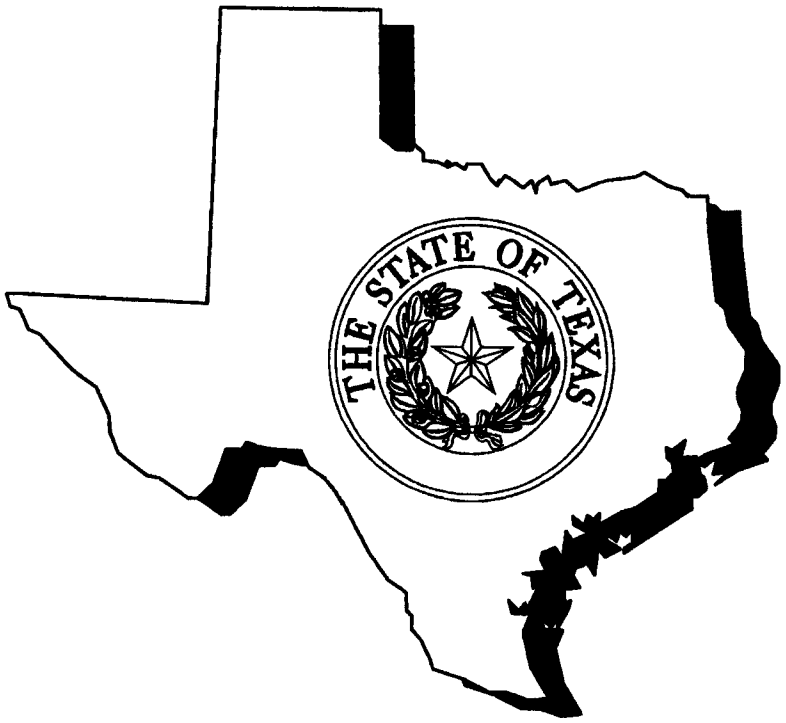
Control Number: 40627

Item Number: 341

Addendum StartPage: 0

DOCKET NO. 40627

PETITION BY HOMEOWNERS UNITED FOR RATE FAIRNESS TO REVIEW AUSTIN RATE ORDINANCE NO. 20120607-055	§ § § §	BEFORE THE PUBLIC UTILITY COMMISSION OF TEXAS



FEBRUARY 14, 2013

DIRECT TESTIMONY OF

DARRYL TIETJEN

RATE REGULATION DIVISION
PUBLIC UTILITY COMMISSION OF TEXAS

341

DIRECT TESTIMONY OF DARRYL TIETJEN

TABLE OF CONTENTS

I. INTRODUCTION

Q. Please state your name, business address, and office phone number.

A. Darryl Tietjen, 1701 N. Congress Avenue, Austin, Texas. My office phone number is 512-936-7436.

Q. By whom are you employed and in what capacity?

A. I am employed by the Public Utility Commission of Texas (Commission) as the Director of the Rate Regulation Division.

Q. What are your principal areas of responsibility?

A. In addition to the management of the Rate Regulation Division, I am responsible for recommending fair rates of return on invested capital, evaluating financial integrity requirements, conducting various financial analyses, leading or participating in various rulemaking projects, and preparing testimony concerning various financial matters relevant to public utilities regulated by the Commission.

Q. Please describe your educational background and professional qualifications.

A. I hold a Master of Business Administration degree with concentrations in finance and accounting from The University of Texas at Austin, and a Bachelor of Business Administration degree with a concentration in finance from the same institution. While earning my master's degree, I was employed by the University as an instructor, teaching two sections of undergraduate corporate finance. Prior to attending graduate school, I was employed by a commercial bank, where I was principally involved in investment activities and internal and external financial reporting.

I am a Certified Public Accountant (CPA) licensed in the state of Texas and a member of the Texas Society of Certified Public Accountants (TSCPA). I have twice

served as chairman of the annual TSCPA-sponsored Energy Conference, for which I have been a committee member for approximately 12 years.

I also hold the designation of Chartered Financial Analyst (CFA), which is awarded by the CFA Institute (formerly the Association for Investment Management and Research) after successful completion of its three-part examination process over a minimum three-year period. The curriculum for the CFA charter covers a defined body of knowledge fundamental to the practice of investment management, and includes the areas of finance, accounting, economics, statistics, and ethical and professional conduct. In addition to being the administrator of the CFA program, the CFA Institute is an international, nonprofit organization of over 60,000 investment practitioners and educators in more than 100 countries.

Q. Have you previously testified before this Commission?

A. Yes. Attachment DT-1 provides a summary of the dockets in which I have filed direct testimony or memoranda in lieu of testimony.

Q. What is the purpose of your testimony in this case, Docket No. 40627, *Petition by Homeowners United for Rate Fairness to Review Austin Rate Ordinance No. 20120607-055?*

A. This proceeding addresses the change in retail electricity rates approved on June 7, 2012, by the city council of the City of Austin, doing business as Austin Energy (AE or Austin Energy). The basic purpose of my testimony is to address the following issues from the Commission's *Preliminary Order* filed November 16, 2012 (as numbered therein):

> 1) What revenue requirement will give the utility a reasonable opportunity to earn a reasonable return on its invested capital used and useful in providing service to the public in excess of its reasonable and necessary operating expenses?

2) What is the reasonable and necessary cost of providing electric service calculated in accordance with PURA and Commission rules?

As part of my testimony on the general revenue-requirement issues noted above, I will discuss and provide a recommendation on Austin Energy's use of the Cash Flow method in developing its return-dollar requirement and I will also discuss issues related to AE's invested capital (rate base), rate of return, and capital structure. The Commission's Preliminary Order references these various issues in item numbers 4, 5, 6, 8, 9, and 12.

Additionally, I will address Preliminary Order item #25, regarding the amount of funding for nuclear decommissioning expense that AE has included in its proposed revenue requirement.

II. SUMMARY OF RECOMMENDATIONS

Q. Please summarize your recommendations and conclusions in this docket.

A. My basic recommendations and conclusions are as follows:

- I recommend the use of the Debt Service Coverage (DSC) method for determining the amount of return dollars in Austin Energy's revenue requirement. This contrasts with AE's proposal to use the Cash Flow method for determining return. My recommended DSC ratio is 2.15 (that is, the recommended level of revenues provides coverage of AE's debt service by a factor of 2.15 times, or "2.15x"); in comparison, the level of AE's debt service coverage that is implied by its use of the Cash Flow method is 2.34x.

- Based on the use of the DSC method, and incorporating the recommended adjustments of other Staff witnesses, I recommend a return-dollar amount of $236,075,185, which is a reduction of $31,933,908 to AE's requested amount of return. As a point of comparison to the rates of return for investor-owned

utilities (IOUs), my recommended level of return dollars results in a rate of return on AE's rate base (excluding Construction Work in Progress) of 9.97%.

- The total recommended Staff adjustment to Austin Energy's requested revenue requirement is $45,936,541. This figure reflects the adjustments to return and the re-categorization of certain expenses that I and Staff witness Ruth Stark address in testimony, and it also reflects the removal from base rates of $561,764 of rate-case expenses (as addressed in Staff's Statement of Position and the testimony of Ms. Stark) that Austin Energy included in its requested revenue requirement.

- Austin Energy has not demonstrated a need to include a return on Construction Work in Progress (CWIP) to maintain its financial integrity. Because Section 36.054 of the Public Utility Regulatory Act (PURA) states that a utility must demonstrate such need before the Commission may include CWIP-related return in the utility's revenue requirement, my recommended return amount includes a reduction of $245,982 for interest on debt related to CWIP.

- Although I do not agree with all the assumptions and inputs that AEP has used in its determination of an appropriate funding amount for nuclear decommissioning expense, I do not find the derived amount of AE's requested funding level to be unreasonable. Accordingly, I do not recommend any adjustments to AE's request for nuclear decommissioning expense.

I discuss these issues in greater detail below.

III. AUSTIN ENERGY'S PROPOSED METHOD FOR DETERMINING RETURN DOLLARS

Q. What methodology did Austin Energy use to develop its requested amount for the return-dollar component of its revenue requirement?

A. For purposed of determining *return dollars* (that is, the dollars typically associated with the rate of return on a utility's invested capital; or, stated differently, the amount

of revenue requirement over and above the level of reasonable and necessary operating expenses), Austin Energy used the Cash Flow method. The Cash Flow method is included as one alternative in the Commission's rate filing package for non-investor-owned utilities that are transmission service providers (TSPs).

Q. What other alternatives does the Commission's TSP rate filing package include for determining the reasonable level of a utility's return dollars?

A. The Cash Flow method is listed in the rating filing package instructions as one of four alternatives that a TSP may use to develop its request for the amount of return dollars appropriately included in its revenue requirement. The other methods specifically described in the Commission's rate filing package are: the Rate of Return method, the Debt Service Coverage method, and the Times Interest Earned Ratio (TIER) method. While each of these four methods provides a basic means for a utility to develop the return-dollar component of its revenue requirement, each uses certain inputs and computational assumptions that—depending on how a utility frames its particular circumstances and needs—may lead to somewhat different results.

Q. What specific elements does the Cash Flow method use for determining a utility's return component?

A. The instructions for the Commission's TSP rate filing package set out the basic elements of the Cash Flow method. The instructions include the following details:

> Schedule C-3: Cash Flow Method
> A TSP may elect to use the cash flow method for determining its transmission revenue requirement based on the Historic Year. If the TSP elects to use the cash flow method, the Commission shall consider reasonable cash needs in the following categories:
>
> A debt service (including principal and interest) for long-term and short-term debt;

B funding of reserve requirements on both long-term and short-term debt as set forth in revenue bond and debt ordinances;

C for municipal utilities, annual payments for transfers to the city's general fund at rates established by the municipal utility's governing authority, to the extent such amounts are not recovered through other elements of the TCOS;

D capital lease payments and/or finance lease payments;

E annual payments to provide internally generated funds for construction, system improvements, and repair and replacement.

