



Austin Energy: Financial Overview and Policy Discussion

Austin Energy Utility
Oversight Committee
March 26, 2015





Austin Energy Discussion Topics

- 1. Financial overview, page 2**
2. Commercial Paper and refunding bonds, page 13
3. Cash and reserves, page 18
4. Bad debt, payment arrangements, arrearage management, and hearing process, page 21
5. Customer Assistance Program enrollment, page 36
6. 3 largest industrial customer contracts, page 40



Austin Energy Financial Reports

Austin Energy is required to report its financial performance in two separate and distinct formats, the Fund Summary and Financial Statements. These two reports will not necessarily match and are used for different purposes.

Fund Summary

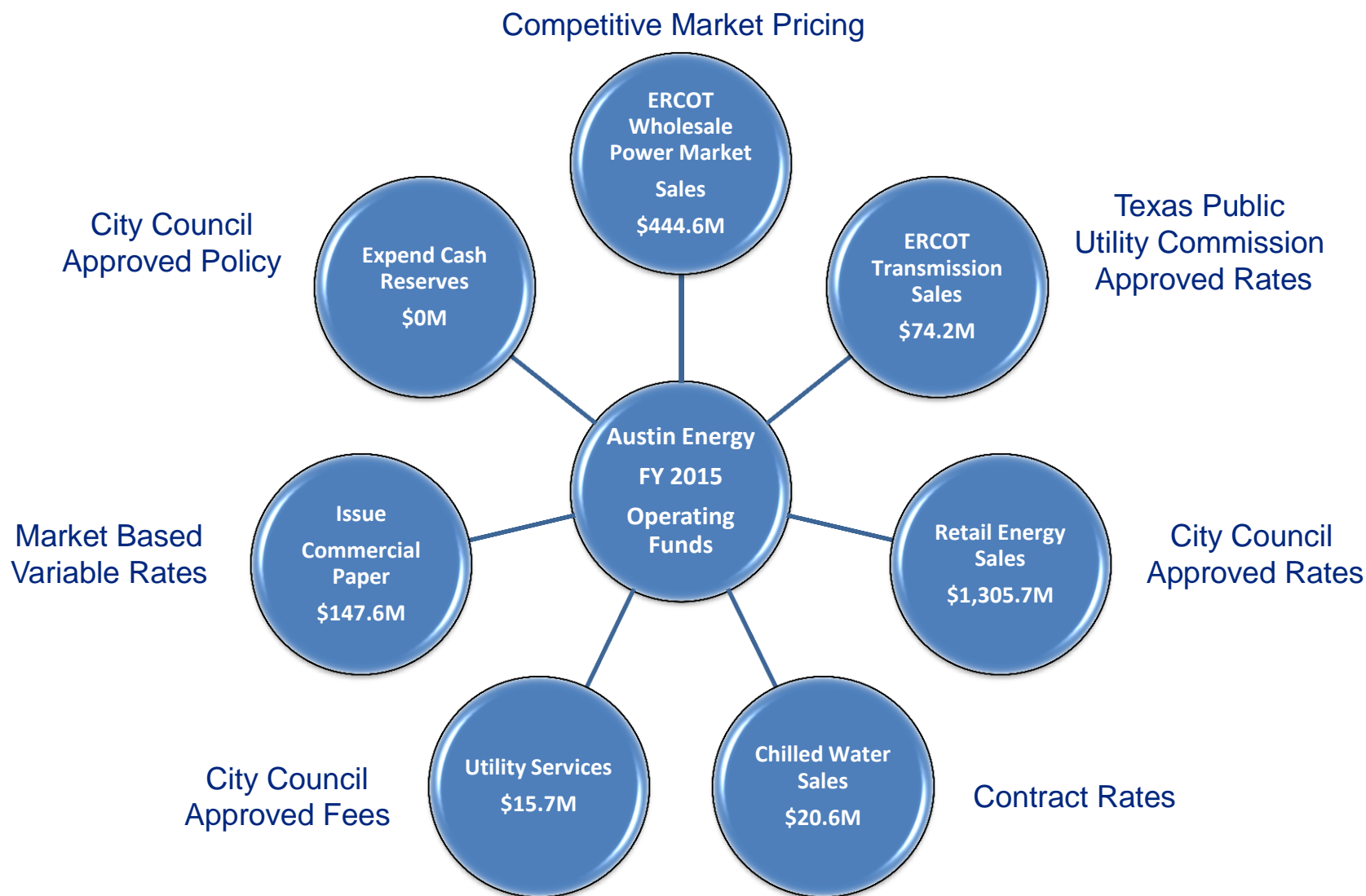
- Reports the approved budget and actual revenues and expenditures
- Funds are structured to reflect the operating activities of the utility
- Represents cash received and payments expected to be paid during the fiscal year
- Encumbrances recognized in the year committed
- Relied upon by City of Austin stakeholders to ensure compliance with approved budget

Financial Statements

- Reports the Income Statement, Balance Sheet and Statement of Cash Flows (Comprehensive Annual Financial Report)
- Used to account for services for which the utility charges its customers
- Must comply with Generally Accepted Accounting Principles (GAAP) and subject to an annual audit
- Revenue is recognized when earned and expenses recorded when a liability is incurred
- Includes non-cash items such as depreciation and amortization
- Relied upon by City of Austin stakeholders, joint project partners, credit rating agencies, external bond holders and vendors to gauge financial health and integrity



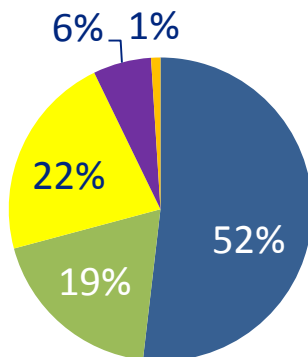
Austin Energy's Major Funding Sources





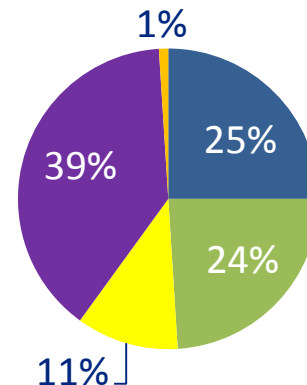
Austin Energy's Power Supply 1st Quarter 2015

Power Supply Cost by Type / Source (\$)



■ Renewables ■ Coal ■ Natural Gas ■ Nuclear ■ Bilateral

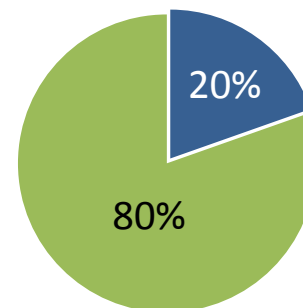
Power Supply By Type / Source (MWh)



■ Renewables ■ Coal ■ Natural Gas ■ Nuclear ■ Bilateral

Power supply cost represents the marginal cost for each type / source. For coal, natural gas and nuclear, this is the cost of the fuel needed to generate the power. For renewables and bilaterals, it is the agreed upon price for each MWh supplied.

Renewable Percent of Load (MWh)



