

Austin Energy's 2022 Base Rate Review:

Introduction and Initial Briefing

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March 21, 2022

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Disclaimer

Certain information set forth in this presentation contains forecasted financial information. Forecasts necessarily involve known and unknown risks and uncertainties, which may cause actual performance and financial results in future periods to differ materially from any projections of future performance.

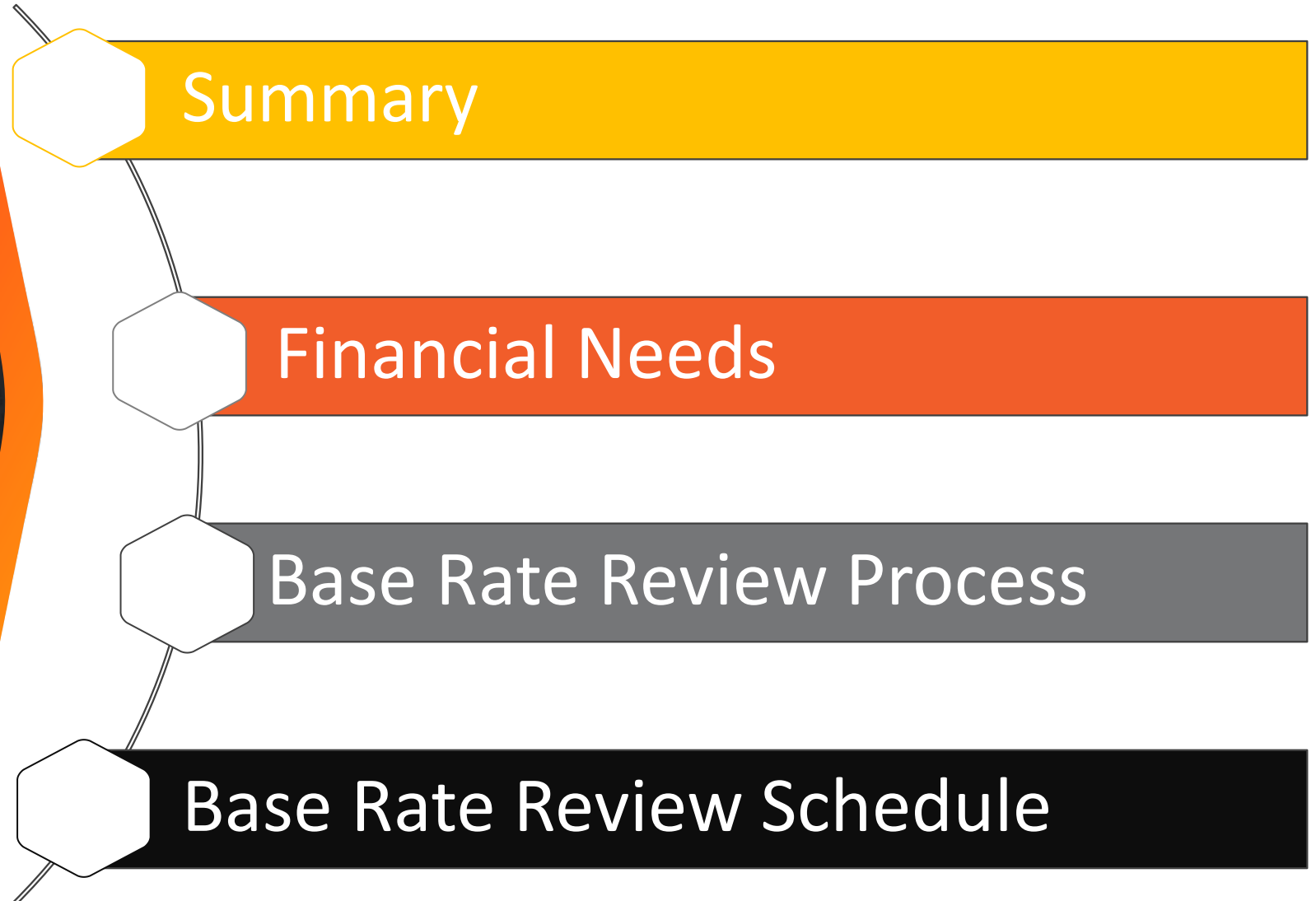
Although the forecasted financial information contained in this presentation is based upon what Austin Energy management believes are reasonable assumptions, there can be no assurance that forecasted financial information will prove to be accurate, as actual results and future events could differ materially from those anticipated in such forecasts.

