

Austin Energy Utility Oversight Committee

Austin Energy Rate Reduction

Party Presentation by Data Foundry
August 15, 2016



DATA FOUNDRY

Who is Data Foundry?

- Privately owned and headquartered in Austin
- Started in 1994 as Texas.net, one the first 50 Internet Service Providers (ISP)
- Began offering colocation services in 1999 with the first data center at 823 Congress
- Now operate two data centers in Austin and two data centers in Houston, with expansions in pipeline. Provide disaster recovery and managed services
- Run Colocation and Network deployments worldwide
- Sister Companies Golden Frog and Giganews, both based in Austin
- Take AE service through P2 and S2 rate classes



AUSTIN 1



TEXAS 1



HOUSTON 1



HOUSTON 2



Overview

- Current AE rates would have to be reduced by 25% overall to be close to what our other data centers in competitive choice areas presently pay. The high rates in Austin in comparison to other areas significantly hinder our ability to compete.
- The IHE recommendation gives us rates that sufficiently approximate prices in competitive choice areas.
- Although we disagree with IHE ruling on one revenue requirement component Data Foundry will accept the prices recommended by the IHE for our rate classes.
- If the ultimate rates ordained by Council are higher than those recommended by the IHE for Primary Service 2 Data Foundry will contest the ordinance and exercise its legal rights.
- Each customer class should pay rates that fairly reflect the true cost AE incurs to provide retail electric utility service to that class. AE's claimed costs, however, are artificially inflated by hundreds of millions of dollars. AE is trying to recover huge amounts for generation-related activities that are not necessary to the provision of retail base electric service.
- The "production allocator" debate is a sham; there are no retail-caused production costs. Retail classes are being forced to fight over amounts that have nothing to do with retail service for any class.
- All retail classes – including residential – are paying for AE's \$200 million wholesale losses.
 - Residential is \$100 million over true base cost and should get a total bill reduction of \$137 million.



Listen to Your IHE

- Council hired Judge Herrera to run the proceeding, receive and distill the evidence and then apply his expertise and knowledge to make a truly independent recommendation.
- Despite many challenges and limitations IHE skillfully managed the case and issued a well-considered recommendation.
- IHE's assessment and recommended outcomes deserve great deference.
- Council hired IHE, so please listen to what he says. IHE understands this stuff far better than you do.
- IHE revenue requirements finding should be the floor, not the ceiling, for required cuts.
- IHE is in far better position to assess how the surplus should be spread.
- Data Foundry disagrees with IHE's ruling on one significant issue, but otherwise fully supports his recommendations. We commend him for a job well done.
- Data Foundry will accept rates consistent with IHE revenue distribution. Data Foundry will contest any rates higher than those IHE found are appropriate for Primary Service 2.



Revenue Requirements

- IHE found good reasons for the recommended exclusions, based on evidence and well-accepted utility ratemaking principles.
 - Are the costs in issue reasonable and necessary to the provision of retail electric service? IHE said no for several items, and his findings should be adopted.
 - AE ratepayers should not be saddled with costs attributable to other city activities not directly necessary for AE to provide retail service to them.
- City budget concerns in general and with other departments cannot justify shifting non-utility costs to captive retail ratepayers.
- The General Fund Transfer is the only permissible way to funnel support for activities that are not necessary to provide retail electric service.



AE Retail Ratepayers Paying for Wholesale Generation Activities That Incur Hundred Million Losses Each Year and Will Continue to Do So for the Foreseeable Future

Austin retail ratepayers are being forced to bail-out AE's separate wholesale losses by paying for \$300 million in generation costs that have nothing to do with the provision of retail electric utility service

- AE generation sold 100% to ERCOT at competitive prices. None used for retail.
- AE's wholesale generation related costs cannot be included in the base revenue requirement. Not reasonable and *necessary* since they are wholly unrelated to provision of *retail* electric utility service.
 - **Fixed costs (\$302,734,538) – Charged to Retail Base Rate revenue requirement.**
 - Fuel Related (\$411,649,196) – Charged to Retail PSA revenue requirement.
 - Total Base and PSA Costs Charged to Retail Ratepayers equal \$714,383,734.
 - Wholesale revenues and other value recovered Fuel Related Costs and an additional “net benefit” of \$98 million. This reduced the PSA requirement by net \$98 million, but did not offset or in any manner reduce the retail base revenue requirement.
- AE's competitive generation revenues failed to recover fixed and variable generation costs by a wide margin. **Test Year competitive losses equaled \$204,734,538.**
- AE's wholesale generation efforts have lost hundreds of millions every year since 2010. AE expects this trend to continue and it may get worse. The situation will remain as long as natural gas prices remain low.