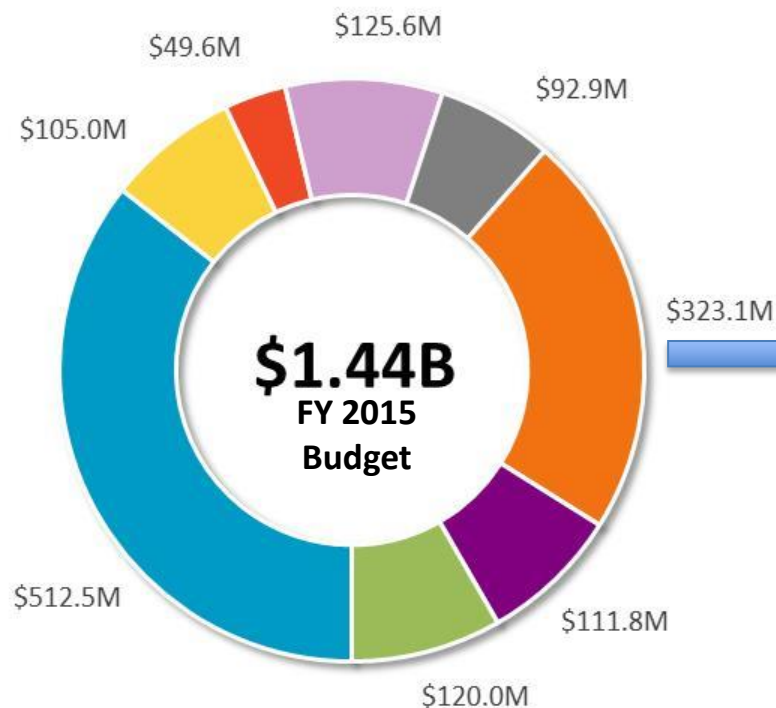
■ Renewables ■ Non-Renewables



Resources that Austin Energy Uses for its Operations

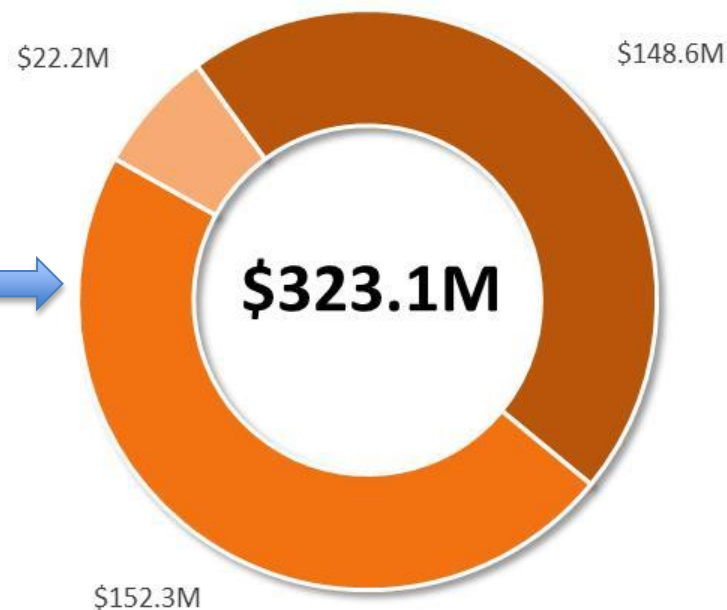
Operating Requirements

(\$ Millions)



Operations & Maintenance

(\$ Millions)



- Net Cost of Electricity
- City Services
- Joint Projects FPP/STP
- Internal Transfers/CIP/Reserves
- General Fund Transfer
- Transmission & ERCOT
- O&M
- Debt Service

- Personnel
- Contractuals
- Commodities



Austin Energy Five Year Capital Spending Plan

\$1.2 Billion Five Year Capital Spending Plan

\$ in Millions	2014-15	2015-16	2016-17	2017-18	2018-19	2015-2019
						Total
Distribution	82.8	69.0	70.2	66.8	66.3	355.1
Distribution Substation	10.5	9.1	17.9	11.5	14.7	63.7
Transmission	25.9	29.3	20.2	26.7	24.1	126.2
Electric Service Delivery	119.2	107.4	108.3	105.0	105.1	545.0
Power Production	48.7	75.7	123.6	66.5	5.0	319.5
Joint Projects	11.0	12.8	10.5	10.6	11.2	56.1
Non-Utility	19.2	21.9	22.5	19.9	8.7	92.2
General	56.0	52.4	49.6	16.9	8.3	183.2
Total	<u>\$254.1</u>	<u>\$270.2</u>	<u>\$314.5</u>	<u>\$218.9</u>	<u>\$138.3</u>	<u>\$1,196.0</u>

- Projects for power supply, reliability and customer service
 - Electric Service Delivery - 46% of 5-year plan
 - Power Production - includes 200 MW expansion at Sand Hill Energy Center in FY 2015-2018



Austin Energy Forecasting

- Austin Energy prepares and maintains a financial forecast for both the short- and long-term periods
- Short-term forecast is used for the annual budget, 5-year capital spending plan and adjustable rate elements
 - Short-term is actionable and contains the most risk
 - Greatest financial risk is found in the “Fuel Budget”, or the net cost of electricity
 - Financial risk is handled with dynamic forecasting methods, an active trading and hedging program and prudent use of cash and reserves
- Long-term forecast used for debt management and strategic planning
 - Greatest risk is inappropriate capital investment decisions
 - Potential over-commitment to long-term supply contracts

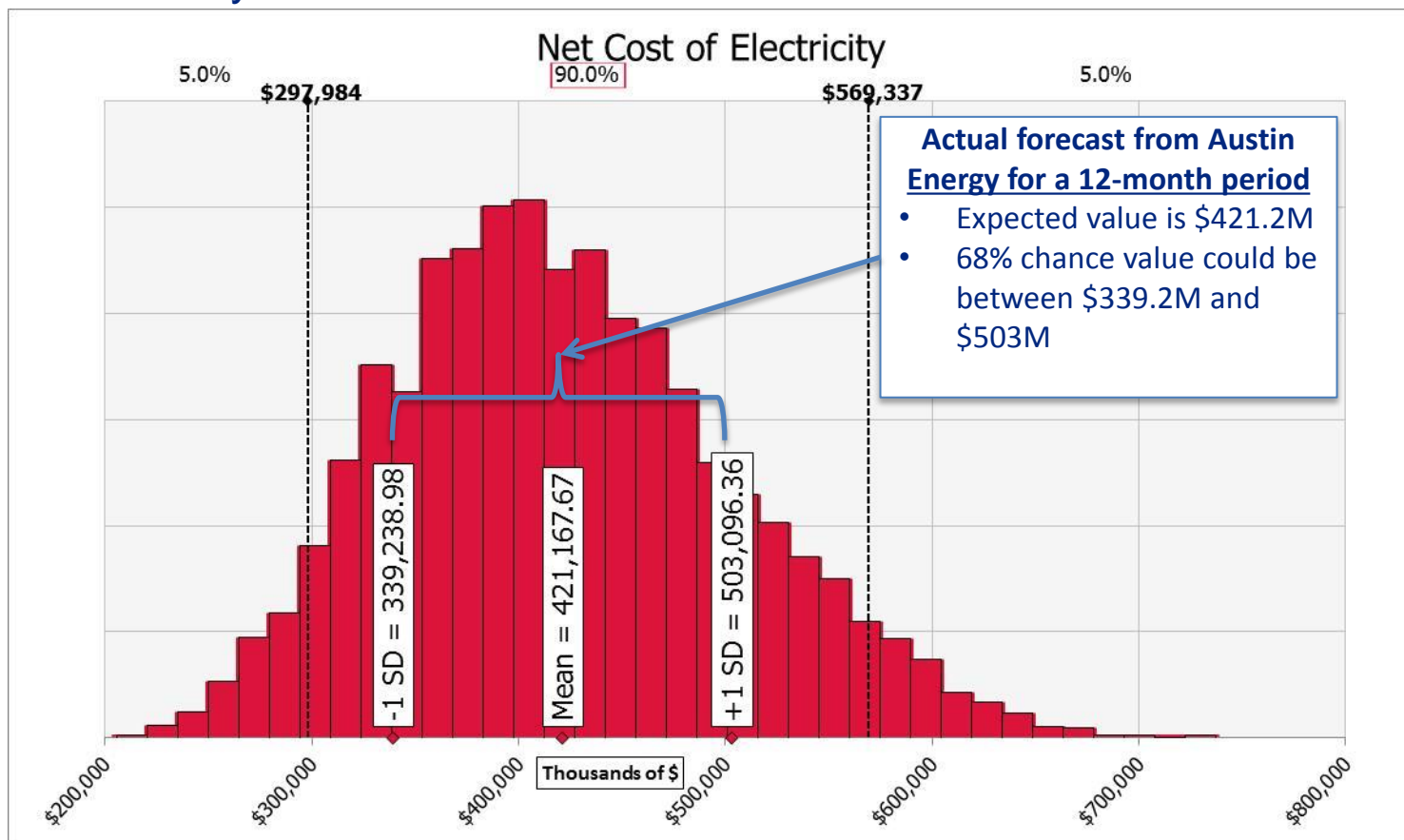


Austin Energy Forecasting

The greatest risk in Austin Energy's forecast is the Fuel Budget, or net cost of electricity. Because of the uncertainty, we use a probabilistic method to forecast. The Rate Stabilization reserve, once funded, will serve as protection for the utility during periods of volatility.

Variables:

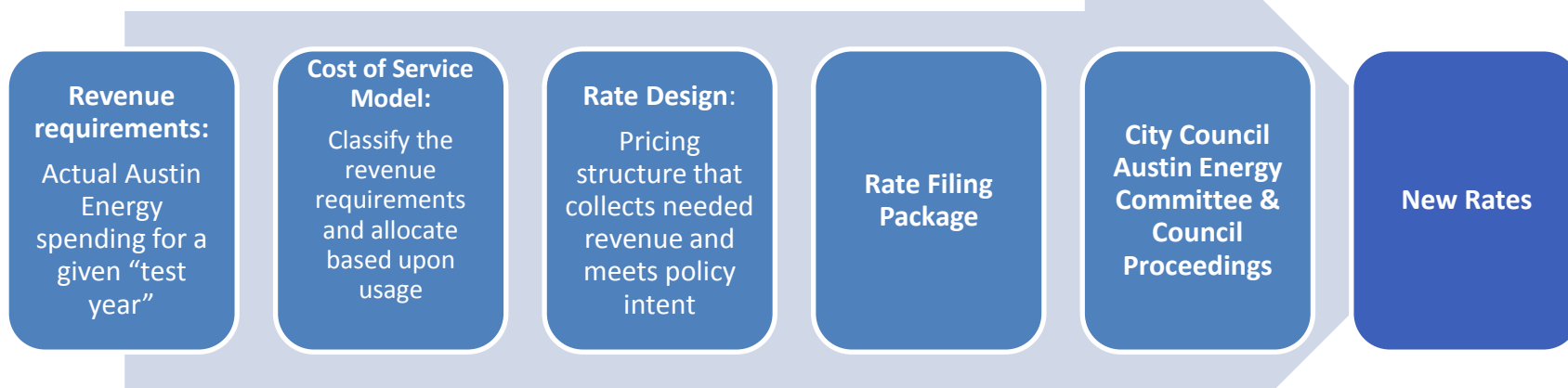
- Fuel prices
- Generation availability
- Wholesale prices
- Transmission
- Wind
- Solar exposure
- Temperature
- Nodal market price
- Load





Austin Energy Retail Rate Making Process

Austin Energy uses the embedded cost methodology to set retail rates. This method uses historic costs, analyzes how those costs were incurred, makes adjustments for known and measurable differences and sets rates to recover those costs from the customers. This is the most common method used by utilities to establish rates in a regulated environment.



