question: Should Austin Energy be required to develop pilot programs with stakeholder groups and obtain the approval of the Electric Utility Commission and/or the City Council prior to rolling out new pilot programs?

Background: Frequently, Austin Energy will test new programs, rate structures, or customer interaction methodologies through pilot programs. These programs are intended to be short-lived and provide AE with valuable insight and data that are used to inform decisions about whether or not, and how, a new service should be offered.

Recently, AE launched a prepaid pilot program so that the utility could study customer uptake rates, administration challenges, and policy questions related to a prepaid retail rate.

Recommendations:

Staff	ICA	IHE
<p>No.</p> <p>Pilot programs are vital avenues of learning for AE and must remain malleable so that the utility can study changing markets, technologies, and policies. Stakeholder involvement at the pilot stage is premature and would unnecessarily slow AE's ability to develop in-house expertise on an issue.</p> <p>AE has committed to vetting with stakeholders any new program after the pilot phase.</p>	<p>Yes.</p> <p>The ICA suggests that concerns over the prepay pilot could have been avoided if the pilot had been vetted by certain stakeholders before it was introduced.</p>	<p>No recommendation.</p>

Next Steps:

- The next Policy Issue is *Decision VI-J: Pick Your Own Due Date*.
- If all necessary changes to rate design have been made, proceed to *Decision VII: Statements of Position and Other Issues*.

Decision VI-J: Pick Your Own Due Date

Question: Should adopt the Independent Consumer Advocate’s recommendation to require Austin Energy to develop a “Pick Your Own Due Date” as soon as it is technically feasible?

Background: Pick Your Own Due Date is a customer service offering that allows customers—particularly those on fixed incomes—to pick the date on which their bill is due so that they can pay their bills a few days after they receive their revenue for the month.

Recommendations:

Staff	ICA	IHE
No, in part. AE is in the process of developing the program and has been developing the internal capacity needed to offer the service in the near future. Setting an implementation date outside AE’s internal project timeline would unnecessarily rush program development.	Yes.	Yes. The IHE agrees with the ICA’s recommendation.

Next Steps:

- This is the last Policy Issue discussed by parties to the IHE review process. Examine other issues as necessary.
- Next, proceed to *Decision VII: Statements of Position and Other Issues*.

Decision VII-A: Other Issues – Late Payment Fees

Question: Should City Council adopt AE Low Income Customer’s proposal to eliminate late payment fees?

Background: Late payment fees are an incentive used to motivate on-time payment of utility bills and recover a reasonable amount of money that helps defray some of the collections costs incurred by the utility. Austin Energy assesses a 5% fee on payments received four days after the bill due date. The fee is authorized and mandated by City ordinance.

Recommendations:

Staff	ICA	IHE
No. Late payment fees are a reasonable, common, and useful tool to help motivate customers to pay their bills on-time. The amount is mandated by City law and is not unduly burdensome or arbitrary.	In part. The ICA recommends that late payment fees be eliminated for CAP customers only.	In part. The IHE supports the ICA’s recommendation

Next Steps:

- The next Statement of Position/Other Issue is *Decision VII-B: Other Issues – Regulatory Charge*.

Decision VII-B: Other Issues – Regulatory Charge

Question: Should City Council adopt Austin Energy’s Regulatory Charge design structure?

Background: As discussed in *Decision IV-D*, Austin Energy proposes to redesign several of the non-residential rates to create a logical progression from one rate class to the next. One specific instance of this redesign is in the Regulatory Charge. Currently, the Regulatory Charge for the Primary Voltage 2 class (with demand between 3 MW and 20 MW) is significantly lower than the rate for either Primary Voltage 1 (with demand less than 3 MW) or Primary Voltage 3 (with demand greater than 20 MW) due to several changes in billing determinants over the past four years. AE proposes to set the P2 Regulatory Charge in line with the rates for P1 and P3

Recommendations:

Staff	ICA	IHE
Yes. Maintaining a logical progression from one rate to the next is an appropriate ratemaking principle and helps avoid future cost considerations as customers move in and out of the different primary voltage classes. Additionally, AE proposed allocating a significant share of the revenue distribution to offset any cost the increase to the Regulatory Charge would create.	No recommendation.	Yes. The IHE supports Austin Energy’s recommendation

Next Steps:

- This is the last Statement of Position/Other Issue discussed by the parties in the IHE review. Examine any other issues as needed.
- The IHE made no other recommendations for the Council’s consideration.