In addition, this presentation contains unaudited information and should be read in conjunction with the audited Comprehensive Annual Financial Reports for the City of Austin, which was published on March 14, 2022:

https://assets.austintexas.gov/financeonline/downloads/annual_comprehensive_financial_report/annual_comprehensive_financial_report_2021.pdf



Agenda



Summary

Austin Energy Needs a Base Rate Review

The Need

- **Financial condition has declined due to lower revenues, resulting in \$90 million+ in combined net losses in FY 2020 and FY 2021**
- 'AA' credit rating is in jeopardy due to dwindling cash balances and declining financial metrics
- Financial policies and bond covenants require a base rate increase

The Process

- Details and proposal coming in mid-April
- Base rate review process is open, public, and transparent
- Austin City Council approves rates – outside City customers can appeal their rates to the Public Utility Commission of Texas
- Base rate change to be effective January 2023

The Ask

- Austin Energy needs your support in the base rate review process to ensure financial stability



Austin Energy's Financial Needs Require Base Rate Review

Decline in financial metrics jeopardize operations and credit rating

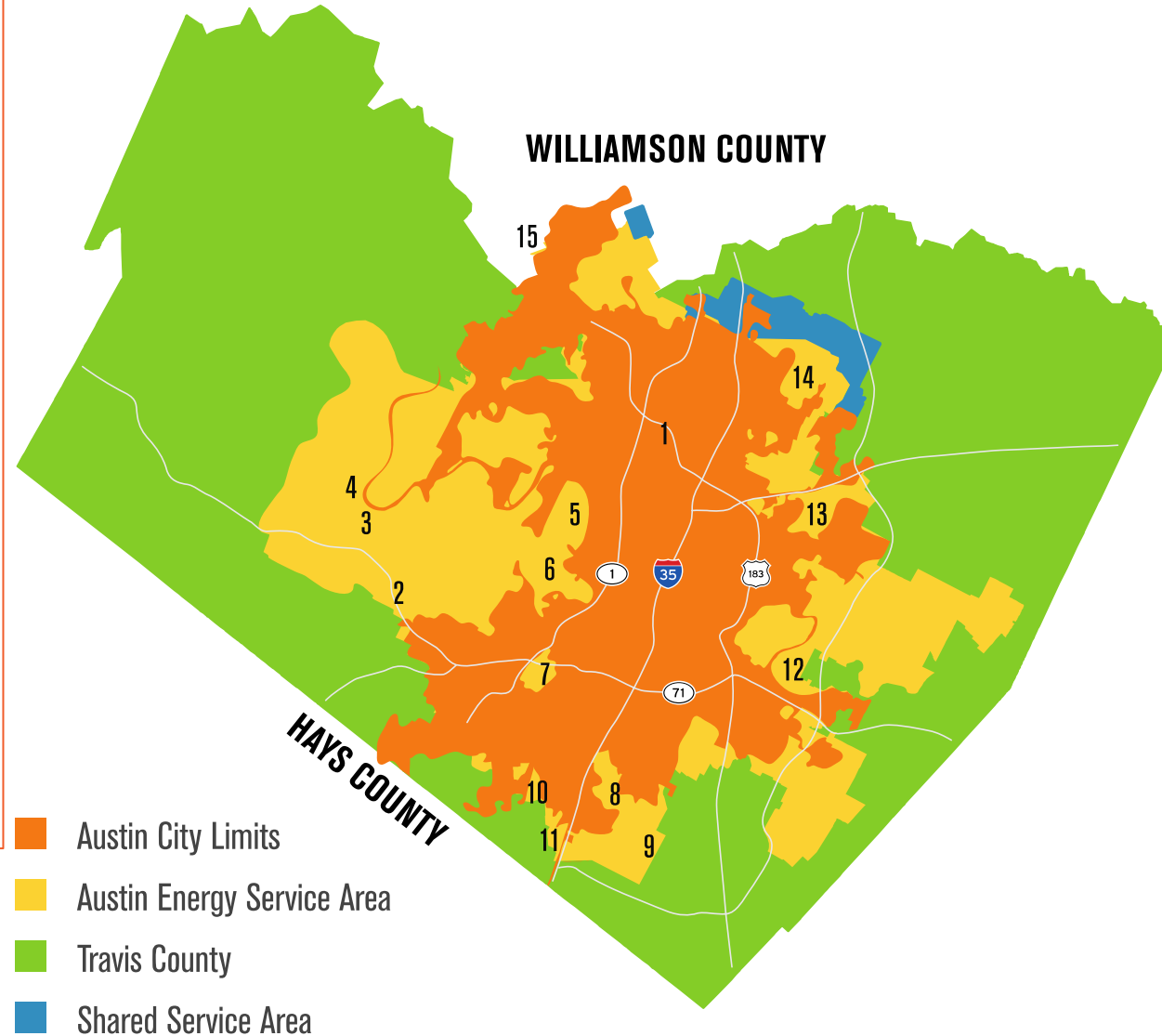
Why review base rates and make changes now?