Austin Energy anticipates conducting a cost of service study in 2016, using 2014 as the test year, and implementation of new rates effective in FY 2017.



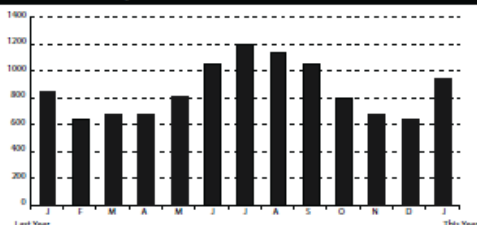
Austin Energy Service Billing

SAMPLE BILL: Residential

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Service Details

Your Electricity Use (KWH)



Current Month

Days of service 35
kWh used 913
Avg. kWh per day 26.1
Avg. cost per day \$2.65

13 month avg. consumption: 840.2

ELECTRIC SERVICE

PowerLink Number:123456789

123 RESIDENTIAL BLVD

Meter # 123456

Read Date	12/20/2014	01/24/2015	Consumption
Read	85776	86689	913
	Reading Difference		913
	Total Consumption in KWH		913

City of Austin - Electric Residential Rate

Customer Charge	\$10.00
Tier 1 first 500 kWh at \$0.018 per kWh (winter)	\$9.00
Tier 2 next 913 kWh at \$0.056 per kWh (winter)	\$23.13
Regulatory Charge 913 kWh at \$0.00830 per kWh	\$7.58
Community Benefit Charges	\$6.07
Power Supply Adjustment 913 kWh at \$0.03945 per kWh	\$36.02
Residential Sales Tax	
City Sales Tax 1%	\$0.92
TOTAL CURRENT CHARGES	\$92.71

Want to save money on your electric bill? Visit austinenenergy.com for information on our rebate programs and energy saving tips.

These charges represent the total cost to a residential customer inside the City of Austin for an average month billed at winter rates.



Austin Energy Financial Policies

Austin Energy has 21 adopted financial policies. These policies are memorialized and adopted by ordinance each year during the budgeting process. They are published in Volume II of the City of Austin's budget. They cover a variety of financial issues, including:

- Use and limitations on long-term debt funding
- Debt service coverage ratios
- Use and limitations on Commercial Paper
- Cash balance requirements
- General fund transfer
- Debt to equity financing of capital projects
- Reserve funding, balances and uses
- Electric rate levels
- Nuclear and non-nuclear decommissioning funds

Austin Energy financial policies includes more than simply the adopted policies. We also look to numerous other sources for guidance and instruction related to financial matters, including:

- Credit rating agencies
- Bond covenants
- Generally Accepted Accounting Principles
- City budgeting
- City procurement
- City Council instructions, resolutions and ordinances
- Federal Energy Regulatory Commission
- Texas Public Utility Commission
- Contractual requirements
- Business and government best practices
- ERCOT Protocol and credit standards