Once a utility determines the appropriate amounts for the above items, the resulting cash needs are offset by depreciation expense (a non-cash expense) and interest income. The net amount is then included as the return-dollar component of the utility's revenue requirement.

Q. Has Austin Energy developed its requested Cash Flow return amount in a manner generally consistent with the above provisions?

A. Yes, I believe so. In the testimonies of several of its witnesses and in certain of its schedules (for example, Schedules A and C-3), Austin Energy provides the following detailed amounts underlying its return-dollar request:

Debt Service:	$168,100,078
Reserve Requirements:	$31,641,489
Transfer Payments:	$105,000,000
Internally Generated Funds:	$88,078,647
Subtotal	$392,820,214
Less: Depreciation & Amortization	($117,214,512)
Less: Interest and Dividend Income	($7,596,609)
AE's Cash Flow Return Request:	**$268,009,093**

Putting aside for the moment any questions regarding the reasonableness of the amount of each of the above components, I do not have any meaningful reservations about the general way in which AE has applied the basic methodological principles of the Cash Flow return calculation.

Q. Irrespective of the manner in which AE has applied the Cash Flow methodology, do you have any thoughts in general about the use of such an approach?

A. Yes. Although the Cash Flow approach is listed in the Commission's rate filing package as one of a number of return-dollar methodologies on which a utility may rely in developing its request, I believe that its use—more than the use of the other methods specifically included in the rate filing package—can be fraught with questions about its underlying assumptions. The basic reason for this opinion is that the return determined using the Cash Flow method is ultimately a "plug-in" number; that is, the Cash Flow method allows a utility to assert the total amount of return necessary to pay for all its cash needs, and that resulting amount is—*ipso facto*—the amount that the utility claims as the return that it "requires" in its revenue requirement. The bottom-line result is that a utility's demonstration and justification of its desired return amount is a foregone conclusion because it is a mathematical inevitability.

AE witness Ann Little alludes to this point and relies on it as an argument in discussing the General Funds Transfer (GFT) on page 13 of her testimony, when she states on lines 6 through 9 that:

> The GFT is a *mandatory* obligation that is paid to the utility's owner so it *must* be recovered dollar-for-dollar in the return component of the revenue requirement. Only the cash flow return method acknowledges this concept.[1]

Similarly, Ms. Little states in her testimony on page 14, lines 1 and 2, that:

> In other words, the cash flow return is composed of actual costs AE is *required* to pay.[2]

These statements highlight my fundamental conceptual reservation about the Cash Flow method: it is based on what I consider to be an inherent circularity in its logic.

[1] Emphasis added.
[2] Emphasis added.

A utility asserts that it has a given level of costs that must be paid, and it uses the Cash Flow method to demonstrate this alleged necessity. When the Cash Flow method then invariably produces the asserted revenue requirement (because, by its inherent nature, it always will), that result is declared by the utility to constitute the required evidence that its claimed needs are reasonable and "necessary."

The use of a method to achieve such an effectively predetermined outcome could conceivably lead to inconsistency with PURA §11.002(b), which states, in part: "Public agencies regulate utility rates, operations and services as a substitute for competition." Unlike the other three options for determining the return component of a utility's revenue requirement, the Cash Flow method, as applied by Austin Energy, has no obvious comparison point to the dynamics of competitive markets by which non-competitive performance would be apparent.

Q. Do you have any other reservations about Austin Energy's use of the Cash Flow method?

A. Yes. Another concern I have is that AE does not consider its level of debt service coverage to be a driver of the amount of its return dollars. AE witness Elaine Hart makes this point on page 11, line 14 of her testimony when she states that, "AE has not used debt service coverage as a determinant of its revenue requirement."

What this means is that as a result of AE's use of the Cash Flow method, the level of AE's debt service coverage is simply a fall-out value. While reasonable people might debate the relevance of debt service coverage, I would note that although rating agencies are certainly aware of the use of the Cash Flow method, they are much more directly interested in the levels of a utility's DSC ratios. Ms. Little effectively acknowledges this point in her testimony on page 54, lines 8 through 12, when she states:

> While DSC is not an appropriate return methodology for AE, it is an important financial metric and a primary credit rating criteria.... This ratio is relied on by bondholders and rating agencies to determine adequacy of the utilities' operating results to cover debt service.

Consistent with these points, I believe that a DSC-based methodology, rather than the Cash Flow method, provides a more appropriate and economically justifiable starting point in the determination of return dollars and satisfies—in a much more direct fashion—one of the most fundamental concerns of the rating agencies.

The testimony of AE witness William G. Newman also illustrates this point quite clearly.

Q. What does Mr. Newman state in his testimony with regard to rating agencies' attention to DSC ratios?

A. A substantial portion of Mr. Newman's testimony focuses on the importance that rating agencies assign to a utility's ability to cover its debt service payments. In particular, he discusses the role of the DSC ratio in both the City of Austin's bond ordinance and the rating agencies' reviews. For example, he states in his testimony on page 9, lines 11 and 12 that, "DSC is a key metric evaluated by the rating agencies during the rating process." He also includes on page 7 a discussion of the five key factors that Moody's uses in its rating evaluations, and one item included in the fifth factor is a utility's level of debt service coverage.

I find Mr. Newman's discussion of the rating agencies' key criteria to be telling, and I would note in particular that while Mr. Newman discusses at considerable length the importance of a utility's coverage of debt service, he makes no mention at all of the use of the Cash Flow method—or the rating agencies' consideration thereof—in developing the return-dollar amount.

Q. What do you conclude from Mr. Newman's testimony regarding the importance of debt service coverage?

A. I believe his testimony regarding how rating agencies rely on the level of a utility's DSC ratio illustrates why the use of the DSC method is entirely appropriate and, in fact, preferable to the use of the Cash Flow method for the determination of the return-dollar component of AE's revenue requirement.

Q. Do Commission substantive rules provide for the use of the Cash Flow method?

A. SUBST. R. 25.192(c)(2) mentions the Cash Flow method as follows:

> For municipal utilities, river authorities, and electric cooperatives, the commission may permit the use of the cash flow method or other reasonable alternative methods of determining the annual transmission revenue requirement, including the return element of the revenue requirement, consistent with the rate actions of the rate-setting authority for a municipal utility.

I would make two observations about the above paragraph: First, it states that the Commission *may* permit the use of the Cash Flow method, and second, this rule pertains to the recovery of *transmission* costs, which are not at issue in this proceeding.

Q. Do you believe that the Cash Flow approach is never an appropriate methodology for a retail rate case?

A. Given the wide-ranging scope of utility issues and the often unpredictable nature of utility circumstances, I would rarely—if ever—advocate such an absolute position. I believe that a utility's overall circumstances and the particulars of its filing should provide the general guideposts for determining the appropriateness and applicability of a given ratemaking methodology at a given point in time.

Q. Does the Commission's rate filing package for transmission utilities leave to the sole discretion of the filing utility the way in which its return-dollar amount will be determined?

A. No. Below is the first sentence in the instructions for Schedule C-3 of the Commission's rate filing package:

> The determination of final revenue requirements for a municipal utility, river authority, power agency, or electric cooperative may be based on any of the following methods at the election of the filing TSP.

While a cursory reading of the above provision might seem to suggest that a utility has the ability to choose the specific method for determining its return-dollar amount, I would note that the language is presented in the context of the utility's preparation of the rate filing package in which it will make its *request*. Ultimately, of course, the Commission, after consideration of the utility's request and the recommendations of other parties thereon, will render the final decision on such request, and the Commission is not obligated to incorporate in its order the same return methodology requested by the utility.

The Commission explicitly addressed this point in its order for Docket No. 31462, *Application of City of Austin D/B/A Austin Energy to Change rates for Wholesale Transmission Service* (June 9, 2006). The Commission stated on pages 1 and 2 of the order that:

> ...it should be noted that while the non-IOU TCOS RFP allows a utility to file using one of several different methods to determine its transmission revenue requirement, the Commission's mandate under PURA is to ensure just and reasonable rates. Therefore, the Commission is not bound by the utility's choice of method for calculating rates if that method produces unjust or unreasonable rates. The Commission has in the past, and may in the future, order a utility's transmission rates to be set by a method other than the method the utility chose when it filed its rate package.

Q. Are you aware of any cases in which the Commission in a final order used a methodology to develop return dollars that was different from what the utility requested?

A. Yes, one such proceeding was Docket No. 28906, *Application of LCRA Transmission Services Corporation to Change Rates*. In that case, the Lower Colorado River Authority included in its application a return-dollar methodology based on the Cash Flow method; the Commission, however, based the amount of return dollars on the DSC method.

Q. When it adopted the rate filing package for non-investor-owned transmission utilities, did the Commission expressly address the issue of whether it may consider the reasonableness of the results of the Cash Flow method and its components?

A. Yes. The Commission adopted the non-IOU TCOS rate filing package in Project No. 21276, and pages 7 and 8 of its order included the following summary of certain parties' comments regarding the presumed reasonableness of the results of the Cash Flow method and its inputs:

> DGG (Cities of Denton and Garland, and Greenville Electric Utility System) and CPS (City Public Service of San Antonio) recommend that the instructions for "Schedule C-3: Cash Flow Method" be changed from "the Commission shall consider reasonable cash needs..." to "the Commission shall allow as reasonable the Cash Flow Components that have been approved by the governing body." These parties argued that the Commission should not put itself in the position of second-guessing a utility's board or its city council.