Austin Energy Serves 15 Communities Across Central Texas

Austin Energy

- Founded in 1895
- 3rd largest municipal utility in the nation with over 500,000 customers
- 'AA' rated utility with \$1.3B in revenue and \$6B in assets
- 437 square mile PUCT approved service territory with approximately half inside Austin's city limits
- 90% of customers are residential
- 65% of energy is sold to business customers



1. City of Austin
2. City of Bee Cave
3. Village of the Hills
4. City of Lakeway
5. City of Rollingwood
6. City of Westlake Hills
7. City of Sunset Valley
8. Village of Creedmoor
9. City of Mustang Ridge
10. Manchaca
11. Buda
12. Del Valle
13. Manor
14. Pflugerville
15. Cedar Park



Austin Energy is Focused on the Customer

Providing reliable electric service, robust public benefits and affordable rates

1st Quartile
Reliability for
US Utilities

**Direct Costs of
Utility Operations**
Generation/Power Supply
Transmission
Distribution
Customer Services
Corporate Services
Debt Service

Valuable
Community
Benefits

**Costs Associated with
City Policy**
Energy Efficiency
Value of Solar
Service Area Lighting
General Fund Transfer
Renewable Energy
Portfolio

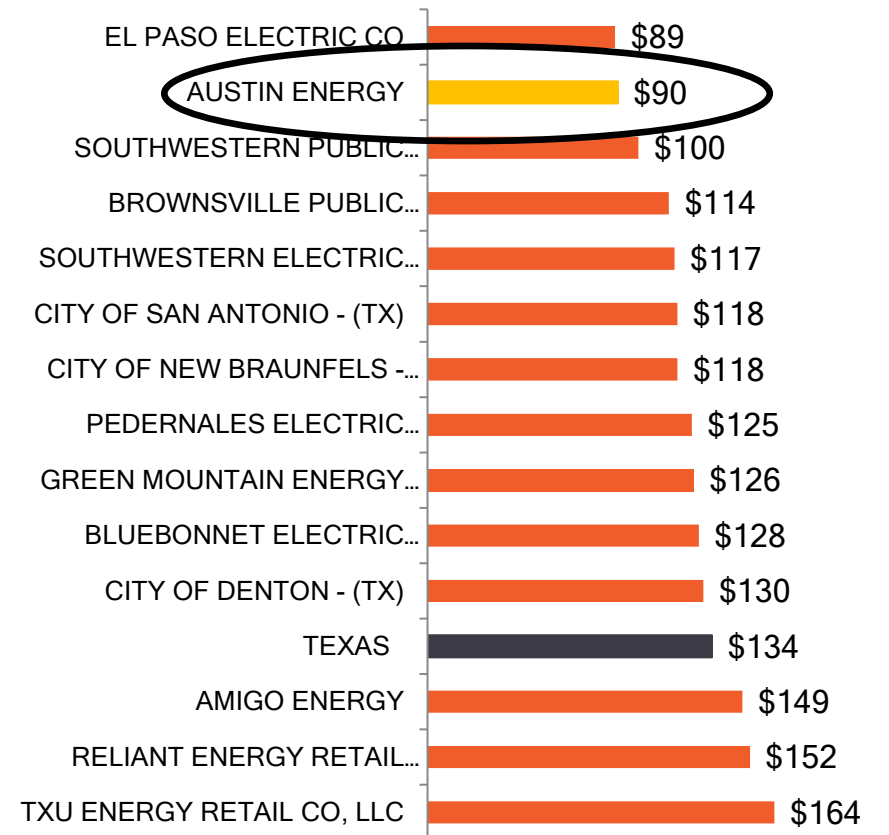
Comprehensive
Customer
Benefits

**Subsidies Associated
with City Policy**
Customer Assistance
Program
State/School/Military
Discounts



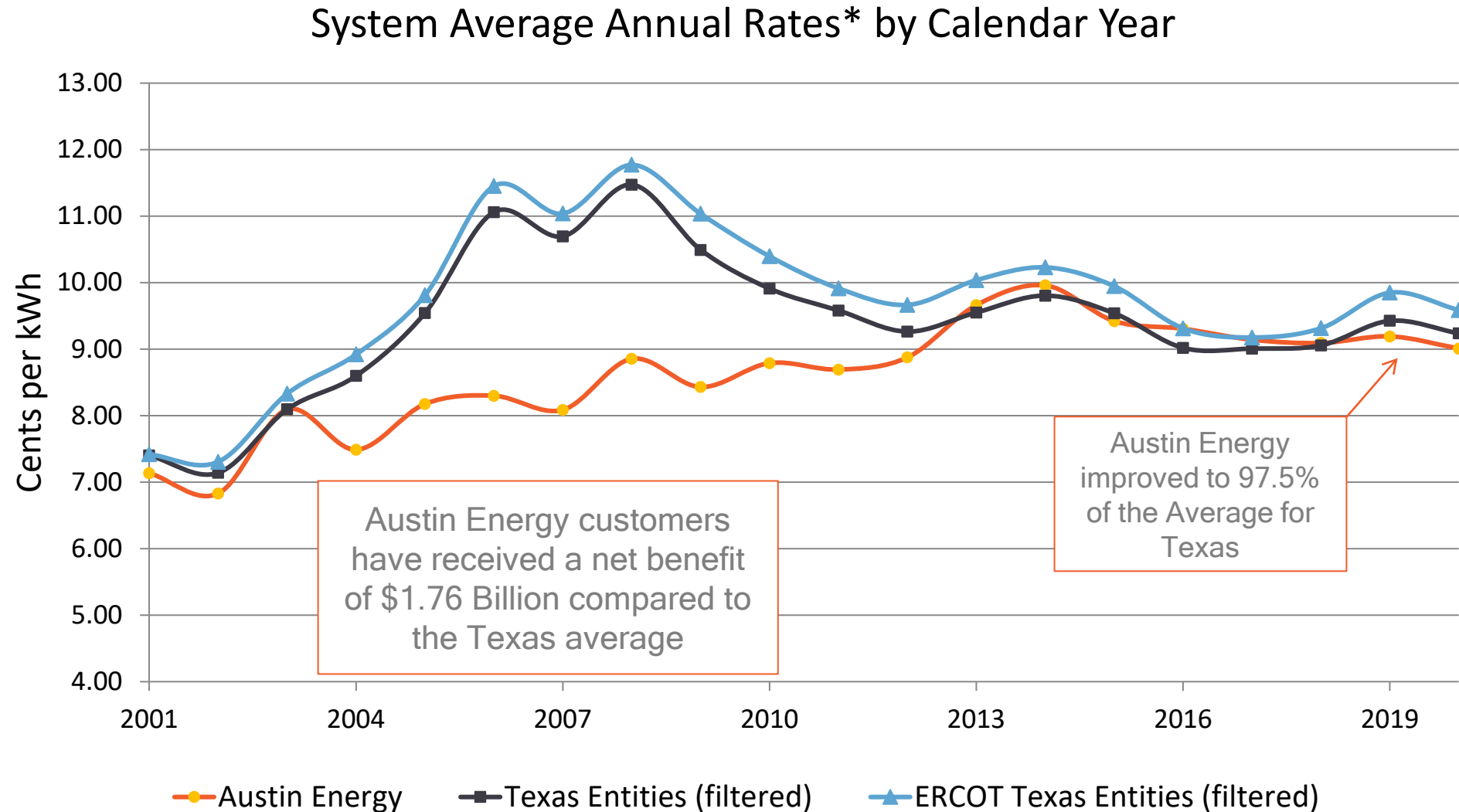
Costs identified are not inclusive of all Austin Energy costs

Residential Average Monthly Bill for 2020 Second Lowest in Texas



Source: U.S. Energy Information Administration Form 861, October 2021

How Does Austin Energy Compare to the Texas Market?