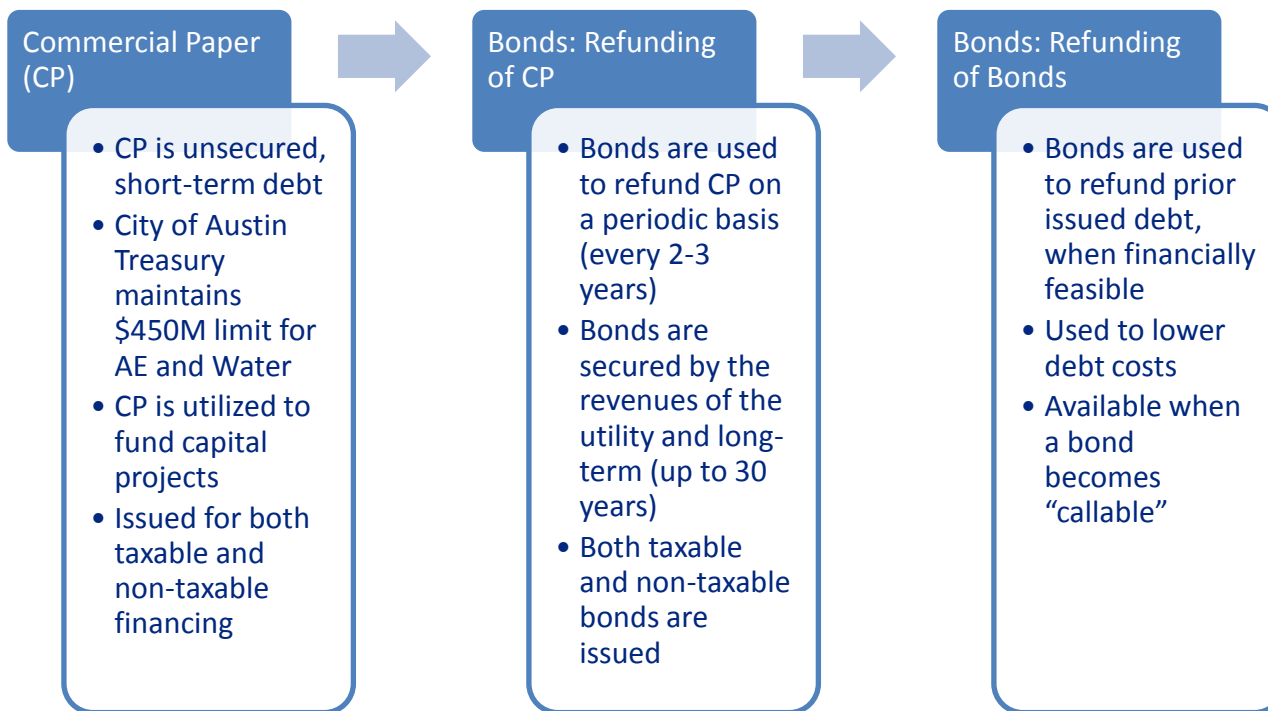


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Austin Energy Debt Funding

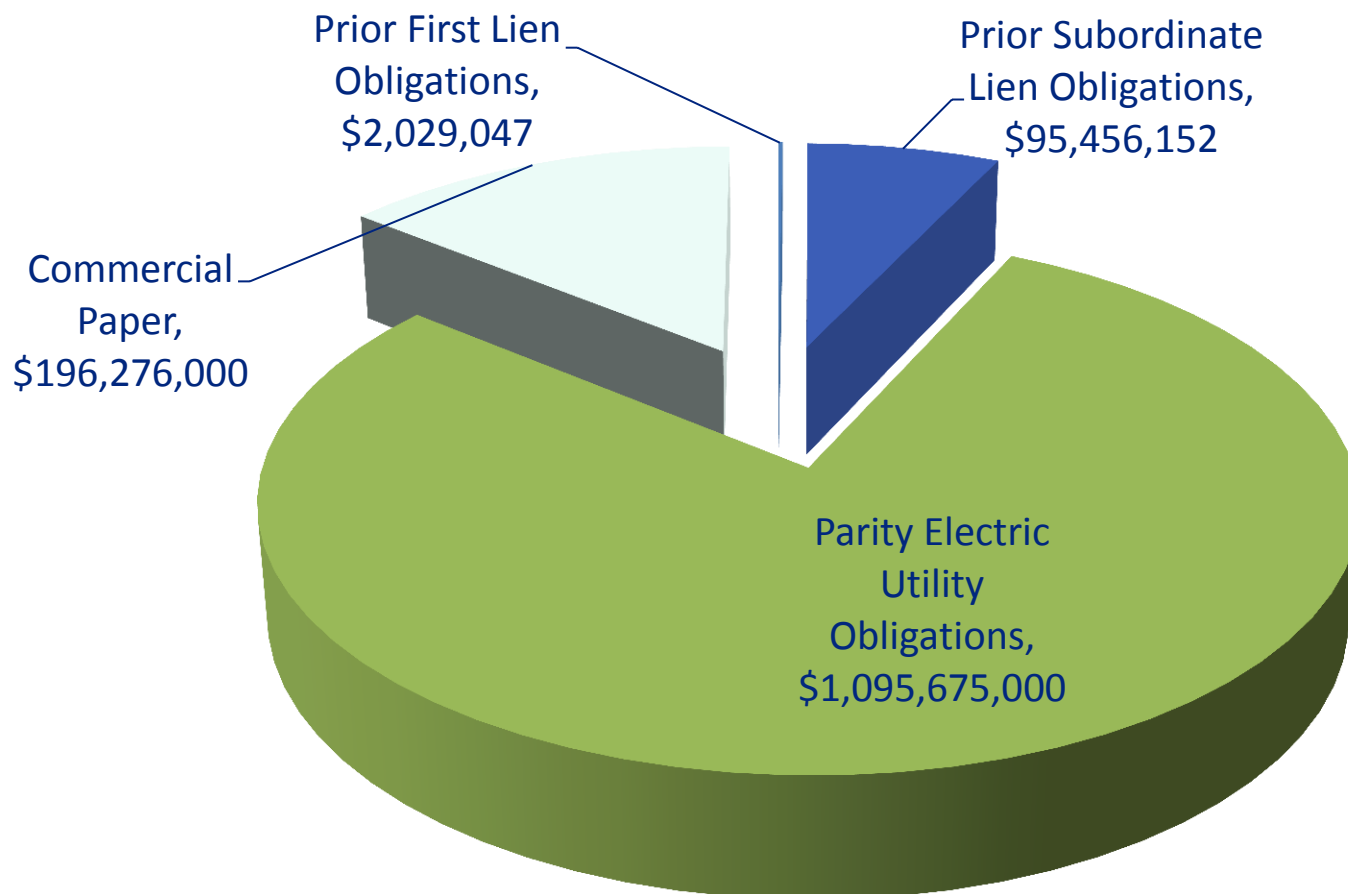


Credit Rating Agency	Rate Range Default/Highest Risk-----Highest Credit Quality	Austin Energy's Rating
Fitch Inc.	D, C, CC, CCC, B, BB, BBB, A, AA , AAA + or – indicates strength or weakness in the assigned rating	AA-
Moody's	B3, B2, B1, Ba3, Ba2, Ba1, Baa3, Baa2, Baa1, A3, A2, A1 , Aa3, Aa2, Aa1, Aaa	A1
Standard & Poor's	D, C, CC, CCC, B, BB, BBB, A, AA , AAA + or – indicates strength or weakness in the assigned rating	AA-



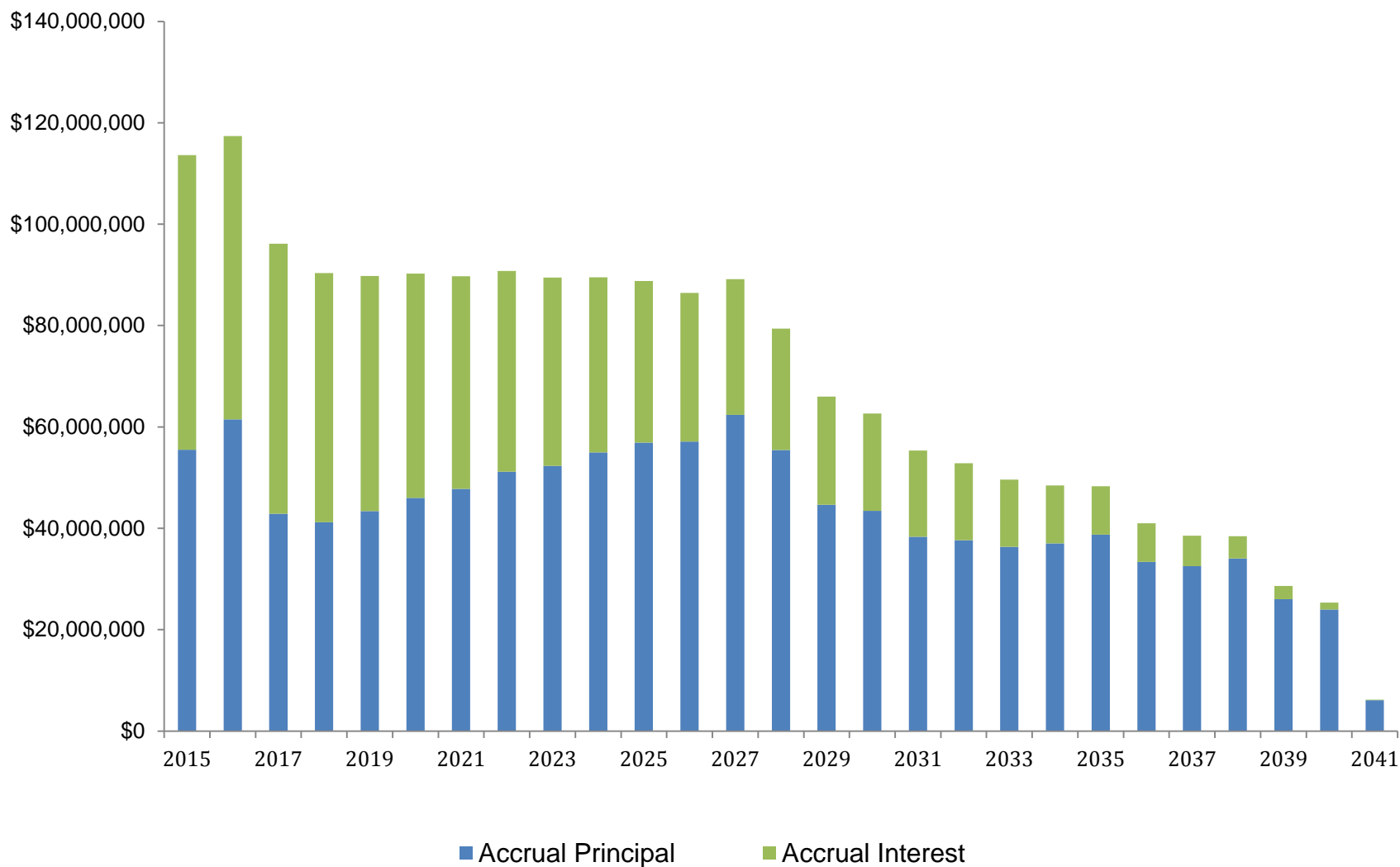
Austin Energy Current Debt Levels

Austin Energy currently has \$1.193 Billion of principal in long-term debt and \$196 Million in short-term Commercial Paper debt.





Austin Energy Annual Debt Service Requirements





Austin Energy Refunding Bond Schedule

Austin Energy anticipates selling Refunding Bonds in FY2015. The bonds will be used to refund approximately \$200M in Commercial Paper and the refinancing of two existing bonds. Total bond offering is expected to be approximately \$400M.

Approximate Dates	Event
Feb 24 – Apr 21	Austin Energy, City Finance and PFM Financial Advisors prepare the Preliminary Official Statement
Apr 6 – 10	Austin Energy, City Finance and PFM Financial Advisors meet with Rating Agencies
April 17	Rating Agencies publish credit ratings
April 23	Parameter ordinance presented to City Council for action
May 7 & 8	Austin Energy, City Finance, PFM Financial Advisors and underwriters meet with potential investors
May 12	Bonds are priced
May 19 – 21	Final Official Statement is prepared and submitted to the underwriter
June 2	Transaction closes and delivery of bonds and funds are made



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Austin Energy Cash and Reserves

Reserve	Basis for Level of Funding	September 2010	September 2011	September 2012	September 2013	September 2014	February 2015
Working Capital (Operating Cash)	Minimum requirement – 45 days of O&M less fuel & purchased power	\$134	\$71	\$49	\$119	\$151	\$188
Strategic Reserve:							
Emergency	Minimum requirement – 45 days of O&M less fuel & purchased power	\$66	\$68	\$69	\$81	\$81	\$91
Contingency	Up to a maximum – 60 days of O&M less fuel and purchased power	\$66	\$68	\$47	\$25	\$25	\$17
Rate Stabilization	Maximum balance – 90 days of power supply costs			\$0	\$0	\$0	\$0
Competitive Reserve	No minimum/maximum policy	\$9	\$4				
Total Strategic Reserve:		\$141	\$140	\$116	\$106	\$106	\$108
Repair and Replacement	Maximum balance – ½ of annual depreciation expense	\$0	\$0	\$0	\$0	\$0	\$0
Non-Nuclear Decommissioning Reserve	Based on engineering study and funding begins minimum of 4 years prior to date of plant closure.	\$15	\$20	\$15	\$11	\$8	\$8
Total		\$290	\$231	\$180	\$236	\$265	\$304
Target for all Cash and Reserves		\$198	\$225	\$373	\$400	\$419	\$468



Austin Energy Reserves Recommendation

Maintain current policies on the use of cash and reserves as adopted in the FY14-15 Budget, Volume II.

Recommendation:

- Austin Energy complete the independent reserves study currently underway and expected to be final June 30, 2015. Includes:
 - Benchmarking review of decommissioning costs for Fayette and Sand Hill.
 - Engineering cost estimate for the decommissioning of Decker Creek.
 - Recommend changes to the policies and funding methodologies for the Rate Stabilization, Strategic, Working Capital, and Repair and Replacement funds.
- Austin Energy will bring forward the results of the study, options and recommendations during the FY15-16 Proposed Budget



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How Did We Get Here?