The Commission's response to these summarized comments was:

> The commission concludes that the instructions in Schedule C-3 should not be changed. PURA requires the commission to review transmission rates. Therefore, the commission may perform a close review in the event of

cash-flow representations that are significantly different from those of other similar utilities and/or are not adequately explained.

Q. What is your recommendation with regard to Austin Energy's use of the Cash Flow method for determining the amount of return dollars included in its revenue requirement?

A. I recommend that instead of relying on the Cash Flow method as proposed by AE, the Commission should derive the amount of return dollars by using a DSC-based methodology.

Q. Do you believe your recommendation in this proceeding with regard to the Cash Flow method is consistent with the Commission's statements in Project No. 21276?

A. Yes. As shown above, in its adoption of the non-IOU rate filing package, the Commission clearly articulated its authority in reviewing the reasonableness of the inputs to the Cash Flow method. Paraphrasing my earlier testimony, the Cash Flow method essentially allows a utility to develop estimates of its reasonable cash needs and take into account the expected sources of cash, and any resulting shortfall that needs to be funded through return dollars is—by definition—the amount that the Cash Flow method indicates is necessary for adequate funding of all the utility's cash needs. Without Commission review of the method's inputs and appropriate consideration of the implications of its results, the Cash Flow approach is tautological and effectively self-fulfilling.

Below I discuss the use of the DSC method, which I believe is a more reasonable and justifiable approach for the determination of Austin Energy's return-dollar requirement.

IV. DISCUSSION OF DEBT SERVICE COVERAGE AND BOND RATINGS

Q. Please describe the basic determinants of the debt service and coverage requirements for a municipal utility such as Austin Energy.

A. Unlike an IOU, which is expected to earn a return for its stockholders, a municipal utility such as Austin Energy does not have equity shareholders, so it does not have to earn a traditional rate of return on its invested capital. It does, however, need sufficient return dollars, or margin, over and above its actual operating expenses to meet its cash needs. As previously discussed, examples of cash needs paid with return dollars are debt service payments, reserves, internal cash for construction, and an appropriate amount of additional coverage to serve as a financial cushion.

Q. What factors go into the Commission's determination of the debt service and coverage requirement for a municipal utility such as Austin Energy?

A. The typical starting point for return is the determination of the utility's debt service payments. The utility's historical test-year debt service, consisting of interest and principal payments, is adjusted for known and measurable changes, and it is then multiplied by a reasonable DSC ratio to arrive at the debt service and coverage requirement. Once the requirement is determined, sources of funds other than the sale of electricity—such as interest income and depreciation expense—available to meet the requirement are subtracted to determine the amount of return that must be collected through revenue.

Q. Please explain further the concept of "coverage" in the context of a utility's debt service.

A. The level of a utility's debt service coverage is the ratio of funds available to meet debt service requirements, divided by the debt service requirements. For example, a

DSC ratio of 1.50x reflects the ability of a company to meet 100% of its debt service obligations and have funds left over equal to 50% of its debt service requirements.

Q. Are DSC ratios greater than 1.00x common?

A. Yes, a DSC ratio greater than 1.00x is a traditional risk mitigation requirement in the municipal bond market. Standard lending practices and bond covenants require DSC ratios to be greater than 1.00x so that the utility will have greater certainty in its ability to pay its debt service. As previously mentioned, a DSC ratio in excess of 1.00x provides funds over and above debt service and operating expenses, and this provides a financial cushion in the event of unforeseen financial difficulties. Additionally, reduced financial risk by the presence of additional debt service coverage increases a utility's ability to access capital markets on reasonable terms. Firms that exhibit financial strength through adequate coverage levels are generally able to borrow money at lower costs and better terms.

Q. Do the bonds of Austin Energy have minimum DSC requirements or benchmarks?

A. Yes. As discussed on pages 10 and 11 of the testimony of Elaine Hart, AE's bond covenants require the maintenance of a DSC of 1.50x, while the City of Austin's Financial Policy No. 6 establishes the goal of a minimum DSC of 2.00x.

Q. Do you believe these targets are reasonable?

A. Generally, yes. Bond covenants are the terms to which a borrower agrees when issuing debt, and they are important to the lender because they serve as benchmarks that can indicate possible deterioration in the borrower's financial strength. For bond covenants to require a reasonable DSC ratio is commonplace, and a ratio such as 1.50x

is a level that reasonably satisfies this objective (as evidenced by its inclusion in AE's bond covenants).

Although the City of Austin's Financial Policy No. 6 establishes a target DSC ratio of 2.00x, which is somewhat higher than the 1.50x figure required in AE's bond covenants, the 2.00x value is consistent with AE's financial goals of achieving a rating of "AA," as discussed in the testimonies of AE witnesses Mark Dreyfus (on page 28) and Elaine Hart (page 8).

Q. What are Austin Energy's current bond ratings?

A. As stated on page 8 of Mr. Newman's testimony, AE's ratings are A1, A+, and AA- by Moody's, Standard & Poor's (S&P), and Fitch, respectively.[3]

Q. Is having the highest possible bond rating a desirable objective in terms of minimizing costs to ratepayers?

A. No. While having a healthy bond rating is essential for maintaining financial strength and ensuring access to capital markets on reasonable terms, a utility that charges ever-higher rates solely for the purpose of increasing its margins and improving its bond rating will at some point end up imposing costs on its ratepayers that are higher than necessary.

[3] S&P provides increasing risk and declining credit ratings for investment quality bonds ranging from AAA to AA to A to BBB (with "+" and "=" as sub-ratings or notches within these rating classes for relatively lower or higher risk, respectively). Moody's provides comparable increasing risk and declining credit quality ratings of Aaa to Aa to A to Baa (with 1, 2, and 3 as sub-ratings or notches within these rating classes for relatively lower to higher risk, respectively). Fitch uses a rating scale similar to that of S&P.

Q. Please explain how ratepayers could actually pay higher rates to a utility with a higher bond rating, given that higher bond ratings are generally expected to result in lower financing costs.

A. At least two reasons can explain this phenomenon. First, the amount of additional revenues necessary for a utility to be granted a given bond rating may be more than the amount of financing savings associated with reaching that bond rating. Office of Public Utility Counsel (OPUC) witness Carol Szerszen discusses this point in her testimony on pages 7 through 12, and she also includes an illustrative numerical calculation that shows how ratepayers may actually end up in a worse position if the utility has a higher bond rating because the costs of the additional revenues outweigh the benefits of the interest savings. Although I am not testifying to the validity of the specific numbers included in Dr. Szerszen's illustration, I agree with her basic point.

The second reason is a bit abstract, but no less economically valid. When paying electricity rates that have been driven higher solely as a result of the utility's pursuit of higher bond ratings, ratepayers incur "opportunity costs" by having a lesser amount of funds available for other purposes, such as paying high interest costs on their credit card debt. While these kinds of opportunity costs may not be directly observable, they are still real, and if ratepayers are deprived of the ability to pay certain of their high-cost bills because they are being charged an inordinately high electricity rate, the overall net effect is a greater economic burden on the ratepayer.

Q. Has Austin Energy fully considered the concept of ratepayers' opportunity costs in its stated financial goals?

A. Apparently not, at least based on its response to Staff's Request for Information 3-1, as shown below:

Question:
Please refer to the testimony of William G. Newman, at page 8, lines 10 through 13. Regarding the testimony that "A municipality should maintain the highest rating possible in order to realize the lowest borrowing cost," and "A high bond rating will minimize costs to taxpayers and ratepayers," please state whether these two statements take into consideration the opportunity costs of ratepayers. If they do, please explain how they do. If they do not, please explain why they do not, and why a policy of not considering ratepayers' opportunity costs is reasonable and appropriate.

Response:
The bond rating drives borrowing costs, and Austin Energy strives to achieve the highest possible bond rating in order to lower interest expense. If "opportunity cost" means the ability of a ratepayer to use money for other purposes versus electric utility expense, the lower interest expense will be beneficial to the ratepayer because it reduces the revenue requirement to pay debt service.

Based on the above response, Austin Energy appears to take a narrow and incomplete view of the economic concept of ratepayers' opportunity costs.[4] Read superficially, the response appeals to the intuitive—albeit overly simplistic—idea that lower interest expense results in a lower revenue requirement. But when appropriately considered in a more comprehensive context, the response indicates that Austin Energy is either ignoring or not fully appreciating the additional margins that ratepayers must pay to achieve the lower interest cost.

[4] This is because the response confuses Austin Energy's costs with its ratepayers' costs. Clearly, higher electric rates would tend to improve a utility's bond rating and thus lower its cost of capital. The reason for the improved bond rating is that the additional revenue generated by higher rates, other things being equal, necessarily reduces the amount of money the utility has to borrow. Effectively the utility avoids paying interest because it has used money taken from ratepayers to fund its operations, rather than financing them. Unfortunately, this same money is the money that ratepayers could have used to avoid paying interest on loans they take out to buy things for themselves.

Q. Does empirical evidence support AE's notion that striving to achieve the "highest possible bond rating" is appropriate because it "will be beneficial to the ratepayer because it reduces the revenue requirement to pay debt service"?

A. No, and in fact, I would say that empirical evidence suggests just the opposite. If "striving for the highest possible bond rating" were an economically optimal policy (one that would benefit both utilities and their ratepayers), one would see many—or possibly even all—utilities possessing the highest possible rating. Given that we do not observe such a situation, one can reasonably conclude that such a policy is not an optimal economic objective.

Q. What DSC value is reflected in AE's requested revenue requirement?

A. Mr. Newman discusses AE's historical DSC ratios on pages 11 and 12 of his testimony, but he does not calculate the DSC that results from AE's request. While I was not able to locate in AE's filing a DSC calculation specifically reflecting all the relevant components of AE's requested revenue requirement, I have used the amounts filed in AE's Schedule C-3 to calculate AE's implied DSC ratio. Based on calculations shown on line 10 of Attachment DT-3, that figure is 2.34x.