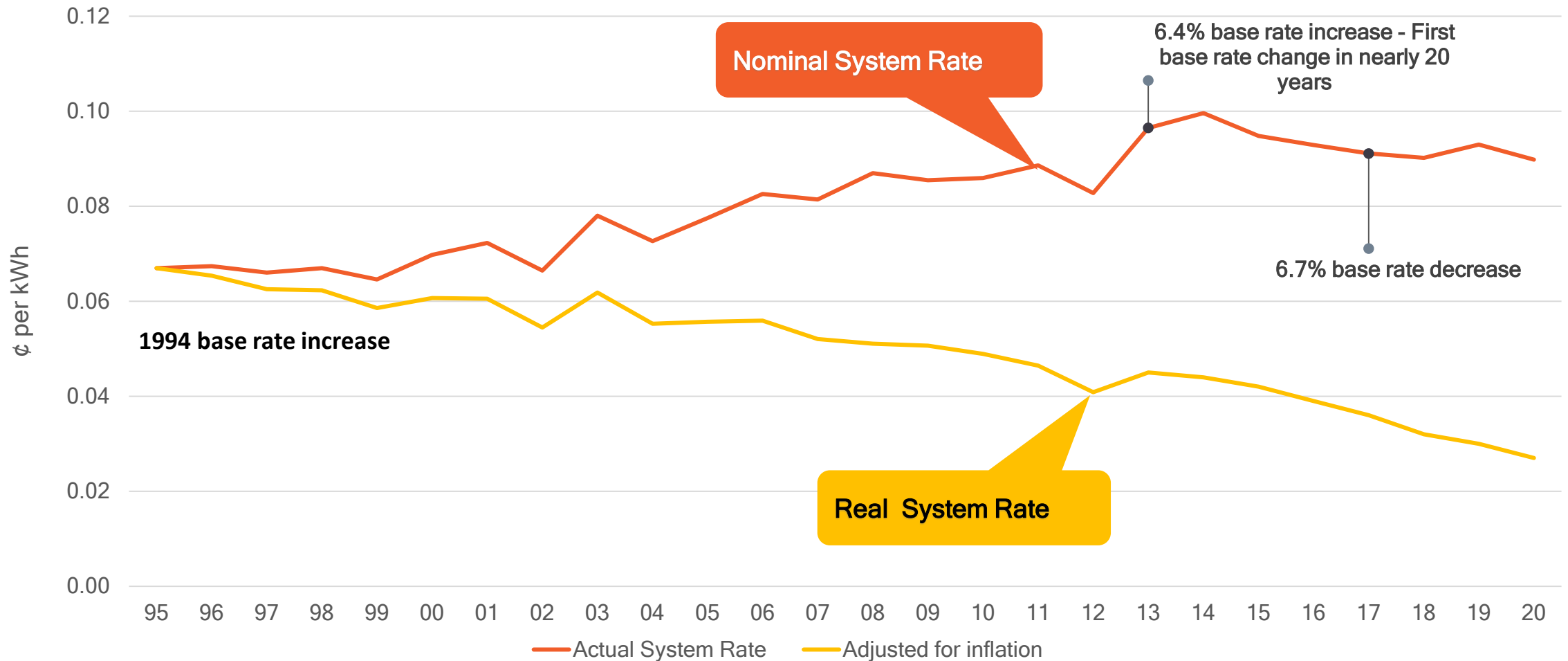


Source: U.S. Energy Information Administration Form 861

*Note: Includes base rates and pass-through rates

How has Austin Energy Trended Over Time?

System Average Annual Rates* by Calendar Year

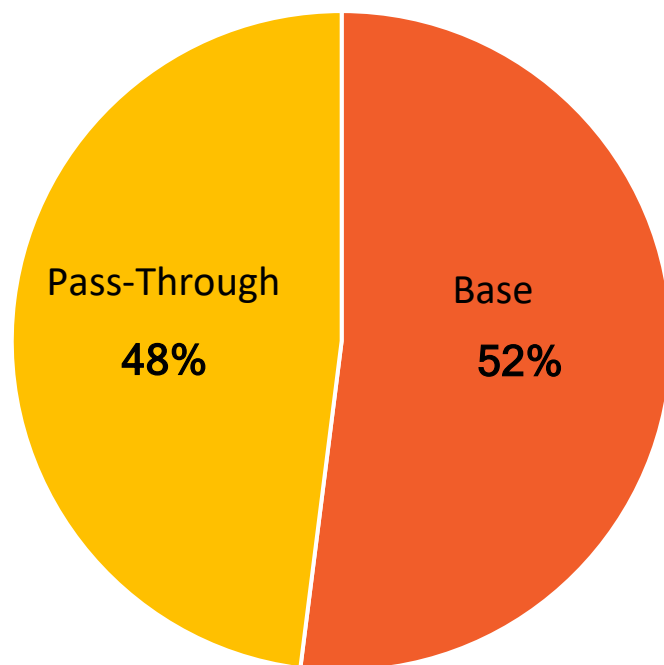


*Note: Includes base rates and pass-through rates

Are All Rates Going To Be Impacted?

No...The base rate review will only impact base rates – then remain stable over multiple years

FY 2021 Electric Revenue



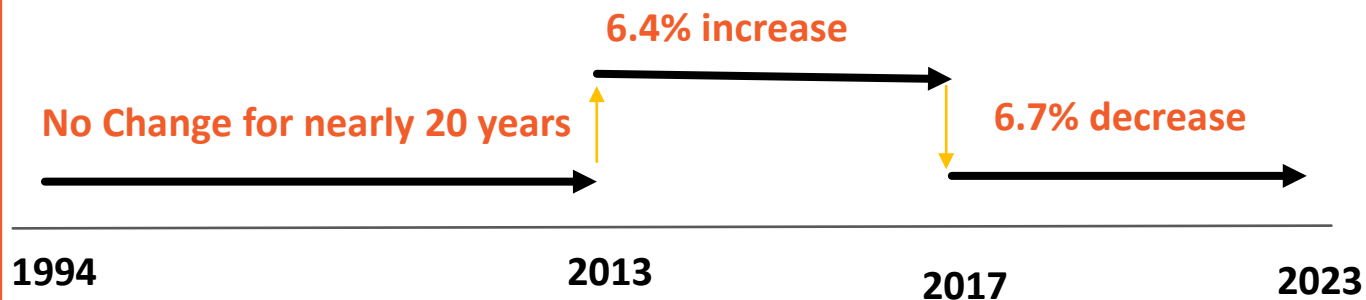
■ Base Rates ■ Pass Through Rates

Base rate review only impacts base rates. Base rates are about one-half of a residential customers' bill – even less for business customers

