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MEMORANDUM

TO: Mayor and Council Members

CC: Spencer Cronk, City Manager

FROM: Jackie A. Sargent, General Manager *JAS*

DATE: September 25, 2020

SUBJECT: Adjustment in Austin Energy's Power Supply Adjustment Rate and other pass-through charges for Fiscal Year 2021

The purpose of this memo is to update the City Council on upcoming adjustments to Austin Energy pass-through charges: the Power Supply Adjustment (PSA), Regulatory Charge, and Community Benefit Charge (CBC). Adjustments to these charges occur regularly to reflect actual costs. The FY 2021 pass-through rates will come before City Council for consideration at its October 1 meeting.

Starting on November 1, Austin Energy customers will see a 1.9% decrease in the PSA charge on their utility bills. This is the largest pass-through component of the bill, and the adjustment is due to the recovery of a previous under-collection, bringing the new PSA closer to current power supply costs. In addition, the Regulatory Charge will increase by 19%, and the Energy Efficiency Services portion of the CBC will decrease by 29%.

The net impact of these changes to the PSA, Regulatory Charge, and CBC will be no material change to residential customer bills. Impacts to commercial and industrial customers will vary depending on consumption patterns but are expected to range from approximately a 1% increase to a 1% decrease.

I. Power Supply Adjustment

Policy

The PSA tariff requires that the rate be determined as part of the City of Austin's annual budgeting process, including a public hearing. The tariff also provides that the PSA rate may be adjusted during the year to eliminate any over- or under-recovery as described within the tariff. To enact such an adjustment, the City Manager must publicly present a report to the City Council that provides the underlying calculations for the PSA, both pre- and post-adjustment by customer class, within 30 days of any adjustment of the PSA.

In compliance with the adopted tariff, this memorandum serves as the City Manager's public report to the City Council. Public notice of the PSA adjustment is provided through the City's Communications and Public Information Office.

Background

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

The PSA on residential bills will decrease from the current 3.139 cents to 3.078 cents per kilowatt-hour (kWh), which represents a 1.9% decrease effective with November 2020 electric bills. This component of an average residential customer bill of 860 kWh per month will decrease by \$0.53 per month. Austin Energy's residential and commercial Business Cents and Energizer customers who subscribe to GreenChoice® will also see a decrease.

The PSA charge for Fiscal Year 2021 will move closer to current costs for power production due to the elimination of a 2020 under-collection balance. An increased PSA rate throughout the 2020 fiscal year resulted in the recovery, as of August 2020, of a Fiscal Year 2019 under-collection balance of \$23 million. With the under-collected balance recovered, the 2021 PSA will decrease to approach current production costs.

Underlying Calculations for the PSA

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

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

Historical costs and load (GWh or kWh) may be adjusted to reflect known and measurable changes to account for one-time events, abnormal weather, abnormal operating conditions, or other events not reflected or improperly reflected in the historical numbers. The current PSA average system rate, developed during the FY 2020 annual budget process, utilized adjusted historical costs and an under-recovery balance as of July 31, 2019, a forecast of net costs for August 1 through October 31, 2019, and a normalized load forecast for the period of November 1, 2019 through October 31, 2020. The result was an average system rate of 3.124 cents per kWh, as shown below (in millions of dollars and GWh):

$$\left(\frac{\$19.1\text{M}}{12,598 \text{ GWh}} \right) + \left(\frac{\$371.1\text{M}}{12,486 \text{ GWh}} \right)$$

The proposed 2021 PSA average system rate utilizes adjusted historical costs and an updated under-recovery amount that reflects the balance as of August 31, 2020, a forecast of net costs for September 1 through October 31, 2020, and a normalized load forecast for the period of November 1, 2020 through October 31, 2021. The result is an average system rate of 3.063 cents per kWh, as shown below (in millions of dollars and GWh):

$$\left(\frac{\$1.4\text{M}}{12,630 \text{ GWh}} \right) + \left(\frac{\$386.7\text{M}}{12,670 \text{ GWh}} \right)$$

Adjustment for Customer Classes

Austin Energy adjusts the average system rates based upon the level of voltage in which the customer receives electricity. Customers served at primary and transmission level voltage install and maintain their own transformer(s) and related equipment, at their site, as needed to step down the voltage before the power enters their facility. Electricity delivered at higher voltages results in lower line losses between the point of generation and delivery to the customer. As a result, primary and transmission customers pay a slightly lower PSA charge. Residential and most business customers receive secondary service. All customers will receive a 1.9% decrease in their PSA rate. The total impact of this decrease on a customer's bill is dependent upon their voltage level, consumption, and usage pattern.

The following table indicates the PSA rates per kWh by voltage level on bills beginning November 1, 2020.

Voltage Level	Adjustment Factor	Power Supply Rate (\$/kWh)
<i>System Average</i>	1.0000	\$0.03063
<i>Secondary</i>	1.0049	\$0.03078
<i>Primary</i>	0.9821	\$0.03009
<i>Transmission</i>	0.9696	\$0.02970

II. Other Pass-Through Adjustments

In addition to the PSA, the Regulatory Charge and Community Benefit Charge (CBC) are reviewed annually and adjusted as needed to recover their respective costs and prior period over or under recovery. All pass-throughs are accounted for under GASB 62: Regulated Operations, which requires that rates set at levels that will recover costs can be charged and collected from customers.

Regulatory Charge

The Regulatory Charge recovers the following costs: 1) ERCOT transmission service charges and credits; 2) NERC/Texas RE regulatory fees and penalties; 3) ERCOT administrative fees; and 4) other material regulatory fees or penalties specific to the electric industry.

In response to the pandemic, Austin Energy provided interim bill relief by reducing the Regulatory Charge by 32%. The reduction provided customers an accelerated refund of a prior period over-recovery. However, the reduced rate is not sustainable long term. Consequently, the Regulatory Charge will increase by 19% from its current rate.

Community Benefit Charge

The Community Benefit Charge recovers certain costs incurred by the utility on behalf of Austin Energy's service area customers and the greater community and includes three specific programs and services provided to customers.

1. Service Area Lighting (SAL) recovers the cost of City of Austin street lighting, the operation of traffic signals located inside Austin Energy's service territory, and certain lights owned by the City of Austin and operated on behalf of the City's Parks and Recreation Department. Customers outside the city limits of Austin are not subject to this component of the CBC.

2. Energy Efficiency Services (EES) recovers the cost of energy efficiency rebates and related costs, solar incentives, and the Green Building program offered by Austin Energy throughout its service area.

3. The Customer Assistance Program (CAP) funds projects that help qualifying low-income and other disadvantaged residential customers through bill discounts, payment assistance (Plus 1), arrearage management (available only for customers receiving the CAP discount), and weatherization services.

The EES portion of the CBC will decrease by 29% refunding \$7 million in over-recovered funds. This decrease sets a two-year glide path to fully refund over-recovered funds ensuring rate stability and appropriate support of energy efficiency initiatives.

III. Conclusion

The changes to the PSA, Regulatory Charge and EES portion of the CBC will be effective November 1, 2020. The net impact of those changes will have no material effect on residential customers. Impacts to commercial and industrial customers will vary depending on consumption patterns but are expected to range from approximately a 1% increase to a 1% decrease.

If you have any questions, please contact me or Rusty Maenius, Austin Energy's Acting Deputy General Manager, Chief Financial and Risk Officer.

xc: Mark Dombroski, Interim Chief Financial Officer, City of Austin
Ed Van Eenoo, Deputy Chief Financial Officer, City of Austin