Rate Development

- Data Foundry supports IHE's spread of the base surplus between individual classes.
- Despite concerns over wholesale costs Data Foundry will accept the rates flowing from IHE recommendation if Council adopts them.
- Data Foundry will contest any result that sets P2 rates higher than the IHE recommends. We reserve the right to seek relief in court, at the PUC and/or from the state Legislature.
- Data Foundry does not support IHE's "production allocator" (12CP) but agrees with IHE that the exercise is subjective and somewhat arbitrary.
 - Class Cost of Service studies allocate costs caused by users. AE's production costs, however, are not caused by retail users. Since the causal link has been broken every traditional method becomes entirely arbitrary. We are no longer allocating retail costs, which is what a CCOS is for; we are instead arbitrarily distributing a wholesale subsidy burden that no retail class should be required to bear.
- If you remove wholesale production costs, **ALL** retail classes are significantly above cost, and there is no retail inter-class subsidy.
 - **Residential base rates can be reduced by over \$100 million and \$137 million for base and passthroughs and still be at cost of service.**



Every Major Class Far Above Cost to Provide Retail Utility Service

Base, Estimated Fuel and Pass-Through Reductions - IHE Initial Surplus Without Wholesale

Base Only	Base and Est. Pass-Thru	Class	Base Only	Base and Est. Pass-Thru
Percent			Millions	
32.4%	57.3%	Total AE	\$354.7	\$395.7
29.2%	38.4%	Residential	\$101.5	\$137.5
25.4%	37.5%	Secondary 1	\$7.2	\$8.2
38.9%	69.6%	Secondary 2	\$108.3	\$113.2
32.8%	66.6%	Secondary 3	\$77.4	\$75.7
37.9%	75.6%	Primary 1	\$14.6	\$18.1
29.4%	72.0%	Primary 3	\$24.5	\$25.5



Expanded Version with Detail and Sources



Who is Data Foundry?

More than 1,000 companies trust Data Foundry: SMB to enterprise customers across a variety of industries:

Technology				
Energy/Oil & Gas				
Financial Services/Legal				
Food Service/Retail				
Insurance/Healthcare				
Regional				



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- Although we disagree with IHE ruling on one revenue requirement component Data Foundry will accept the prices recommended by the IHE for our rate classes.
- If the ultimate rates ordained by Council are higher than those recommended by the IHE for Primary Service 2 Data Foundry will contest the ordinance and exercise its legal rights.
- Each customer class should pay rates that fairly reflect the true cost AE incurs to provide retail electric utility service to that class. AE's claimed costs, however, are artificially inflated by hundreds of millions of dollars. AE is trying to recover huge amounts for generation-related activities that are not necessary to the provision of retail base electric service.
- The "production allocator" debate is a sham, because there are no retail-caused production costs to allocate. Retail classes are being forced to fight over amounts that have nothing to do with retail service for any class.
- All classes – including residential – are overpaying by huge amounts. Residential is \$100 million over true base cost and should get a total bill reduction of \$137 million. All retail classes are being required to subsidize AE's wholesale losses. Eliminate those losses and every class will get a substantial reduction and still pay truly cost-based retail rates.