Only 3 base rate changes in the last 3 decades

- Current financial policy requires base rate review every 5 years at a minimum
- Revenues were assessed in FY 2019 and deemed adequate (See memo to Council dated August 27, 2020)

Only 3 Base Rate Changes In The Last 3 Decades



What Does Base Rate Revenue Pay For?

Costs to Own and Operate the System

Vehicle Expenses

Vehicles, fuel and maintenance

Vegetation Management

Tree trimming and related work

Principal and Interest Payments

On bonds and commercial paper

Customer Care

Services such as call centers and utility billing

Information Technology

Purchases and support contracts

Supplies and Equipment

To operate and maintain the electrical system and power plants

Employees

Salary, benefits, pension contributions

General Fund Transfer

Other direct and indirect City services

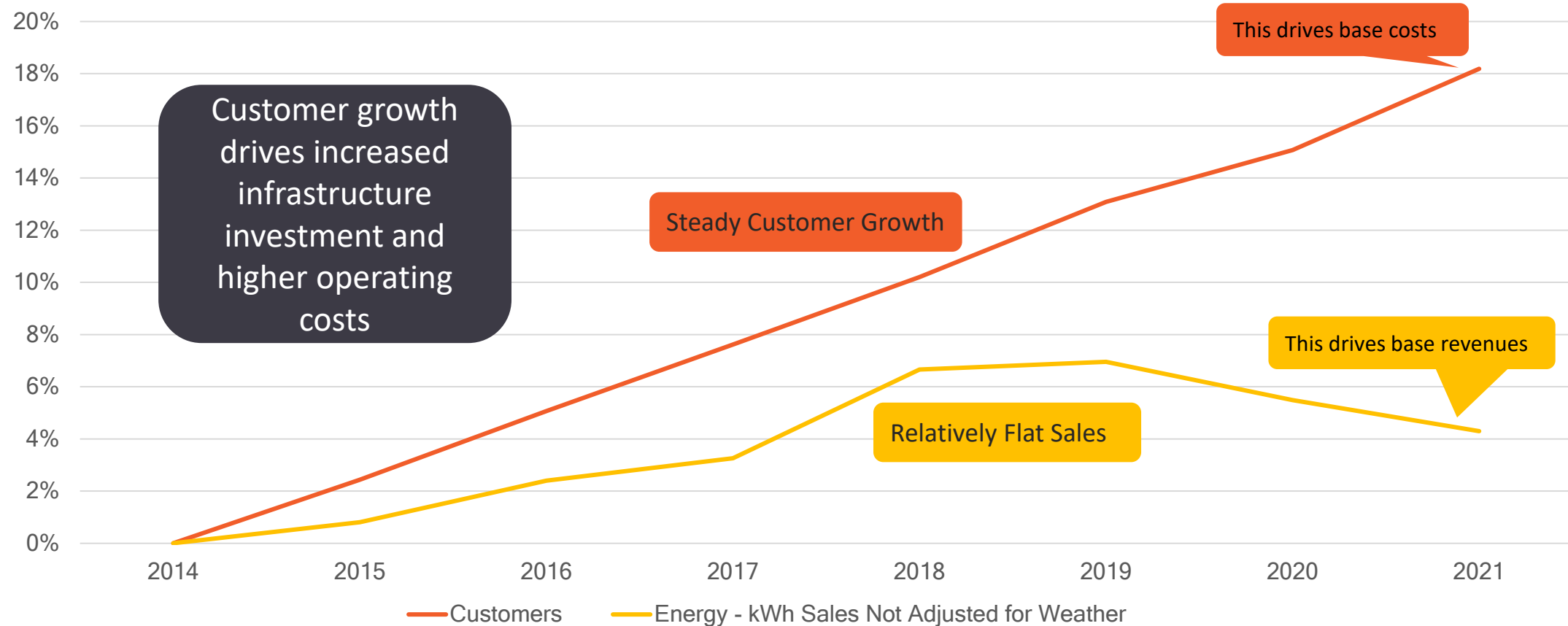
Does Not Include

- Customer Assistance Program
- Energy Efficiency Program
- Transmission related costs
- Power purchases from ERCOT
- District energy and cooling
- Streetlights



Why are Costs Outpacing Revenues?

