City of Austin
Austin Energy
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Khalil Shalabi, Vice President, Strategy, Technology and Markets, delivered the comments below to the Electric Utility Commission Resource Planning Working Group. The working group represents a diverse set of stakeholders and Austin Energy customers, and is engaged in a thoughtful planning exercise to update the 2014 Resource, Generation and Climate Protection Plan.

Discussion of Value and Risks

Austin Energy is a municipal utility that owns, operates and contracts for generation in a competitive wholesale market while maintaining a retail franchise within the City of Austin and some areas outside the city limits. This type of business model presents both benefits and risks to customers and to the City. Austin Energy employs about 1,700 fulltime employees and contractors and has approximately $1.4 billion in revenues.

A fully integrated municipally-owned utility like Austin Energy presents several benefits to its customers and the citizens of Austin, the main one being the ability to make long term investments in generation assets using low interest rate tax exempt debt. Such investments, when done wisely, can produce long term benefits in comparison to relying on the market. In fact, Austin Energy estimates that its generation assets have delivered over $1 billion in value to its customers as compared to the market. In addition, the utility is under local control for the most part when it comes to approving expenditures, which allows it to be more responsive to community needs. This is especially true when it comes to environmental goals and policies assisting low income customers.

These benefits do come with risks, mostly, the current historically low energy market prices. In the present environment, generation owners of all types of resources will struggle to remain profitable. If Austin Energy's long term rates are compared to short term offers in the market and are held to that standard, its municipal model is at risk.

So what is Austin Energy focusing on?

1. Maintaining financial integrity: Austin Energy is taking a hard look at its Capital and Operating and Maintenance (O&M) investments. The recent rate case reduced base rate revenues by $42 million. This is a significant reduction in revenues, and will have to be accounted for in careful management of the utility and the investments that it makes.

2. Business excellence: Austin Energy has a big focus right now on better planning and building of O&M and Capital budgets. Teams are being set up to review business cases of large capital investment and to take a close look at O&M budgets using zero based budgeting.

3. Customer engagement: The biggest focus this year is to increase value to the customer. This includes improving all touch points; human, voice and online. One of the biggest customer satisfaction drivers is outage communications; which has become our top strategic initiative. Austin Energy is also enhancing the online customer portal with an eye on mobile payment very soon.

4. Employee engagement: It is getting harder to attract talent and pay what the market requires for engineering and other specialized skills. It is vital to attract and maintain talent and ensure that the workforce is engaged and safe.

5. <u>Resource planning: Austin Energy is committed to achieving environmental goals while maintaining fiscal prudency. Key tenants include:</u>

    - Maintaining affordable rates and abiding by affordability limits is an overriding objective to any decision for traditional and renewable assets. In this market of very low prices and with the risk of a legislative change to Austin Energy's business model, even short term deviations from these limits are ill advised.

    - The ERCOT market presents customers with a great amount of pricing risk that must be actively managed. Austin Energy does this with a wide variety of tools, including its owned generation, long term renewable contracts, short term hedges and day ahead and real time trading.

    - Austin Energy management is committed to a future system with a net zero carbon footprint starting with the retirement of the Fayette Power Project.

    - Austin Energy sees gas units, especially ones situated in its load zone that can respond quickly to ERCOT market prices, as having value to its customers. In

other words, gas is still a *bridge fuel* to a net zero system. This applies both to the market as a whole and for Austin Energy customers on the system.

- Austin Energy's resource planning needs to do a better job of taking into account the short term impacts of resource decisions. Many decisions may look economic over 10 to 20 years but may have unacceptable affordability impacts in the short term – it will be important to see how the big solar buy affects rates over the next two years.

- Austin Energy is working hard on the next generation two-way grid, utilizing customer and company infrastructure to deliver superior reliability and customer experience at the lowest reasonable cost. The utility looks to achieve top decile T&D reliability indices (SATLPI, SAIDI, SAIFI, CAIDI) from its current top quartile performance and an above average JD Power customer satisfaction index for residential and commercial customers. Smart metering, DER implementation and integration, as well as projects like SHINES that highlight and study the value of storage, create a path forward to this future grid.

- In the near future, Austin Energy will need more flexibility in its rate structure in order to integrate more distributed energy and energy efficiency. The utility's traditional volumetric-based rates will become a limiting factor once penetrations become significant.

- Austin Energy believes that providing flexibility in the type of goals and the timing of goals will allow it to achieve net zero carbon. Focusing on hard deadlines requiring specific technology and quantities makes it harder to achieve the goal in the most economic fashion. This is due to technologies evolving, getting cheaper, unknown future regulatory changes and the uncertainty in long term market prices. Focusing on an overall carbon goal and finding the most affordable and least risky ways to get there will keep rates low and get us there sooner. The new solar buy is a good study case as solar prices continue to drop.