Listen to Your IHE

- Council hired Judge Herrera to run the proceeding, receive and distill the evidence and then apply his expertise and knowledge to make a truly independent recommendation.
- IHE has no stake in the outcome, unlike everyone else including the utility.
- Despite many limitations imposed by available time, the extent of his delegated authority, AE's refusal to produce necessary information and the rules AE wrote, he skillfully managed the case and issued a well-considered recommendation.
- IHE's assessment and recommended outcomes deserve great deference.
- Data Foundry disagrees with IHE's ruling on one significant issue, but otherwise fully supports his recommendations. We commend him for a job well done.
- Council hired IHE, so please listen to what he says. IHE understands this stuff far better than you do.
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- City budget concerns in general and with other departments cannot justify shifting non-utility costs to captive retail ratepayers.
- The General Fund Transfer is the only permissible way to funnel support for activities that are not necessary to provide retail electric service.
- Data Foundry disagrees with IHE on one issue: AE's wholesale generation related costs cannot be included in the base revenue requirement. Not reasonable and *necessary* since they are wholly unrelated to provision of *retail* electric utility service. AE's rate filing admits that its fixed production costs are entirely dedicated to wholesale ERCOT sales, and no longer serve retail customer load.
 - "Austin Energy owned or contracted power plants no longer serve Austin Energy customers directly. Instead, the energy produced is sold into the wholesale market." RFP p. 3-20, Bate 49
 - "Austin Energy no longer serves its customer load with its own generation. Rather, all power is purchased in the ERCOT market and then delivered to the Austin Energy load zone." RFP p. 5-4, Bate 107



AE Retail Ratepayers Paying for Wholesale Generation Activities That Incur Hundred Million Losses Each Year and Will Continue to Do So for the Foreseeable Future

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- AE received wholesale revenues and other value that equal its Fuel Related Costs plus an additional “net benefit” of \$98 million. This reduced the PSA requirement by net \$98 million, but did not offset or in any manner reduce the retail base revenue requirement.

(Source: Data Foundry Ex. 3: AE PSA Cost Components)

- AE's competitive generation revenues failed to recover fixed and variable generation costs by a wide margin. **Test Year competitive losses equaled \$204,734,538.**

$((\$302,734,538 + \$411,649,196) - (\$411,649,196 + \$98,000,000)) = \$204,734,538$

- AE incurred huge losses in the wholesale market every year since 2010. AE Witness Ball testified that she expected this trend to continue and it may get worse. The situation will remain as long as natural gas prices remain low.

(Source: Hng. Tr. pp. 181, line 17 – p. 182, line 21)



DATA FOUNDRY

AE Wholesale Production Non-Fuel Recurring Fixed O&M Costs: the dollars involved in the “production allocator” debate

Thermal: \$298,448,298



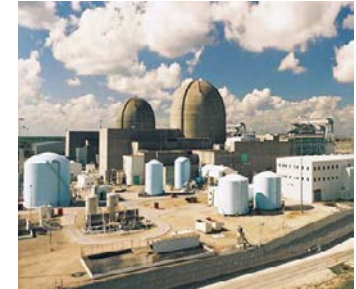
Decker



Sand Hill



Fayette



STNP

Wind: \$10,156



Solar: \$4,276,084



Total Fixed (Demand) Production Costs: \$302,734,538

(Source: AE [Cost of Service Model Per Impartial Hearing Examiner's Request](#) (7/20/16), Schedule G-6, lines 1-10)
 AE attributes \$58,314,647 in “debt service” to Fixed Production (Source: Schedule A, line 16, Column E). AE also attributes \$38,394,106 of the \$105 million in General Fund Transfers to Fixed Production (Source: Schedule A, Line 18, Column K). If you subtract these amounts Total Production – Demand Cost is **\$206,025,785**.



AE Self-owned Generation Fuel Related Operation and Maintenance Costs

- AE incurs variable costs to run its generation. Mostly fuel.
- AE Adjusted Self-owned Generation “Recoverable Fuel Costs” equal \$411,649,196

(Source: AE [Cost of Service Model Per Impartial Hearing Examiner's Request](#) (7/20/16), Schedule G-7, line 11)

- Fuel costs recovered through PSA, not base rates.