Five drivers for current state of outstanding debt levels:

1. Summer Weather Disconnection Moratoriums (2011)
2. System conversion preparation, conversion, and stabilization (2011-2012)
3. Collections module implementation (2012-2013)
4. Summer + Winter Weather Disconnection Moratoriums (2013-2015)
5. Payment Arrangement Policy

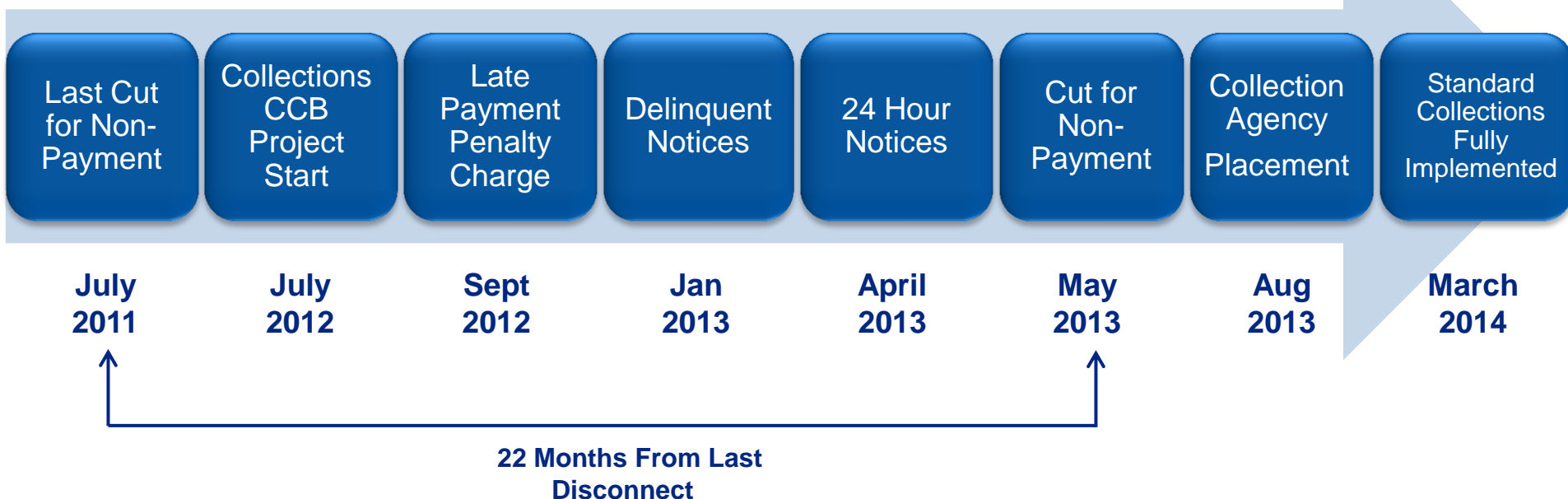
Austin Energy bills and collects for all City of Austin utilities



How Did We Get Here?

Standard collection practices were fully implemented over a 13 month period, using a **customer-centric phased approach**, during which:

- Delinquent balances were included on each customer's bills
- Collections efforts were communicated to customers through bill messages, letters and media
- Proactive contact approach was applied to customers with high bills, reducing number of accounts with high balances by 74%





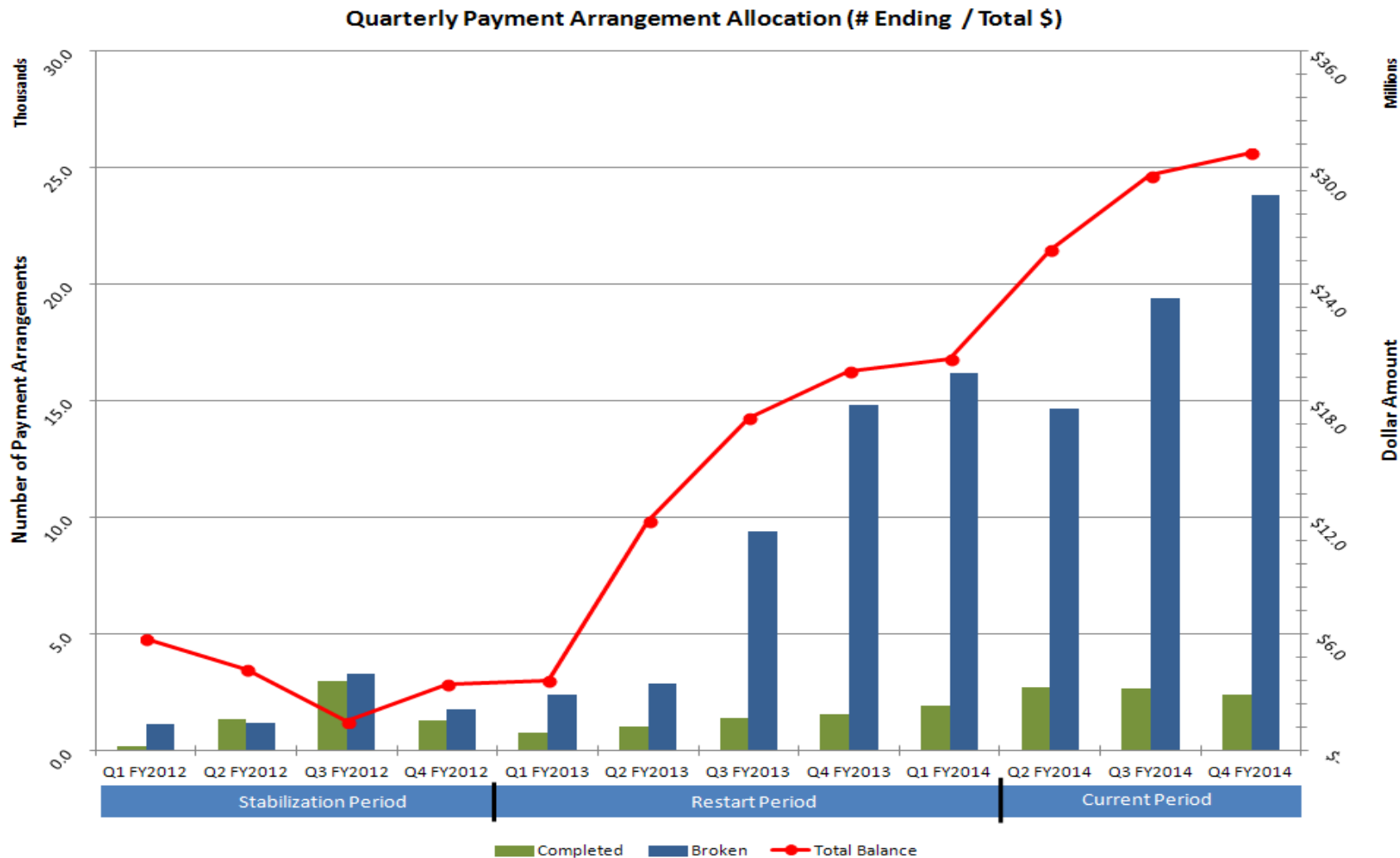
Current Challenge

Payment Arrangement & Reconnection policies changed in 2013, resulting in:

- No down payment requirement
- Longer terms/smaller installments
- Multiple opportunities to enter into additional Payment Arrangements on the same debt
- Ability to re-establish service without first paying old debt



Impact of Payment Arrangement Policy



Customer behavior did not improve with a more relaxed Payment Arrangement policy.