Q. Please summarize your DSC recommendation for Austin Energy, and the basis for your recommendation.

A. I recommend a DSC value of 2.15. This value very comfortably exceeds AE's 1.50x bond covenant requirements, as well as the 2.00x ratio specified in the City of Austin's Financial Policy No. 6. A ratio of 2.15x should also enable AE to have a General Funds Transfer ratio that is consistent with the norms of other municipal utilities (which I discuss later in my testimony).

In arriving at my recommended DSC ratio of 2.15x, I reviewed the medians of the DSCs for the municipal utilities included in Fitch's *U.S. Public Power Peer Study*

report dated June 2012.[5] In that report, Fitch lists various financial metrics for the three ratings sub-groups of the AA-rated municipal utilities, and shows that the median DSC values for the companies rated AA+, AA, and AA- were 2.05x, 2.09x, and 2.54x, respectively. Although Austin Energy cites in its filing the 2.54x DSC ratio that was the median for the sub-group with a rating of AA-, I have calculated and used the more appropriate benchmark of the 2.30x median value of the entire AA group (that is, all the utilities in the AA+, AA, and AA- sub-groups), as shown on Attachment DT-2. My recommended value of 2.15x is the midpoint of the broader 2.30x median value for all the utilities with AA ratings and the 2.00x benchmark articulated in the City of Austin's Financial Policy No. 6.

Additionally, the 2.15x value generally corresponds with the 2.12x average DSC figure for the group of utilities surveyed by the City of Austin's Office of the City Auditor in its January 2012 *Austin Energy Rate Proposal Audit.*

Q. When establishing the basis for a utility's return dollars, is using the midpoint of a range a common Commission practice?

A. Yes. When setting the level of a utility's return dollars, the Commission routinely relies on witnesses' testimonies that include ranges of reasonable return outcomes, and, most commonly, the midpoints of those ranges are recommended as the specific point estimates. For example, virtually every return-on-equity (ROE) witness in rate proceedings for IOUs expresses his or her recommended ROE in terms of a reasonable range.

In this proceeding, my approach is no different: my recommendation is based on a point-estimate DSC of 2.15x, which is the midpoint of the range of 2.00 to 2.30x.

[5] This report is included in Mr. Newman's testimony as Exhibit WGN-8.

Q. Does basing your recommendation on a range of reasonable DSC values provide to the Commission a degree of flexibility with respect to establishing an appropriate return-dollar amount?

A. Yes, I believe it does. As reflected in the wide range of DSC values for utilities with AA Fitch ratings, establishing a reasonable level of return is not an exact science. This is true for municipal utilities just as it is for IOUs, for which the Commission endeavors to set returns on equity consistent with a prevailing market rate of return that is not directly observable. In this proceeding, should the Commission in its discretion choose to use a DSC value other than my point-estimate recommendation of 2.15x, I believe my recommended range of 2.00 to 2.30x provides a basis on which the Commission may choose a reasonable alternative.

Q. The DSC values listed in your earlier testimony are lower for the two higher-rated sub-groups in the AA category. Should not the companies with AA+ and AA ratings—which are higher than Austin Energy's AA- rating—be expected to have *higher* DSC values than the companies in the AA- group?

A. Yes, all else equal, one would expect that to be the case, because a higher DSC ratio would logically correspond to a stronger financial position and credit rating. However, when assigning ratings, the credit agencies take into account various other factors—both quantitative and qualitative—and at least for the reported period, the higher-rated utilities listed in the report had lower DSC values.

Q. What are some of the other quantitative and qualitative factors that the rating agencies take into account when evaluating a company's credit strength?

A. As shown in Exhibit WGN-2 of AE witness Newman, Moody's cites various factors in its review process, including such items as the cost recovery framework within the utility's service territory, the utility's willingness and ability to recover costs with

sound financial metrics, the utility's management of generation risks and costs and reliability of the utility's power supply, the utility's rate competitiveness, and its financial strength and liquidity. As shown in Exhibit WGN-12 of Mr. Newman's testimony, Standard & Poor's (S&P) uses similar criteria in developing its ratings. They key point here is that although Mr. Newman and I have paid particular attention to Austin Energy's adequacy of debt service coverage in developing AE's return-dollar requirement, rating agencies such as Moody's, S&P, and Fitch consider in their overall rating processes other aspects of a utility's operations as well.

V. RE-CATEGORIZATION OF EXPENSE ITEMS

Q. In addition to your recommendation to use the DSC method for determining a reasonable amount of AE's return dollars, are you incorporating other adjustments into your DSC calculation?

A. Yes. Based on the testimony of Staff witness Ruth Stark, I have shifted certain components of AE's requested revenue requirement from the category of operating expenses into the category of General Funds Transfer—and hence to the category of return dollars, given that the monies for the GFT are recovered through the return component. The total of Ms. Stark's recommended re-categorization is $13,440,869, composed of the following items:

Economic Growth and Redevelopment Services Office (EGRSO):	$9,875,642
Department of Small and Minority Business Resources (DSMBR):	$167,000
Shared City Services:	$3,398,227
Total	$13,440,869

The shifting of these amounts to the return calculation effectively makes recovery of these amounts dependent upon the amount of the return-dollar recovery produced by

the DSC value (or, ultimately, the amount of return-dollar recovery authorized by the Commission).

Q. Please explain further.

A. As discussed in the testimony of Staff witness Ms. Stark, the nature of the shifted amounts is such that they are more appropriately categorized as an element of the return dollars because they are not consistent with traditional "reasonable and necessary" operating expenses that are part of AE's provision of electricity service. Shifting the issue of their recovery to the return component (which includes the General Funds Transfer) of the revenue requirement is therefore appropriate.

Q. Does shifting the amounts to the return calculation change the DSC value implied in AE's request?

A. Yes. When the shifted amounts are re-categorized into the return-dollar component of the revenue requirement, the DSC value implied in AE's request increases from 2.34x to 2.42x.[6] As a result, when determining AE's amount of return dollars by using the DSC approach rather than the Cash Flow method, the degree to which AE would recover the shifted amounts may change.

Q. If the Commission adopts a DSC value lower than the 2.42x value implied in AE's request, would the reduction in return effectively result in a complete disallowance of the shifted items?

A. Possibly. If the Commission reduces the DSC value by a coverage amount that equals or exceeds the amount of the shifted items, the answer is yes—the reduction in AE's return would be tantamount to disallowing the shifted amounts. If the reduction in the

[6] The 2.42x value is calculated by adding the $13,440,869 amount that Staff is treating as return to the $392,820,214 request amount of total cash return shown on AE's filed Schedule C-3, and dividing the sum by the requested debt-service amount of $168,100,078 (also shown on Schedule C-3).

coverage amount is less, the resulting reduction in AE's return dollars would be some proportion of the total amount of shifted items.

Q. Based on Ms. Stark's recommended re-categorization of certain amounts from expense to return, and your recommended DSC value of 2.15x, what is the impact on Austin Energy's requested revenue requirement?

A. Line 19 of Attachment DT-3 shows an overall Staff-recommended revenue requirement of $1,077,687,664, which is a reduction of $45,936,541 to AE's request of $1,123,624,205.[7]

Q. Do you believe that this level of revenue allows Austin Energy to maintain its financial strength and credit rating?

A. Yes. My recommendation allows AE to achieve a DSC of 2.15x, a level well in excess of its bond covenants and, as well, comfortably above the City of Austin's Financial Policy #6. Also, as shown in Moody's November 2011 publication *U.S. Public Power Methodology Update for Generators* (Exhibit WGN-2 of Mr. Newman's testimony, pages 11 and 13), a DSC of 2.15x is within the specified range of 2.00 to 2.49x for a rating of AA, which as mentioned previously, is a financial goal of Austin Energy.

VI. RESERVE FUNDS

Q. What are the components of the reserve fund request of $31,641,489 that Austin Energy included in its proposed return amount?

A. The $31.6 million figure is based on the recovery over time of monies that AE is requesting to replenish its Rate Stabilization Fund ($17,053,451 underfunded), Repair

[7] These figures reflect the offset of $85.8 million of non-rate revenue.

and Replacement Fund ($61,197,671 underfunded), and Non-Nuclear Decommissioning Reserve Fund ($55,577,818 underfunded).

Q. Over what time period does Austin Energy propose to recover its claimed reserve deficiencies?

A. AE proposes a ten-year replenishment period for its non-nuclear decommissioning reserve and a three-year replenishment period for its Rate Stabilization Fund and Repair and Replacement Fund. The $31.6 million figure is derived by taking one-tenth of the underfunded amounts of the Rate Stabilization Fund and Repair and Replacement Fund, and one-third of the underfunded amount of the Non-Nuclear Decommissioning Fund. The elements of this calculation are shown below:

Rate Stabilization Fund: $17,053,451	
3-yr. recovery	$5,684,484
Repair and Replacement Fund $61,197,671	
3-yr. recovery	$20,399,224
Non-Nuclear Decomm. Fund: $55,577,818	
10-year recovery	$5,557,781
Total underfunded reserves requested in return:	$31,641,489

Q. Do you have any adjustments to the amount of reserve funds AE included in its proposed return requirement?

A. I do not have any recommended adjustments. I would note, however, that on page 6 of its January 2012 *Austin Energy Rate Proposal Audit*, the Office of City Auditor (OCA) stated that:

> *AE's current and targeted funding levels for the reserve funds, when measured as a percent of revenues, is higher than the levels maintained by electric utilities we surveyed.* AE now has reserve levels equal to twenty percent (20%) of revenues and is proposing increasing the level to thirty one percent (31%) of revenues. The utilities we surveyed maintain reserve funds at four (4%) to seventeen percent (17%) of revenues. Although the

> measure of reserves to revenues is not common in the industry, we selected the measure to level the field among various sizes of utilities while comparing reserve levels.[8]

In the same report, the OCA stated on page 2 that:

> When compared to a sample of other electric utilities, AE has proposed more reserve funds and the total dollars reserved is higher relative to revenues. *We also noted that if AE were to replenish two of the funds over a longer period of time it would reduce AE's proposed revenue requirement.*[9]

And on page 5 of the report, the OCA stated:

> *The period of time selected for replenishment of funds will impact AE's proposed revenue requirement.* In addition, extending the period beyond three years will allow AE's special contract customers, whose rates are fixed until June 2015, to participate in the replenishment.[10]

Q. Regarding the above comments of the OCA, how much would the revenue requirement change by extending the replenishment period for the Rate Stabilization Fund and Repair and Replacement Fund from three years to, say, six years?

