DATE: November 6, 2026

TO: Mayor Kirk Watson, Austin City Council Members

COPY: City Manager T.C. Broadnax, Deputy City Manager Jon Fortune

RE: Time for an Austin Energy Rate Case

Austin Energy's rates have been increased three times since the utility's last rate case. These increases of 2% in 2024, 5% in 2025 and 5% in 2026 are just the start. Austin Energy's projections indicate plans to continue requesting 5% increases every year at least through 2030. Rate increases should only be approved after thoroughly scrutinizing the utility's spending and what is causing cost increases through a rate case process.

The City of Austin established a robust rate case process for Austin Energy after a large group of Austin Energy customers who live outside Austin city limits successfully challenged Austin Energy rates at the PUC in 2012. That process, which was used in 2016 and 2022, does several things that City Council doesn't do when approving rate increases during the budget process.

1. Require a full accounting of expenses in a "cost-of-service study" to justify the need for additional revenue.
2. Allow all customers the opportunity to formally intervene in a process run by a neutral third party and scrutinize those costs and challenge those costs they think may not be justified. Intervention can be done with or without a lawyer.
3. Involve a dedicated Consumer Advocate to represent residential and small commercial customers.
4. Provide for discussion and debate of the methodology used to allocate costs between different customer classes (industrial, commercial, residential). If you want to ensure that costs caused by larger commercial and industrial customers (including data centers) aren't being paid by residential and small commercial customers, this is an essential step.
5. Review of proposed rate structures, especially for residential customers. This is the opportunity to ensure that equity and energy conservation priorities are reflected in rate design.
6. Consider alternate rate proposals from intervenors. Past proposals have included establishing a multifamily rate class and optional time-of-use rates.

Allowing rate increases without proper scrutiny is abdicating your responsibility. It's your job as utility regulators to give proper scrutiny to proposed rate increases and to ensure that all Austin Energy customers have at least as much opportunity to provide input on rate changes as they would with an investor-owned utility. A city-owned utility should provide for more customer engagement, not less.

When it comes to changing Austin Energy rates, you should look at the Public Utility Commission of Texas for a minimum standard of process. Base rate changes should only be

approved after a full rate case. Austin Energy should have to justify any proposed rate increases by pointing to data in its cost-of-service study and defend those proposals to all customers in a rate case.

Austin Energy has already stated that it plans to complete a cost-of-service study early in 2027. In July, the City of Austin Electric Utility Commission passed a resolution in favor of beginning a rate case process in early 2027. City Council should direct the utility to also hire an independent hearing examiner and a qualified consumer advocate. Make it clear that no additional rate increases will be approved until after a full rate case.

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