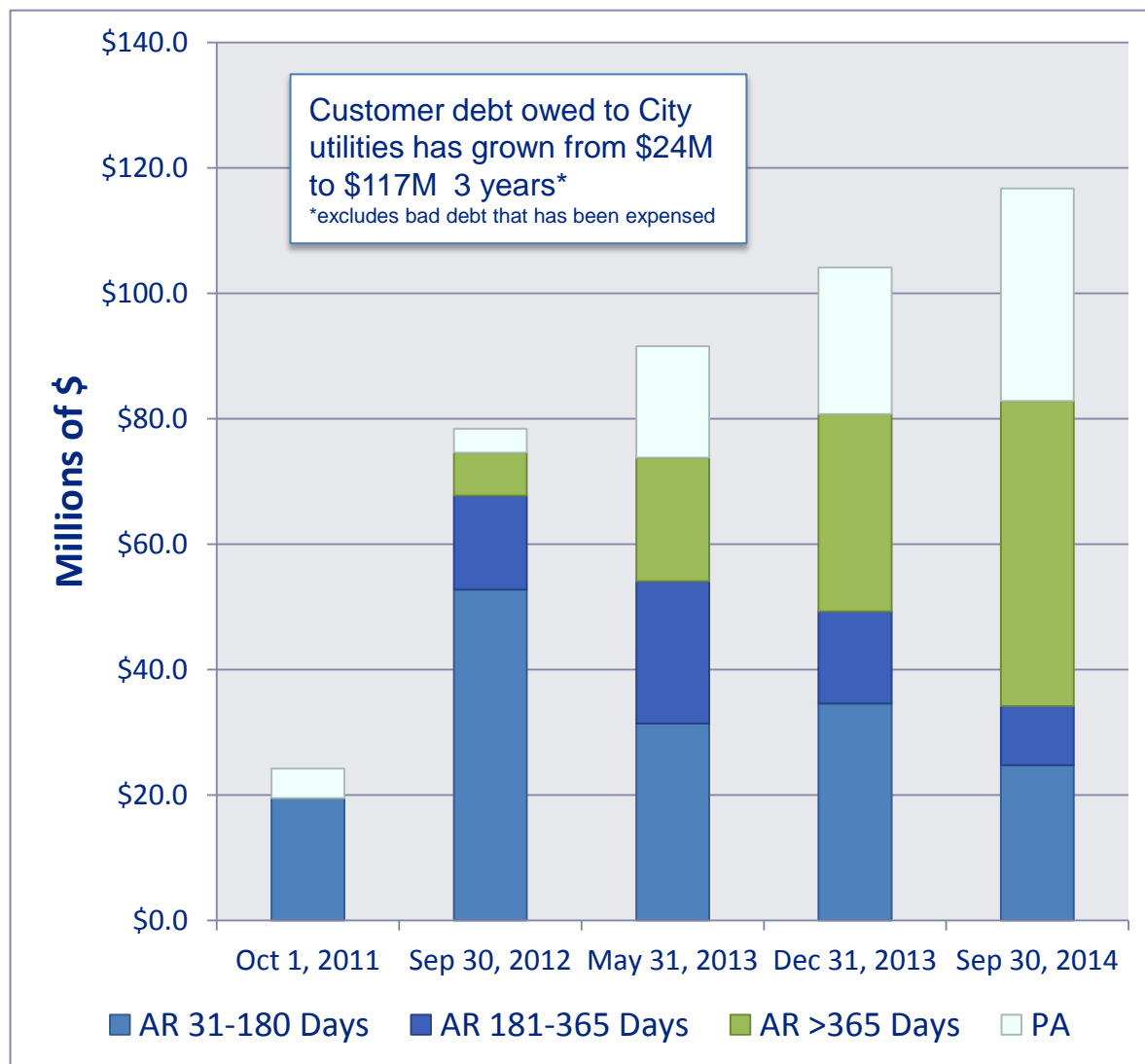


Relationship Between Payment Arrangements and Bad Debt

An increase in Payment Arrangements causes an increase in Accounts Receivable (AR)

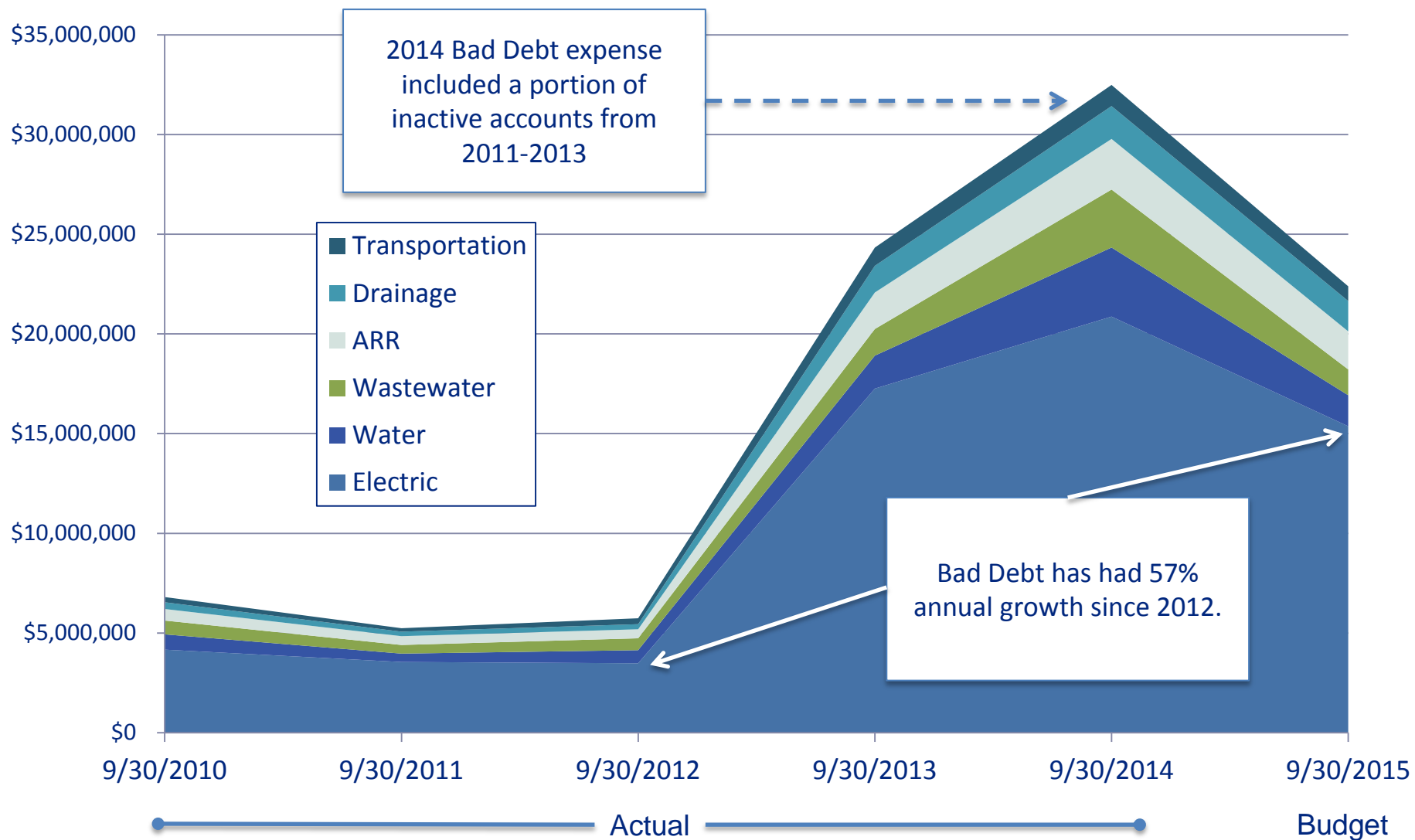
As Accounts Receivable age and Payment Arrangements are broken or the customer becomes inactive, Bad Debt increases