A. Extending the replenishment period for the two funds from three years to six years would cut in half the associated revenue requirement, from $26,083,708 (the sum of the $5,684,484 and $20,399,224 amounts listed above) to $13,041,854.

Q. Why are you not recommending such an adjustment?

A. The basic reason that I am not recommending an adjustment to reflect longer replenishment periods is because Austin Energy states in its filing that none of the three underfunded reserves is expected to be replenished over the target time frames. AE witness Ann Little states on page 48 of her testimony that "it is likely that AE will

[8] Emphasis added.
[9] Emphasis added.
[10] Emphasis added.

continue to draw down reserves until the long-term contracts expire." Additionally, given rating agency statements regarding the adequate funding of reserves, I am reluctant to recommend changes to the reserve amount included in AE's return dollars. However, in the interest of providing data to the Commission in the event that it wishes to consider the effects of changing the duration of the replenishment periods, I believe that including an illustrative calculation that shows the effect of such a change is informative.

VII. GENERAL FUNDS TRANSFER RATE

Q. Based upon Staff's recommended adjustments to Austin Energy's revenue requirement, when the amount of the funds available for general transfer is divided by revenues, what is the resulting ratio?

A. Incorporating my adjustments and those of Ms. Stark, the amount of return available for AE's general funds transfer as a proportion of revenues is 6.30%, as shown on Attachment DT-3. In comparison, the transfer rate embodied in Austin Energy's proposal is 8.68%.

Q. How does the ratio of 6.30% compare to that of other municipal utilities?

A. Based on the Fitch report discussed previously, the median general funds transfer rate for all public-finance utilities with AA ratings was 5.4% in 2011, as shown on Attachment DT-2.

Q. Have the rating agencies commented on the rate of Austin Energy's general funds transfer?

A. Yes. In Exhibit WGN-3, page 2 of 5 from Mr. Newman's testimony, Moody's states that the "Portion of electric system net revenues transferred to City's general fund

(9.1%) is above the median for public power electric utilities." On the next page of that report (shown in Exhibit WGN-3, page 3 of 5), Moody's states that "The rating could change downward if debt service coverage margins decline or if the transfers to the city's general fund increase to levels that weaken the utility's own finances."

Q. Given its value relative to median levels, and based on the comments of the rating agencies, do you believe a GFT rate of 6.30% is reasonable?

A. Yes. The evidence indicates that a 6.30% transfer rate is in line with that of other utilities, and Moody's even suggests the possibility that AE's rate is growing to levels that may be hazardous to the utility's financial condition. Although 6.30% of revenues is less than what Austin Energy is seeking, comparative information shows that the transfer rate is reasonable, and I would additionally note that under any set of circumstances, the City of Austin retains the discretion to apply its available general funds to the activities or costs it believes are most important and in a way that it believes is most efficient for achieving its desired goals. In my earlier example of changing the replenishment period for the reserve funds, AE could theoretically use the additional $13,041,854 to increase the amount of the General Funds Transfer. This would effectively increase AE's transfer rate from 6.30% to 7.42%.[11]

Q. Is Austin Energy obligated to use its return dollars in specific ways, or does it have a degree of flexibility in applying such funds?

A. Austin Energy is clearly obligated to pay its debt service costs in a timely manner, but with respect to the remainder of its return dollars (as calculated on the basis of reserve fund contributions, internally generated funds, and amounts related to the general fund

[11] The 7.42% figure is calculated as $13,041,854 plus the $73,312,074 amount shown on the right side of Attachment DT-3, line 3, divided by the total cost of service of $1,163,520,725 shown on the right side of Attachment DT-3, line 17.

transfer), it does have latitude in the uses to which it applies its cash balances and the period over which it recovers certain amounts.

For instance, as discussed above, Austin Energy could establish a policy of funding its reserve balances over longer time periods. This is one example of the measures AE could take as it determines the best ways in which to formulate its policies with regard to the general funds transfer. The key point is that, given a reasonable revenue requirement, Austin Energy ultimately has the ability to make choices in finding the right balance and mix of uses for the available amount of general funds.

VIII. ADJUSTMENT FOR CONSTRUCTION WORK IN PROGRESS

Q. Have you made an adjustment to return based on the removal of CWIP from rate base?

A. Yes. PURA §36.054 states that the inclusion of CWIP in rate base is an exceptional form of rate relief that the Commission may grant only if the utility demonstrates the inclusion is necessary for its financial integrity. Financial integrity for municipal utilities is normally defined to mean an adequate level of debt service coverage and access to capital on reasonable terms, and AE would need to provide evidence that excluding CWIP from rate base, and making a corresponding reduction to return dollars by the amount of return associated with CWIP, would weaken its financial condition to the point that its financial integrity would be impaired.

Q. Did Austin Energy provide testimony that inclusion of CWIP in rate base is necessary for its financial integrity?

A. No.

Q. Has the Commission ever explicitly considered and ordered the exclusion of CWIP from rate base for a municipal utility?

A. Yes. In fact, the Commission made just such an adjustment in a previous rate proceeding for Austin Energy. In Docket No. 31462, *Application of City of Austin D/B/A Austin Energy to Change Rates for Wholesale Transmission Service*, Commission Staff recommended and the Commission adopted a disallowance of AE's debt service related to CWIP. The Commission's order stated in Conclusions of Law 8A through 8C that:

> 8A. Recovery of a utility's CWIP costs through rates is "an exceptional form of rate relief that the regulatory authority may grant only if the utility demonstrates that inclusion is necessary to the utility's financial integrity." PURA §36.054(a).
>
> 8B. The finding of financial need with respect to CWIP, required by PURA §36.054(a), applies to wholesale transmission rates; as such, a non-IOU has the burden of showing the inclusion of CWIP costs in its rates is necessary to the utility's financial integrity.
>
> 8C. AE has failed to show that its inclusion of the cost of debt service for CWIP is necessary for it financial integrity and it may not, therefore, be included in return.
>
> 9. AE's requested $56,679,550 in revenue requirement, minus $363,288 for cost of service for CWIP, minus $93,491 for the stipulated reduction to wholesale transmission O&M expenses, minus $44,350 for the flow-down effect on the general fund transfer, results in a revenue requirement of $56,178,419 which is just and reasonable and properly calculated pursuant to P.U.C. SUBST. R. 25.192.

Q. What is your recommended return-dollar adjustment related to the exclusion of CWIP from rate base?

A. I have reduced AE's proposed debt service by $245,982 (shown in WP C-3.1), which is the amount related to interest costs on AE's commercial paper balances that are

used to finance CWIP. This adjustment is consistent with the calculation that the Commission adopted in Docket No. 31462, as referenced above.

IX. AUSTIN ENERGY'S EQUITY AND DEBT RATIOS

Q. What debt-to-capitalization ratio did Austin Energy use in its request?

A. AE used a ratio of 60% debt and 40% equity to develop its revenue requirement.[12] As can be seen in WP C-3.4 of AE's filing, and as listed in the return components above in my testimony, the amount of internally generated funds required by the 40% equity ratio is $88,078,647. This figure is included as part of AE's return-dollar request.

Q. Please briefly define "internally generated funds."

A. Internally generated funds are monies that are left over from the collection of revenues after the payment of all operating expenses, debt service, and transfers. As previously discussed, internally generated funds may be used for construction, system improvements, and repair and replacement.

For an investor-owned utility, internally generated funds essentially correspond to the utility's equity, on which an explicit return is expected to be paid. In contrast, municipal utilities do not have to pay a rate of return on their internally generated funds, and so the lower the proportion of internally generated funds, the smaller the amount of return associated with this surrogate form of "equity."

[12] Austin Energy witness Ann Little discusses on page 53 of her testimony that a 40% cash (equity) allocation was used in developing AE's revenue requirement to lessen the impact of the rate increase in the short term (3 – 5 years), but the Austin City Council does not desire to change the long-term capital structure of 50% equity.

Q. Do you have any recommended adjustments to Austin Energy's use of a capital structure of 40% equity and 60% debt?

A. No. As shown in the Fitch ratings report mentioned earlier, the median equity-to-capitalization ratio of all AA-rated utilities was 53.9% in 2011. Given that a higher proportion of equity would require a higher amount of return in the form of internally generated funds, I do not believe AE's use of a 40% equity ratio in developing its revenue requirement is unreasonable.

Q. Are you incorporating any other adjustments that would impact Austin Energy's proposed $88,078,647 amount of internally generated funds?

A. No. Workpaper C-3.4 shows how the internally generated funds figure of $88,078,647 is calculated from AE's capital-spending amounts and the use of a 40% equity ratio. Because I have no recommended adjustments to the proposed 40% equity ratio, and because Staff has recommended no adjustments to AE's proposed levels of capital spending, the $88,078,647 amount is effectively incorporated into my calculation of return dollars.