The current rate structure relies too heavily on kWh sales for revenue

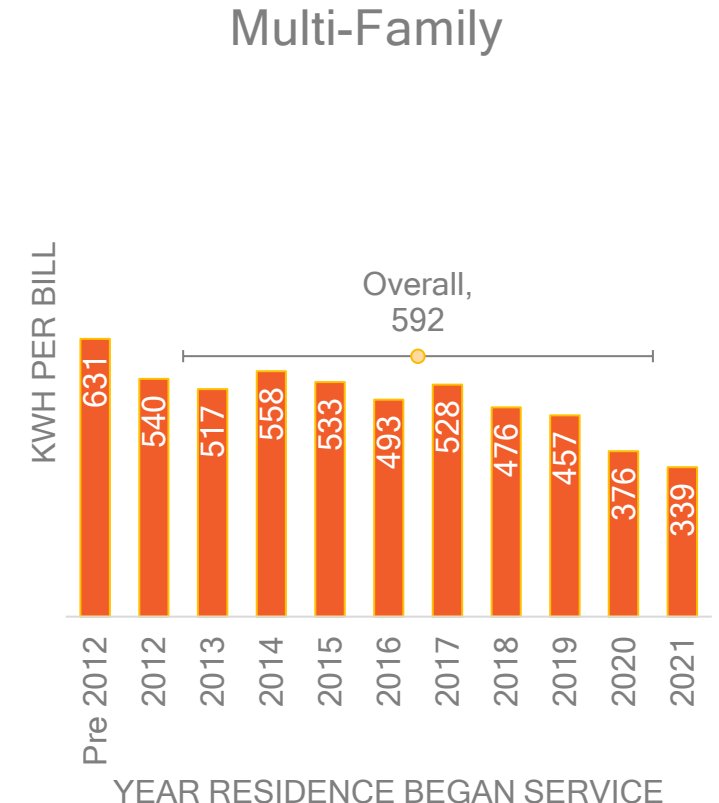
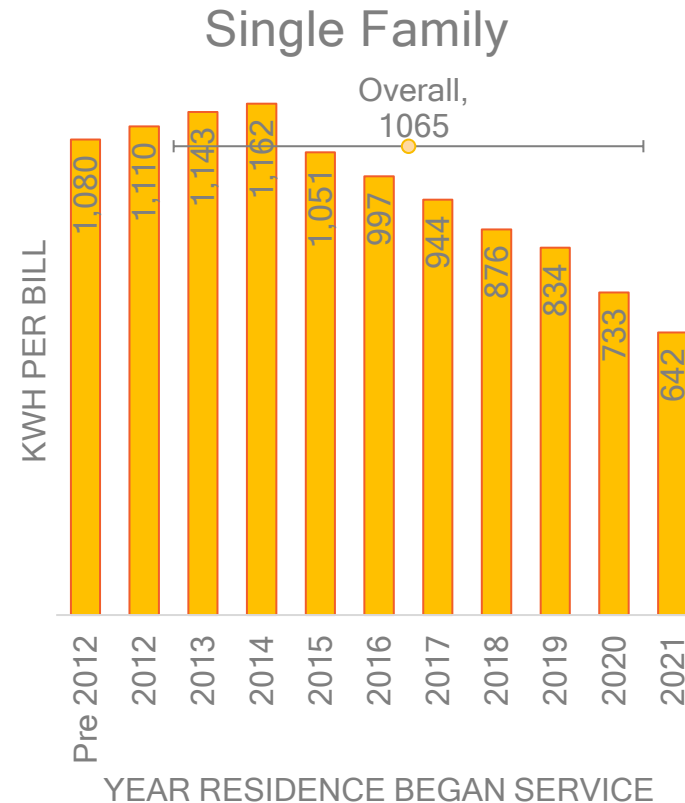
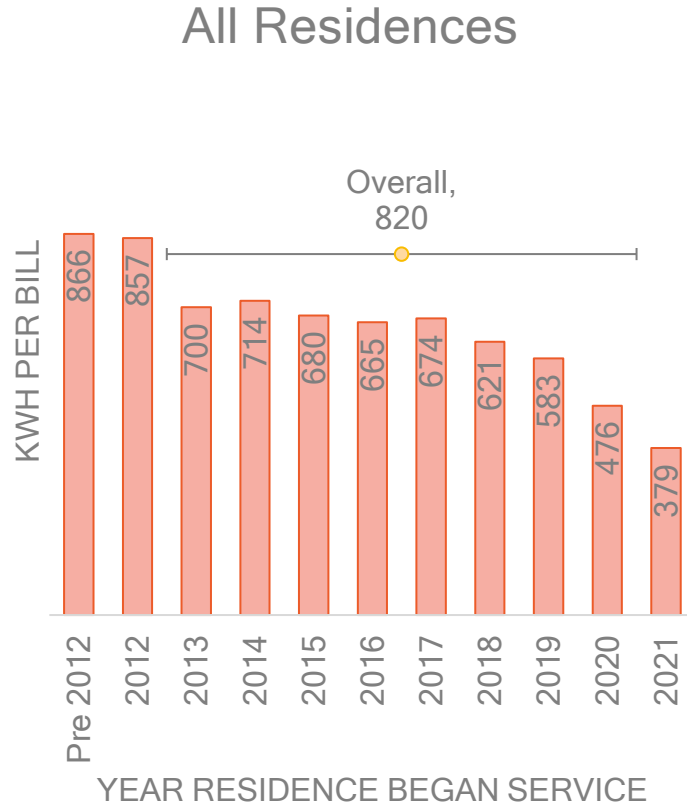