As Bad Debt increases, rates must increase to cover the loss in revenue



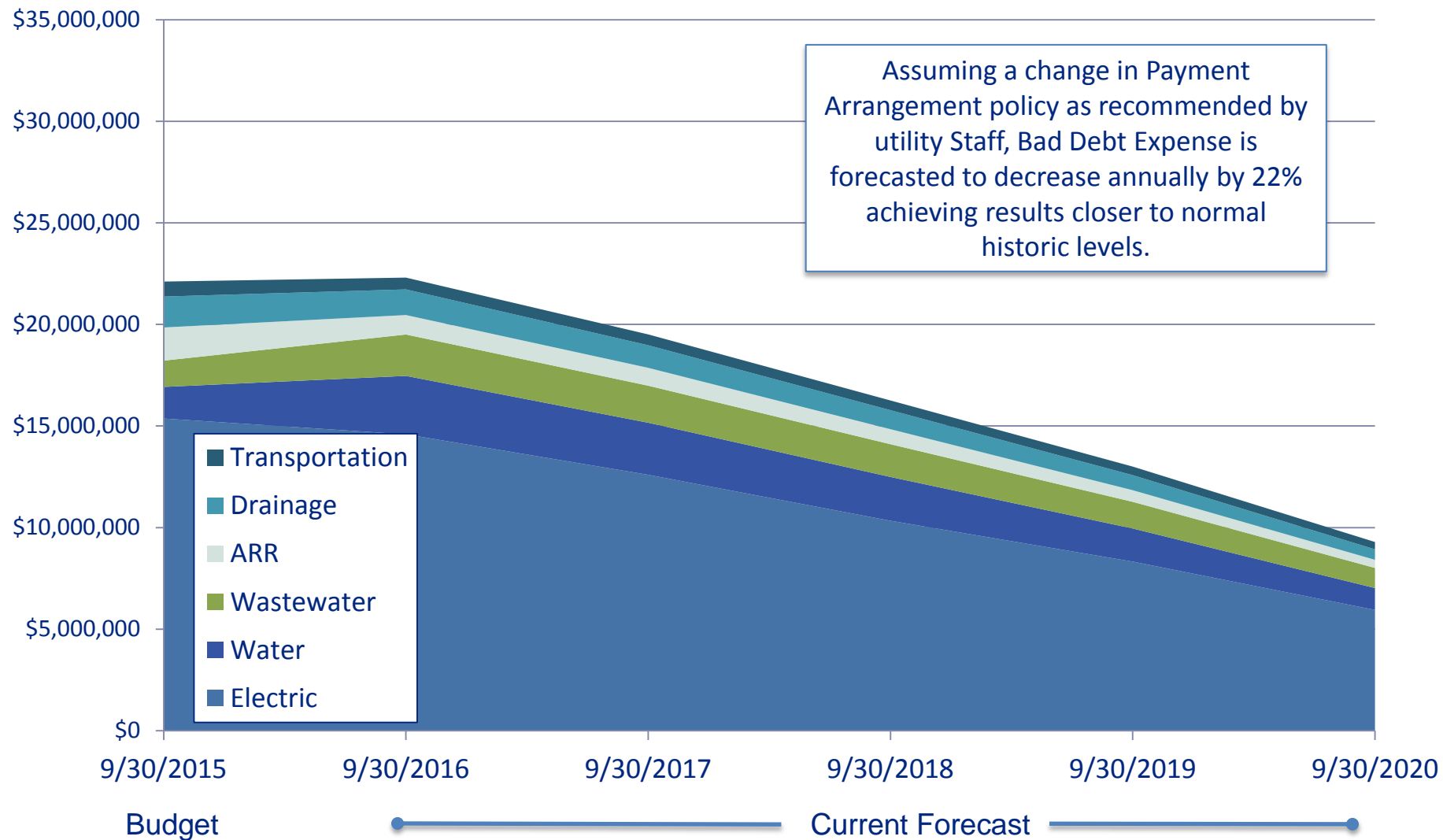


Austin Utilities' Bad Debt Expense History





Austin Utilities' Bad Debt Expense Forecast



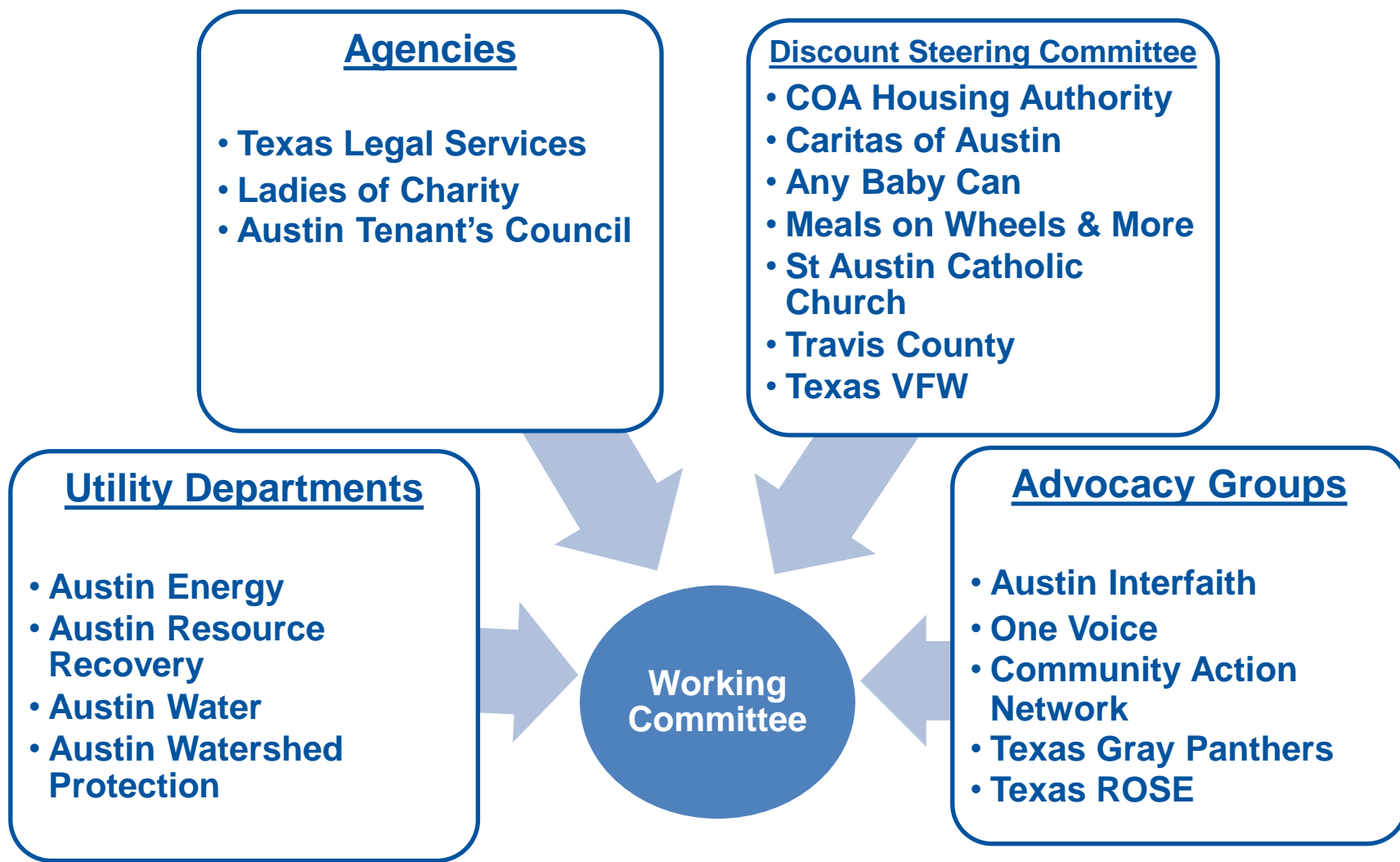


Current Payment Arrangement Policy

	Current Policy Customer Assistance Program (CAP)	Current Policy Non-CAP
Eligibility	Eligible CAP Discount Customers	All Residential Customers
Length of Term	Unlimited (Payment not to exceed 5% of Federal Poverty Income Level)	36 months
Number of PA's Allowed	3 Payment Arrangements, 4th Payment Arrangement for any customer identifying a "Bona Fide" Reason *	
Disconnect	Yes, after 4 broken arrangements	
Down Payment	None required	



Low Income Consumer Working Group





Working Committee Recommendation

	Working Committee Recommended Policy for CAP	Working Committee Recommended Policy for Non-CAP
Eligibility	Eligible CAP Discount Customers	General Residential Customers
Length of Term	Unlimited (Payment not to exceed 5% of Federal Poverty Income Level)	Up to 24 months (CSR) Up to 36 months (Supervisors)
Number of PA's Allowed	3 Payment Arrangements 4th with "Bona Fide" Reason*	3 Payment Arrangements 4th with "Bona Fide" Reason*
Down Payment	NO	Yes -Down payment equal to first month installment
*Bona Fide Reasons = serious illness or injury by account holder or household member; loss of employment; economic loss due to natural disaster; domestic violence against the customer; a commitment by an independent program to assist customer with payment		



Payment Arrangement Policy – Staff Alternatives

	City of Austin Utilities Response to CAP Policy	City of Austin Utilities Response to Non-CAP Policy
Eligibility	Eligible CAP Discount Customers	General Residential
Length of Term	36 month maximum; Payment not to exceed 5% of Federal Poverty Income Level	Up to 8 months (CSR) Up to 12 months (Supervisors)
Number of PA's Allowed	2 Payment Arrangements 3rd with *Bona Fide Reason	1 Payment Arrangement 2nd with "Bona Fide" Reason
Down Payment	NO	Yes - 50% down, exceptions approved by Supervisors
*Bona Fide Reasons = serious illness or injury by account holder or household member; loss of employment; economic loss due to natural disaster; domestic violence against the customer; a commitment by an independent program to assist customer with payment		



Arrearage Management

Arrearage Management Programs are incentive based programs that provide long-term financial assistance and relief for low-income customers who have significant past due amounts (arrears) on their utility bills.

Design Considerations

- Longer-term customer debt management
- Customer and City make monthly payments on outstanding customer debt
- Limited to active residential customers who had electric services from June 2011 to June 2013 (CC&B Stabilization Period)



Arrearage Management Program – Staff Alternatives

	City of Austin Utilities Response CAP (Same as Working Group)	City of Austin Utilities Response Stabilization Period (Non-CAP)
Eligibility	Eligible CAP Discount Customers	<p>The Utilities do not recommend an arrearage management program for this group.</p> <p>City recommends a special <u>60-month</u> Payment Arrangement</p> <p>2 Payment Arrangements 3rd with "Bona Fide" Reason</p>
Benefits	Immediate incentive for debt reduction. Customer receives education classes and free weatherization.	
Length of Program	<i>Determined by amount of debt;</i> \$1,750-\$3,000 = 12 months \$3,001-\$6,000 = 24 months \$6,001+ = 36 months	
Down Payment	Not required	
Customer Payment Amount	1 st trimester - 40%, 2 nd trimester - 30%, 3 rd trimester - 20%	
Customer Debt	\$0.5M	