X. RATE OF RETURN

Q. What is your recommended rate of return for Austin Energy?

A. As shown on Attachment DT-3, dividing my $236,075,185 recommended return-dollar amount by the $2,507,324,435 amount of rate base in Schedule A produces a rate of return of 9.42%. As previously discussed, however, CWIP should be excluded from rate base, and reducing the amount of rate base by the CWIP amount of $138,921,525 (shown on Attachment DT-3, and also on line 3 of Schedule B) results in a recommended rate of return of 9.97%.

Q. Given that return-dollar amounts for non-IOUs such as Austin Energy are not typically determined by applying a rate of return to the utility's rate base, why are you calculating a rate of return in this proceeding?

A. For municipal utilities and electric cooperatives, the rate of return is often said to be a "fall-out" value because the amount of return dollars is typically determined on the basis of some coverage method, and the resulting amount is divided by the utility's rate base. For these types of entities, the rate of return is simply a mathematical consequence (rather than a driver) of the process. In contrast, return dollars for an IOU are computed by determining a market-based rate of return and then multiplying this figure by the amount of rate base.

Regardless of the method used to determine return dollars, SUBST. R. 25.231(c) states that "The commission shall allow each electric utility a reasonable opportunity to earn a reasonable rate of return, which is expressed as a percentage of invested capital...." Therefore, even though my recommended amount of return dollars is based upon a debt service coverage method, I am translating it into a rate of return on rate base consistent with the provisions of the rule.

Q. Are fall-out rates of return for municipal utilities and electric cooperatives typically similar to those of IOUs?

A. They may be, but not necessarily. In some cases, the nature of municipal utilities and cooperatives can lead to rates of return that are vastly different from those of IOUs. For example, in Docket No. 10462, *Application of Tex-La Electric Cooperative of Texas, Inc. for Authority to Change Rates*, Staff recommended a rate of return of approximately 220% (the case ultimately settled). In an example that is even more extreme, in Docket No. 7279, *Application of Tex-La Electric Cooperative for Authority to Change Rates*, the Commission-authorized rate of return was over

2,548%. Clearly, major differences can sometimes exist between the rates of return for IOU and non-IOU companies.

XI. RECOMMENDATION ON AUSTIN ENERGY'S FUNDING LEVEL FOR DECOMMISSIONING EXPENSE

Q. What amount of funding for decommissioning expense has Austin Energy included in its requested revenue requirement?

A. AE's proposed revenue requirement includes an annual amount of $4.96 million for the funding of decommissioning expense related to the South Texas Power Plant.

Q. Have you reviewed AE's calculation of the $4.96 million funding level?

A. Yes. In its response to Staff's Request for Information 3-2, AE provided the spreadsheet model showing the derivation of that figure.

Q. Do you recommend any changes to the requested amount?

A. No. Although I do not agree with all the inputs and assumptions AE uses in its funding model, I do not believe the calculated amount of $4.96 million is unreasonable. Accordingly, I do not have any recommended adjustments to this amount.

Q. Does this conclude your testimony?

A. Yes.

LIST OF TESTIMONIES BY DARRYL TIETJEN

P.U.C. Docket	Company	Subject
10060	Brazos River Authority	Rate of Return
10462	Tex-La Electric Cooperative	Interim Rates/ROR
10325	Central Texas Electric Cooperative	Rate of Return
10744	Rayburn Country Electric Cooperative	Sale, Transfer, Merger
10820	Magic Valley Electric Cooperative	Rate of Return
11347	Johnson County Electric Cooperative	Rate of Return
11571	Fayette Electric Cooperative	Rate of Return
11520	Southwestern Public Service Company	Rate of Return
12065	Houston Lighting & Power Company	Decomm. Exp.
12700	El Paso Electric Company	Rate Moderation/ Mirror CWIP
12815	Pedernales Electric Cooperative	Rate of Return
12820	Central Power and Light Company	Decomm. Exp.
12852	Gulf States Utilities Company	Decomm. Expense/ Contra-AFUDC
13827	Southwestern Public Service	Notice of Intent
14965	Central Power and Light Company	ROR/ Decomm. Expense
15638	Texas Utilities Electric Company	Transmission COS
16585	T&H Communications	SPCOA
16705	Entergy Gulf States	Rate of Return
16705	Entergy Gulf States	ROR on ECOM
18290	Entergy Gulf States	Int. on Tax Remand
18845	Central and South West Companies	Financial Condition of Resource Providers
21527	TXU Electric Company	Securitization
21528	Central Power and Light Company	Securitization
22344	Generic Unbundled Docket	Return on Equity
22355	Reliant Energy	ECOM Estimate
22352	Central Power and Light Company	Cost of Debt
22354	West Texas Utilities Company	Recovery of Refi Costs
22350	TXU Electric Company	ECOM Estimate
26942	Texas-New Mexico Power Company	Treatment of Reg Asset
29206	Texas-New Mexico Power Company	Stranded Costs & True-up Issues
29206	Texas-New Mexico Power Company	Interest on Stranded Costs
29526	CenterPoint Energy Houston Electric	Stranded Costs & True-up Issues
29526	CenterPoint Energy Houston Electric	Int. on Stranded Costs
30485	CenterPoint Energy Houston Electric	Financing Order

LIST OF TESTIMONIES BY DARRYL TIETJEN (cont.)

30706	CenterPoint Energy Houston Electric	Comp. Transition Charge
31056	AEP Texas Central Company	Stranded Costs & True-up Issues
31994	Texas-New Mexico Power Company	Comp. Transition Charge
32475	AEP Texas Central	Financing Order
32907	Entergy Gulf States, Inc.	Interest on Storm Costs
33106	Texas-New Mexico Power Company	Interest Rate on CTC
33586	Entergy Gulf States, Inc.	Financing Order
32795	$5 Billion Stranded-Cost Threshold	Interest on Reconciliation
34448	CenterPoint Energy Houston Electric	Financing Order
34077	Oncor Electric Delivery and Texas Energy Future Holdings Limited Partnership	Support of Stipulation
35038	Texas-New Mexico Power Company	Compliance Tariff Filing
33891	Southwestern Electric Power Co.	CCN Application
36918	CenterPoint Energy Houston Electric	Restoration Costs
36931	Entergy Texas	Restoration Costs
39504	CenterPoint Energy Houston Electric	Remanded True-up Costs
39722	AEP Texas Central Company	Remanded True-up Costs

Memoranda in Lieu of Testimony

10156	Cap Rock Electric Cooperative	Rate of Return
10394	Coleman County Electric Cooperative	Rate of Return
10714	J-A-C Electric Cooperative	Rate of Return
11259	Farmers Electric Cooperative	Sale, Transfer, Merger
12368	Cooke County Electric Cooperative	Rate of Return
15120	Southwestern Public Service/Cap Rock	Transfer of Property
15904	Alenco Communications, Inc.	Sale, Transfer, Merger
15906	Central Texas Telephone Cooperative	Sale, Transfer, Merger
18443	Tri-County and B-K Electric Cooperatives	Sale, Transfer, Merger
21850	CPL Electric/SESCO	Sale, Transfer, Merger
22222	United Electric Cooperative Services	Sale, Transfer, Merger

Selected Metrics of "AA" Utilities Listed in June 2012 Fitch Report*

		Debt Service Coverage Ratio	Equity to Capitalization	Transfer as % of Operating Revenue
AA+	Chelah CO Public Utility District	1.55	28.8%	3.1%
	Memphis Light, Gas & Water	1.77	58.6%	3.0%
	Nashville Electric	3.01	52.4%	2.3%
	San Antonio City Public Service	2.33	39.4%	13.4%
AA	Chattanooga Electric	2.08	47.5%	2.5%
	Colorado Springs Utilities	1.88	37.2%	3.8%
	Concord Utility	2.16	67.0%	0.5%
	Gainesville Regional Utilities	1.92	32.0%	9.6%
	Grant CO Public Utility District	3.71	77.0%	4.9%
	Lincoln Electric	2.10	29.1%	5.0%
	New Branfels Utilities	5.88	88.1%	4.9%
	Orlando Utilities	1.93	38.1%	8.8%
	Pasadena Water & Power	4.44	77.1%	7.2%
	Springfield Public Utility	1.75	54.4%	3.2%
AA-	Anaheim Electric Utilities	1.74	31.4%	4.2%
	Austin Energy	**1.87**	**53.7%**	**8.3%**
	Bountfiul Light and Power	58.55	73.8%	8.8%
	Eugene Electric	2.58	53.2%	5.3%
	Floresville Electric Light & Power	2.76	56.6%	2.7%
	Gallup Joint Utilities	3.60	74.4%	6.3%
	Garland Electric	4.13	54.1%	9.1%
	Georgetown Utility	3.21	77.0%	7.9%
	Guadalupe Valley Electric Coop	4.11	55.7%	0.0%
	Heber Light & Power	2.90	67.7%	1.6%
	Hydro-Quebec	1.75	30.9%	15.8%
	Jacksonville Beach Combined Utility	3.51	82.9%	4.7%
	JEA--Electric System	2.66	16.2%	10.2%
	Kerrville Public Utility	1.69	85.3%	3.1%
	Kissimmee Utility	0.84	47.4%	4.9%
	Lakeland Electric	2.27	38.3%	7.3%
	Los Angeles Dept of Water & Power	2.05	42.5%	8.3%
	Ocala, FL Combined Utility	2.49	64.5%	6.4%
	Pedernales Electric Coop	2.40	35.4%	1.0%
	Riverside Electric Utility	2.02	42.2%	10.6%
	Rochester Public Utilities	3.72	63.7%	5.9%
	Snohomish CO Public Utility	3.14	75.1%	5.4%
	Tacoma Power	1.97	56.8%	11.2%
	Tallahassee Electric	1.61	38.5%	9.4%
	Vero Beach Electric	1.93	67.7%	6.6%
	Winter Park Electric	3.48	10.6%	5.4%
	Overall Medians	**2.30**	**53.9%**	**5.4%**