Rate Development

- Data Foundry supports the IHE recommendation regarding how the surplus should be spread among individual classes.
- Notwithstanding our concerns over production costs Data Foundry will accept the rates flowing from IHE recommendation if Council adopts them.
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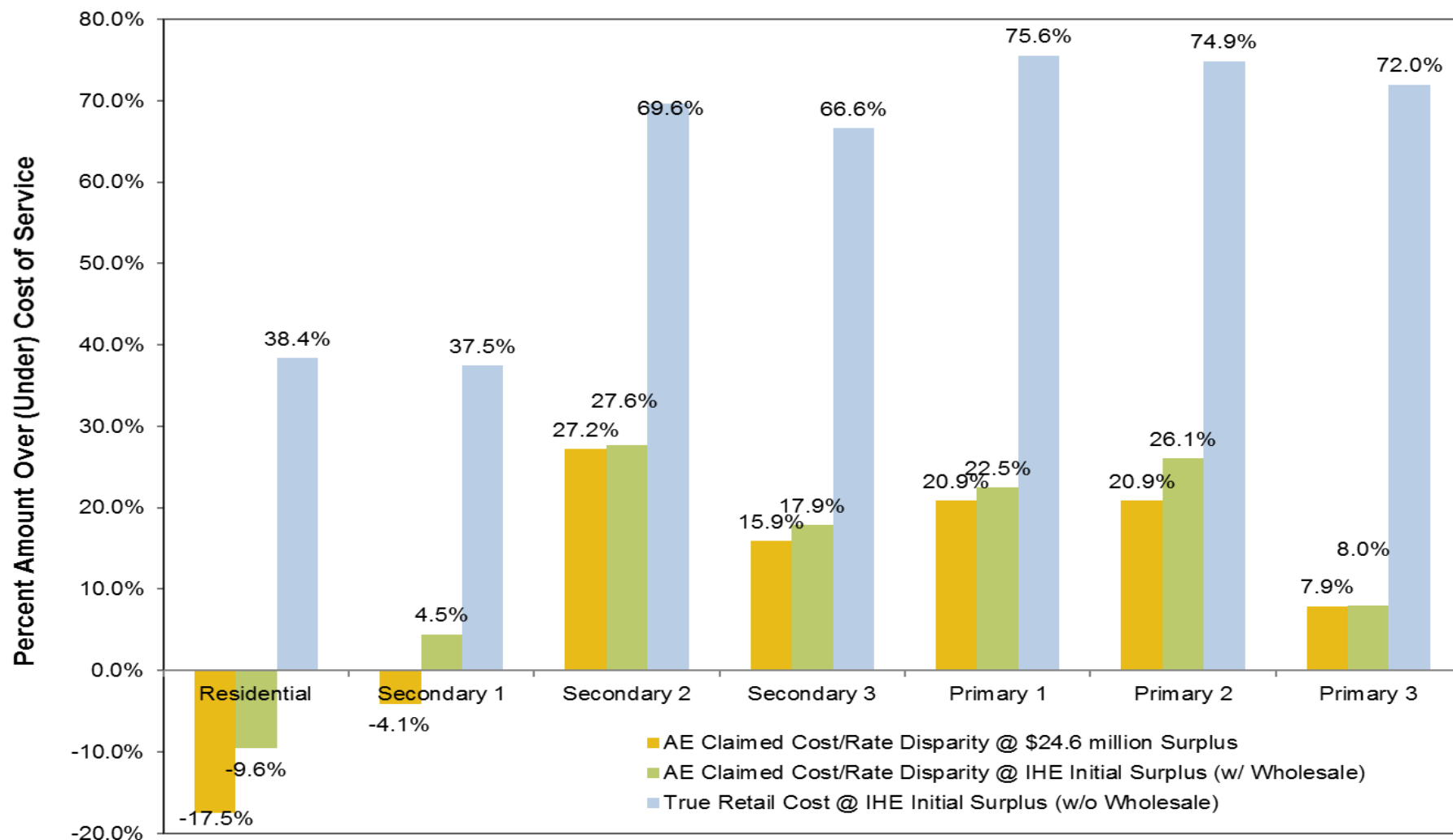
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Difference from Cost of Service at Current Rates by Customer Class - Various Views



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