Hearings Process Recommendations

Advocacy Recommendations	Austin Energy Response	Impact
1. Provide results of administrative review to the customer in writing	Partially concurs	<ul style="list-style-type: none">• Requires 2-4 additional FTE's (Potential of over 5,000 written responses a month)• City Regulation changes required
2. The Hearings Officer manages the entire hearings process	Partially concur (Current contract in place through FY16)	<ul style="list-style-type: none">• Increase in contract cost due to Hearings Office requiring more staff;• City Regulation changes required
3. Provide hearings packet to the customer at least 10 days prior to scheduled hearing date	Concur	<ul style="list-style-type: none">• City Regulation changes required
4. Create an ombudsman for customer support	Not applicable	<ul style="list-style-type: none">• None
5. Provide general information about the dispute and hearings process to customers annually	Concur	<ul style="list-style-type: none">• None
6. Provide additional locations for hearings	Concur	<ul style="list-style-type: none">• AE is looking to expand to other potential services sites
7. Develop and provide annual reports on the hearings process and rulings	Concur	<ul style="list-style-type: none">• None



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Austin Energy Customer Assistance Program Enrollment

- **Current Enrollment:** Approximately 44,831 households (end February)
- **Eligibility:** Any household member participates in one of the following:
 - Comprehensive Energy Assistance Program (CEAP)
 - Travis County Hospital District Medical Access Program (MAP)
 - Supplemental Social Security Income Program (SSI)
 - Medicaid
 - Supplemental Nutritional Assistance Program (SNAP)
 - Children's Health Insurance Program (CHIP)
 - State Telephone Lifeline
- **Qualification:**
 - Automatic via a monthly computerized list matching process using County and State program enrollment data
 - Self-enrollment via dedicated call center
- **Benefit:**
 - Average monthly discount of \$21, plus discounts from Austin Water and Watershed Protection
 - Free weatherization for high users
 - Plus 1: One-time bill payment assistance
- **Funding Source:** Community Benefit Charge (CBC)
- **Budget:** > \$12 million annually



Customer Assistance Program Benefits Extended Beyond Target Population

- Concern Raised: Some households not considered in need of assistance (outside the target population) are enrolled in CAP
- How this Occurs:
 - Qualification by any member of the household
 - Automatic qualification through list matching
- Scope:
 - Austin Energy estimate: < 1.5 percent of enrollment

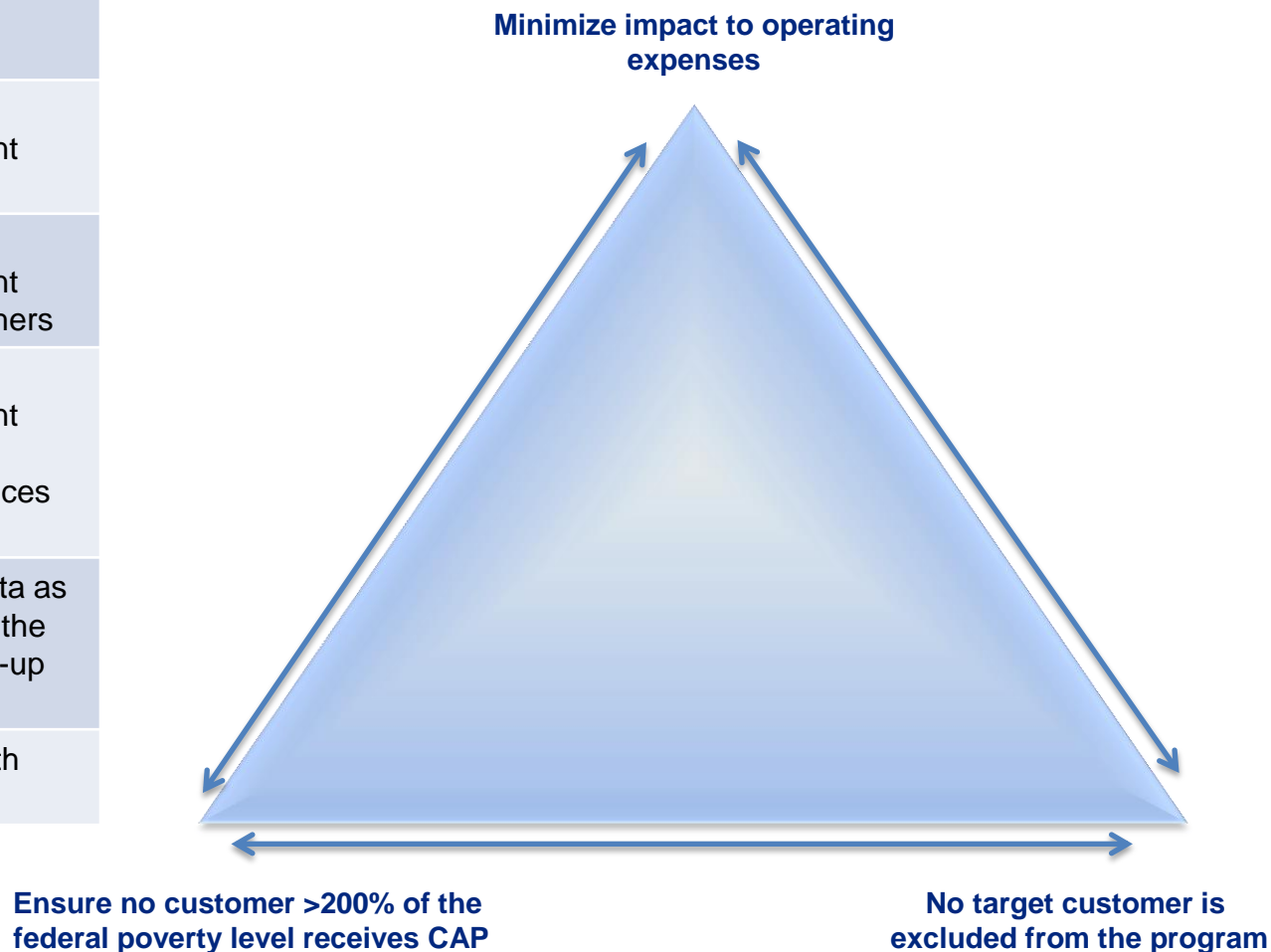


Customer Assistance Program: Policy Options

Policy Options to Exclude Customers Outside the Target Population for CAP

1. Income qualification for all CAP participants
2. Limit automatic qualifications by matching only the named account holders
3. Limit automatic qualifications by matching only the named account holder, income verification for others
4. Limit automatic qualifications by matching only the named account holder, manually qualify others enrolled in the seven social services programs
5. Use County Appraisal District data as a screen for households outside the target population, conduct follow-up with each household
6. Intensify outreach associated with enrollment

What is the Priority?





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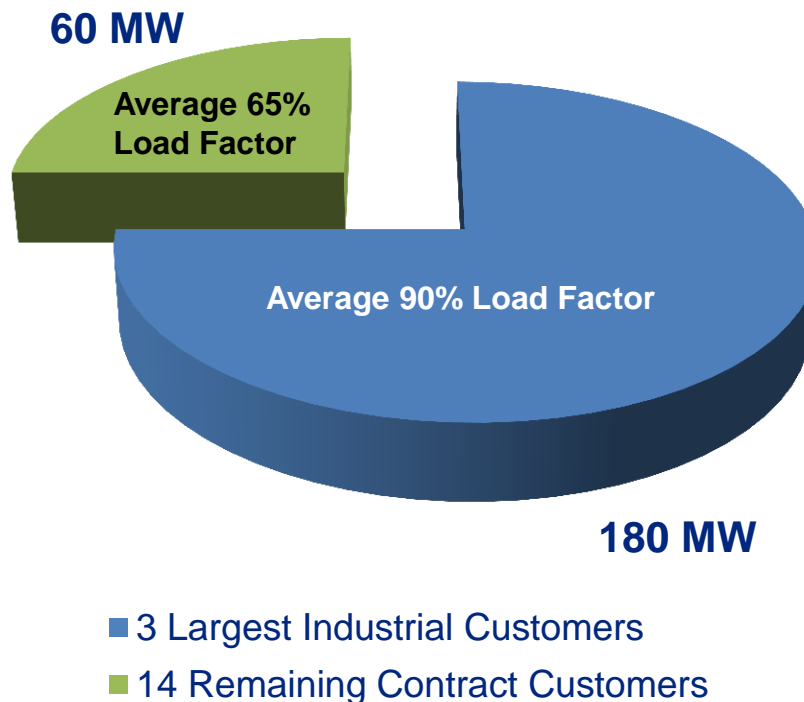


Austin Energy's 3 Largest Industrial Customers

All long-term contracts set to expire May 2015. Only exception is State of Texas which expires May 2017.

- Largest customers defined as more than >20 MW and >90% load factor
- 3 largest customers represent 75% of the total demand under current contracts, each at a single site with close proximity to a substation
- High load factor means they are predictable customers and carry less risk for Austin Energy
- Much less customer care cost per MWh than any other customer
- Represents significant share of Austin Energy's GreenChoice program
- Contracts viewed favorably by our credit rating agencies
- Contracts can be structured to provide stability in Austin Energy's cash flows

Current Contract Customers Megawatt Hours of Demand



Austin Energy is currently in discussions with the 3 largest industrial customers regarding terms for power supply contracts. Final rates will be presented to Council for consideration.