* *FitchRatings--U.S. Public Power Peer Study,* June 2012

Comparison of Austin Energy's Request to Staff's Recommendations

Line	Austin Energy's Request			Staff-Recommendation			Difference
	Cash Flow Amounts from Schedule C-3 (column 10)--AS FILED			Return Calculation Using DSC Method			
1	Debt Service	168,100,078		Debt Service	167,854,096	Note 1	(245,982)
2	Reserve Requirements	31,641,489		Reserve Requirements	31,641,489		
3	General Funds Transfer	105,000,000		Amount Available for General Funds Transfer	73,312,074	Note 2	(31,687,926)
4	Internally Generated Funds	88,078,647		Internally Generated Funds	88,078,647		
5	Total Cash Required	392,820,214	(a)	Total Cash Required	360,886,306		
6	Less: Depreciation	(117,214,512)		Less: Depreciation	(117,214,512)		
7	Less: Interest Income	(7,596,609)		Less: Interest Income	(7,596,609)		
8	Other Sources of cash	(124,811,121)	(b)	Other Sources of cash	(124,811,121)		
9	Cash Flow Return Requested	268,009,093	(c)=(a)+(b)	Cash Flow Return based on **Target DSC**	236,075,185		(31,933,908)
10	Implied DSC (line 5 / line 1)	2.34		**Target DSC**	**2.15**		
11	Actual Return (under prior rates)	162,622,173		Actual Return (under prior rates)	162,622,173		
12	Implied DSC	1.71		Implied DSC	1.71		
	Austin Energy's Request: Total Revenue-Requirement Calculation			Staff Recommendation: Total Revenue-Requirement Calculation			
13	Expenses (Schedule A, line 4)	820,708,848		Expenses: Adjusted to reflect Staff Recommendation	806,706,215	Note 3	(14,002,633)
14	Depreciation (Schedule A, line 6)	117,214,512		Depreciation (Schedule A, line 6)	117,214,512		
15	Other (Schedule A, line 11)	3,524,813		Other (Schedule A, line 11)	3,524,813		
16	Cash Flow Return Request (from above)	268,009,093		Staff-Recommended Return (based on DSC method)	236,075,185		(31,933,908)
17	Total Cost of Service	1,209,457,266		Total Cost of Service	1,163,520,725		(45,936,541)
18	Non-Rate Revenue (Sched A, line 33)	(85,833,061)		Non-Rate Revenue (Sched A, line 33)	(85,833,061)		
19	Total Retail Revenue Requirement (Sched A, line 35)	**1,123,624,205**		Total Retail Revenue Requirement	**1,077,687,664**		(45,936,541)
20	Rate Base (Schedule B)	2,507,324,435		Rate Base (Schedule B)	2,507,324,435		
21	Construction Work in Progress (CWIP) (Sched. B)	138,921,525		Construction Work in Progress (CWIP) (Sched. B)	138,921,525		
22	Rate Base less CWIP	2,368,402,910		Rate Base less CWIP	2,368,402,910		
23	Ratio of General Funds Transfer to Revenues	8.68%		Ratio of General Funds Transfer to Revenues	6.30%		
24	Rate of Return on Rate Base (including CWIP)	10.69%		Rate of Return on Rate Base (including CWIP)	9.42%		
25	Rate of Return on Rate Base (excluding CWIP)	11.32%		Rate of Return on Rate Base (excluding CWIP)	9.97%		

Notes:

1. Adjusted to remove CWIP-related return of: 245,982
2. Amount available for General Gunds Transfer based on Staff's recommendations.
3. Expenses reduced by the following amounts:

EGRSO (shifted to return calculation)	9,875,642
DSMBR (shifted to return calculation)	167,000
Shared City Services (shifted to return calc.)	3,398,227
Requested Expenses Shifted to Return	**13,440,869**
Rate case expenses	561,764
Total Reduction to Requested Expenses	**14,002,633**

Workpapers

SCHEDULE C: RATE OF RETURN, DEBT SERVICE COVERAGE, CASH FLOW, OR TIMES INTEREST EARNED RATIO

The determination of final revenue requirements for a municipal utility, river authority, power agency, or electric cooperative may be based on any of the following methods at the election of the filing TSP.

Schedule C-1: Rate of Return Method

The rate of return may be the TSP's weighted average cost of capital based upon the TSP's capitalization at the end of the Historic Year. A schedule showing the calculation shall be provided. The cost of debt capital and owner's equity shall be the weighted average cost as of the end of the Historic Year. A cost of owner's equity equal to the average yield for bonds of an entity with the TSP's credit rating published in Moody's Credit Perspective or similar publication during the most recent three months plus two percent shall be presumed reasonable. The TSP shall justify the use of any other rate of return, and shall specify the special circumstances that warrant the use of a different rate of return. Supporting documentation shall be provided for the average bond yields used in the cost of equity calculation.

Description Of Schedules:

A schedule showing the calculation of the TSP's weighted average cost of capital shall be provided

Schedule C-2: Debt Service Coverage (DSC) Method:

A return based on the TSP's debt service expenses as of the end of the Historic Year, and the debt service coverage levels stated in the TSP's most recently issued bond and debt covenants plus additional coverage of 0.25 for municipal utilities and river authorities shall be presumed reasonable. To the extent the utility can show that short-term debt has been utilized in a cost-effective manner as a reasonable alternative to long-term financing, its principal and interest and an additional coverage of 0.25 may be included in calculating the return. The return for short-term debt shall not include the coverage that is specified in the bond and debt covenants unless the covenants include short-term debt service in the denominator of the DSC ratio that is used to calculate default on the debt. To the extent there are no minimum debt service coverage requirements in the TSP's bond resolutions, the Board of Director's policy, with respect to coverage, shall be considered. At the option of the TSP, the return or debt service coverage approved by a municipality's or a river authority's ratemaking authority, within three years of the TCOS, filing may be used. The TSP shall justify the use of any other debt service coverage, and shall specify the reasonable circumstances that support the use of different debt service coverage.

The Texas Municipal Power Agency or its successor in interest may, at its option, use the rate of return method for calculating its transmission cost of service. If the rate of return method is used, the return component for the transmission cost of service revenue requirement shall be sufficient to meet the transmission function's pro rata share of levelized debt service and debt service coverage ratio (1.50) and other annual debt obligations; provided, however, that the total levelized debt service may not exceed the total debt service under the current payment schedule.

Any additional revenue generated by the methodology described in this subsection shall be applied to reduce the agency's outstanding indebtedness.

An electric cooperative may, at its option, use the debt service coverage method for calculating its transmission cost of service. The debt service coverage levels stated in the cooperative's most recent debt covenants plus additional coverage of 0.50 shall be presumed reasonable. To the extent that short-term debt is included in the calculation of these debt service coverage level covenants, it may be included in the debt service coverage used to calculate the transmission cost of service. To the extent there are no minimum debt service coverage requirements in the cooperative's debt covenants, the Board of Director's policy, with respect to coverage, shall be considered. At the option of the TSP, debt service coverage, based on rates approved by a cooperative's ratemaking authority, within three years of the TCOS filing may be used. The cooperative shall justify the use of any other debt service coverage, and shall specify the reasonable circumstances that support the use of different debt service coverage.

Description of Schedules:

a. For utilities using the debt service coverage method, a schedule showing the debt service requirement for each debt issue outstanding at the end of the fiscal year shall be provided, as well as relevant excerpts of the bond and debt covenants supporting the debt service coverage utilized.
b. An additional schedule showing the calculation of return and rate of return on invested capital in total plant (rate base) shall be provided. Return is computed based on the amount of debt service requirements (net of capitalized interest) times the coverage ratio described above, less interest income and depreciation. Supporting fiscal or calendar year-end audited financial statements (if available) and any other documents necessary to support the TSP's debt service requirement and other components in the return calculation, including the sources of interest income, shall be provided. In addition, the following financial ratios shall be provided, based on the requested debt service coverage ratio: *revenues per kWh; and net income per revenue dollar*. The percentage of revenues from generation and the percentage of revenues from distribution should be provided if unbundled, and if not unbundled, then generation and distribution revenues should be provided on a bundled basis. If the TSP has any unique characteristics, which might have a bearing on return, it should provide a narrative describing the characteristics.

Schedule C-3: Cash Flow Method

A TSP may elect to use the cash flow method for determining its transmission revenue requirement based on the Historic Year. If the TSP elects to use the cash flow method, the Commission shall consider reasonable cash needs in to the following categories:

A debt service (including principal and interest) for long- term and short-term debt;
B funding of reserve requirements on both long-term and short-term debt as set forth in revenue bond and debt ordinances;
C for municipal utilities, annual payments for transfers to the city's general fund at rates established by the municipal utility's governing authority, to the extent such amounts are not recovered through other elements of the TCOS.
D capital lease payments and/or finance lease payments;

E annual payments to provide internally generated funds for construction, system improvements, and repair and replacement;

Transfers to the general fund (which may have different names in different municipal utility systems), debt service, and funding of reserve requirements shall be functionalized, subject to commission review, to the transmission function on a basis comparable to that used to allocate such costs to the other functions of the municipal utility.

Lease payments and capital expenditures shall be included to the extent the can be directly assigned to the wholesale transmission function.

Transmission related costs other than the elements described above should be determined in accordance with the appropriate instructions contained in these rate-filing package.

Description of Schedules:

For utilities using the Cash Flow Method, a schedule showing the costs to be included shall be provided together with supporting documentation in the form of bond and debt covenants, adopted policies of the governing authority, approved budgets and other documentation supporting the Cash Flow Component as may be reasonably required by the Commission.

Schedule C-4: Times Interest Earned Method:

Generation and Transmission Cooperatives

Generation and Transmission Cooperatives may use a rate of return based on the TSP's interest expense requirement on long term debt outstanding as of the end of the Historic Year, and a net times-interest-earned ratio (Net TIER) of 1.05 plus additional coverage of 0.15 times shall be presumed reasonable. At the option of the TSP, the rate of return most recently approved by its governing body may be used if the rates were approved within three years of the TCOS filing. The TSP shall justify the use of any other rate of return, and specify the special circumstances that warrant the use of a different rate of return. Special circumstances for purposes of this subsection may include a showing of an equity ratio below 20 percent, or a showing that the proposed Net TIER is insufficient to meet the reasonable cash needs (particularly debt service and internal funds for transmission plant additions) of the TSP.

Description of Schedules:

a) A schedule showing the interest expense requirement for each long-term debt issue outstanding at the end of the Historic Year shall be provided.
b) An additional schedule showing the calculation of return and rate of return on invested capital in total plant (rate base) shall be provided. Return is computed based on the amount of interest expense requirement at the end of the year times the 1.20 times Net TIER, less non-operating margins, plus other interest expense and other deductions. Supporting year-end financial statements and any other documents necessary to support the debt outstanding at year-end and the calculation of return, including the sources of non-operating margins, shall be provided.

Electric Distribution Cooperatives

An electric distribution cooperative may use a rate of return based on the TSP's interest expense on long term debt outstanding at the end of the Historic Year, and a modified times interest earned ratio excluding capital credits (modified TIER) of 2.0 times shall be presumed reasonable. The TSP shall justify the use of any other rate of return, and shall specify the special circumstance that warrants use of a different rate of return.

Description of Schedules:

a) A schedule showing the interest expense requirement for each debt issue outstanding at the end of Historic Year shall be provided.
b) An additional schedule calculating return and rate of return on invested capital in total plant (rate base) shall be provided. Return is computed based on the amount of interest expense requirement at year end times the 2.0 times modified TIER, less non-operating income other than capital credits, plus other interest expense and other deductions. Supporting year-end financial statements and any other documents necessary to support the debt outstanding at year-end and the calculation of return, including the sources of non-operating income, shall be provided.

Municipal Utilities or River Authorities

Municipal Utilities or River Authorities electing to use the TIER method will be considered on a case-by-case basis.

SCHEDULE D: OPERATION & MAINTENANCE EXPENSES

Schedule D-1: O&M Expenses

This schedule shall include the TSP's overall operations and maintenance expenses according to FERC accounts 500-917 for the Historic Year, functionalized pursuant to General Instruction No. 11. The documentation shall itemize the wheeling expenses incurred for the old contracts on a contract by contract basis. Utilities may reclassify some amounts among functions, consistent with Commission's Substantive Rule 25.192(b). Any reclassification of expenses shall be made in accordance with General Instruction No. 9. Supporting workpapers that fully and clearly explain the functionalization of each account or subaccount shall be included in the workpaper section, and any functionalization factors shall be referenced to the appropriate factors in Schedule F.

Schedule D-2: A&G Expenses

This schedule shall show the annual expenses in FERC accounts 920-935 for the Historic Year, functionalized pursuant to General Instruction No. 11. Supporting workpapers that fully and clearly explain the functionalization of each account or subaccount shall be included in the workpaper section, and any functionalization factors shall be referenced to the appropriate factors in Schedule F.

City of Austin

AUDIT REPORT

Austin Energy Rate Proposal Audit

January 2012

A Report to the Austin City Council

Mayor
Lee Leffingwell

Mayor Pro Tem
Sheryl Cole

Council Members
Chris Riley
Mike Martinez
Kathie Tovo
Laura Morrison
Bill Spelman

Office of the City Auditor

City Auditor
Kenneth J. Mory
CPA, CIA, CISA

Deputy City Auditor
Corrie E. Stokes
CIA, CGAP

REPORT SUMMARY

Proposed fixed and variable residential rates, when combined, are comparable to a sample of other utilities while proposed rate structure is not. The cost allocation methodology is acceptable by the industry. We did not identify any instances where reserve funds were used inappropriately. AE did not follow policy when establishing the level for one reserve fund, but the other 5 unrestricted reserve funds are in compliance with policies. AE's Proposed Debt Service Coverage and the Debt Ratio comply with its financial policies and are consistent with guidance for achieving the desired credit ratings.

AUDIT NUMBER: AU12111

TABLE OF CONTENTS

GOVERNMENT AUDITING STANDARDS COMPLIANCE

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

AUDIT TEAM

Walton Persons, CPA, CICA, Assistant City Auditor
Olga Ovcharenko, CGAP, CICA, Auditor-in-Charge
Charles Holder, CPA, Auditor
Karl Stephenson, CGAP, Auditor
Matthew Cornwall, Auditor

Office of the City Auditor
Austin City Hall
phone: (512)974-2805
email: oca_auditor@austintexas.gov
website: http://www.austintexas.gov/auditor

Copies of our audit reports are available at http://www.austintexas.gov/auditor/reports

Printed on recycled paper
Alternate formats available upon request

AUSTIN ENERGY RATE PROPOSAL AUDIT

January 2012

Audit Report Highlights

Why We Did This Audit

This audit was conducted as part of the Office of City Auditor's (OCA) FY2012 Strategic Audit Plan.

Audit and Finance Committee members asked the OCA to present the audit results in time for a January 2012 decision on Austin Energy's proposed rate increase.

For more information on this or any of our reports, email oca_auditor@austintexas.gov

Mayor and Council,

I am pleased to present this audit on the Austin Energy Rate Proposal.

BACKGROUND

- On December 14, 2011, Austin Energy (AE) presented a rate proposal to the Austin City Council.
- AE last raised base electric rates (non-fuel) in 1994.
- AE estimates that a revenue increase of 12.5%, or $126.8 million, is required to protect the utility's long-term financial stability.

OBJECTIVE AND SCOPE

The objective of the audit was to conduct a limited review, necessary to meet a January 2012 decision, of key portions of AE's proposed revenue requirement and rate design, and compare them to accepted industry practices.

The audit scope included AE's pending rate proposal as well as the work performed by AE and its consultants to complete the proposal.

WHAT WE FOUND

- The combined fixed and variable residential rates proposed by AE produce monthly bills that are comparable to other Texas electrical utilities.
- The *Average and Excess Demand* cost allocation methodology that AE selected for the Cost of Service study is an acceptable method in the industry and has been accepted by the Public Utility Commission of Texas (PUCT).
- Based on a limited review, we did not identify any instances where reserve funds were spent inappropriately in the last five years.
- AE did not prepare a site study to establish levels for the Non-Nuclear Decommissioning Reserve Fund, as required by financial policies. The surrogate study used may not be indicative of expected costs.
- Funding levels AE proposed for six other reserve funds comply with financial policies. AE's proposed reserves are higher than the reserves of other utilities surveyed.
- AE's Proposed Debt Service Coverage and the Debt Ratio comply with its financial policies and are consistent with guidance for achieving high credit ratings.

Kenneth J. Mory, City Auditor

BACKGROUND

On December 14, 2011, Austin Energy (AE) presented a rate proposal to the Austin City Council. AE has not raised its base rates (non-fuel) since 1994. According to AE management, the utility has experienced a significant decline in net income and cash, and determined that a rate increase is necessary to conduct operations and address contingencies. AE selected the Cash Flow Method of cost recovery in determining its revenue requirement because it aligns with their financial policies, and it is acceptable to the Public Utility Commission of Texas (PUCT). AE management estimates that a revenue increase of 12.5%, or $126.8 million, is required to protect the utility's long-term financial stability.

Audit and Finance Committee members asked the OCA to review AE's rate proposal and present the audit results in time for a January 2012 decision on Austin Energy's proposed rate increase. As such, OCA limited this audit to a review of the AE's pending rate proposal to determine whether residential rates, certain methodologies employed by AE, proposals for reserve funds, and certain debt measures appear reasonable and follow acceptable industry practices. OCA has not performed a comprehensive audit of the revenue requirement, cost of service study, or rate design that are part of AE's proposal.

OBJECTIVES, SCOPE, AND METHODOLOGY

The AE Rate Proposal Audit was conducted as part of the Office of City Auditor's (OCA) Fiscal Year (FY) 2012 Strategic Audit Plan, as presented to the City Council Audit and Finance Committee.

Objective

The objective of the audit was to conduct a limited review, necessary to meet a January 2012 decision, of key portions of AE's proposed revenue requirement and rate design, and compare them to accepted industry practices.

Scope

The audit scope included AE's rate proposal, presented to Council on December 14, 2011, as well as the work performed by AE and its consultants to complete the proposal.

Methodology

To accomplish our audit objectives, we performed the following steps:

- Interviewed AE Finance & Corporate Services Division personnel and other key staff
- Interviewed representatives of interested of citizen organizations and other stakeholders
- Analyzed the pending rate proposal and supporting documents
- Evaluated applicable laws, policies, and industry standards
- Evaluated rate cases brought before the PUCT
- Selected a judgment sample of electric utilities for comparison with AE
- Researched production demand allocation methods and evaluated the methodology AE used to select a cost allocation method
- Reviewed various provisions of the rate proposal for compliance with AE and City financial policies
- Reviewed how AE used reserve funds during fiscal years 2006 through 2010
- Reviewed credit rating guidelines provided by bond rating agencies
- Reviewed and analyzed historic financial information for AE