Source: Fund Summary Statements 2014-2021



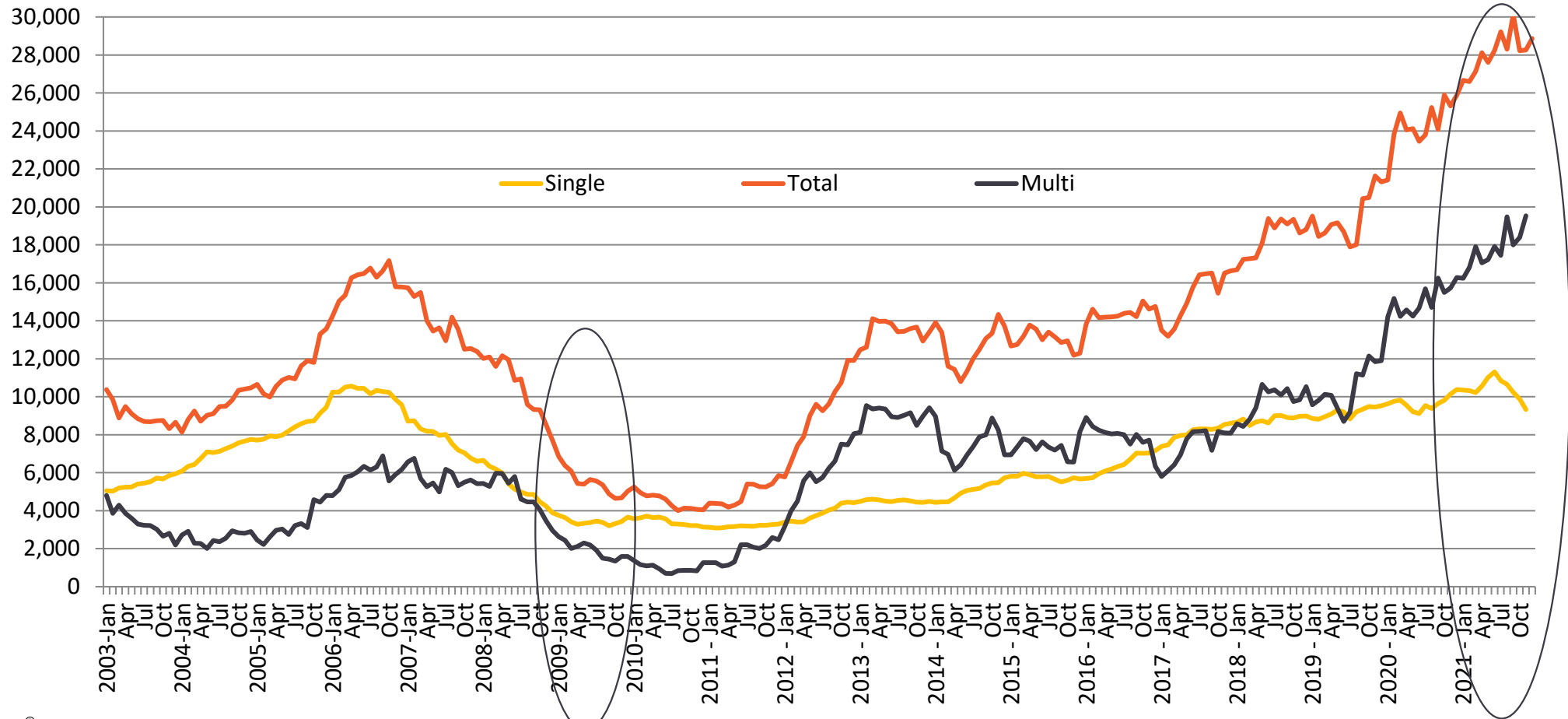
New Residential Construction Uses 50% Less Electricity

Average Residential kWh per Bill



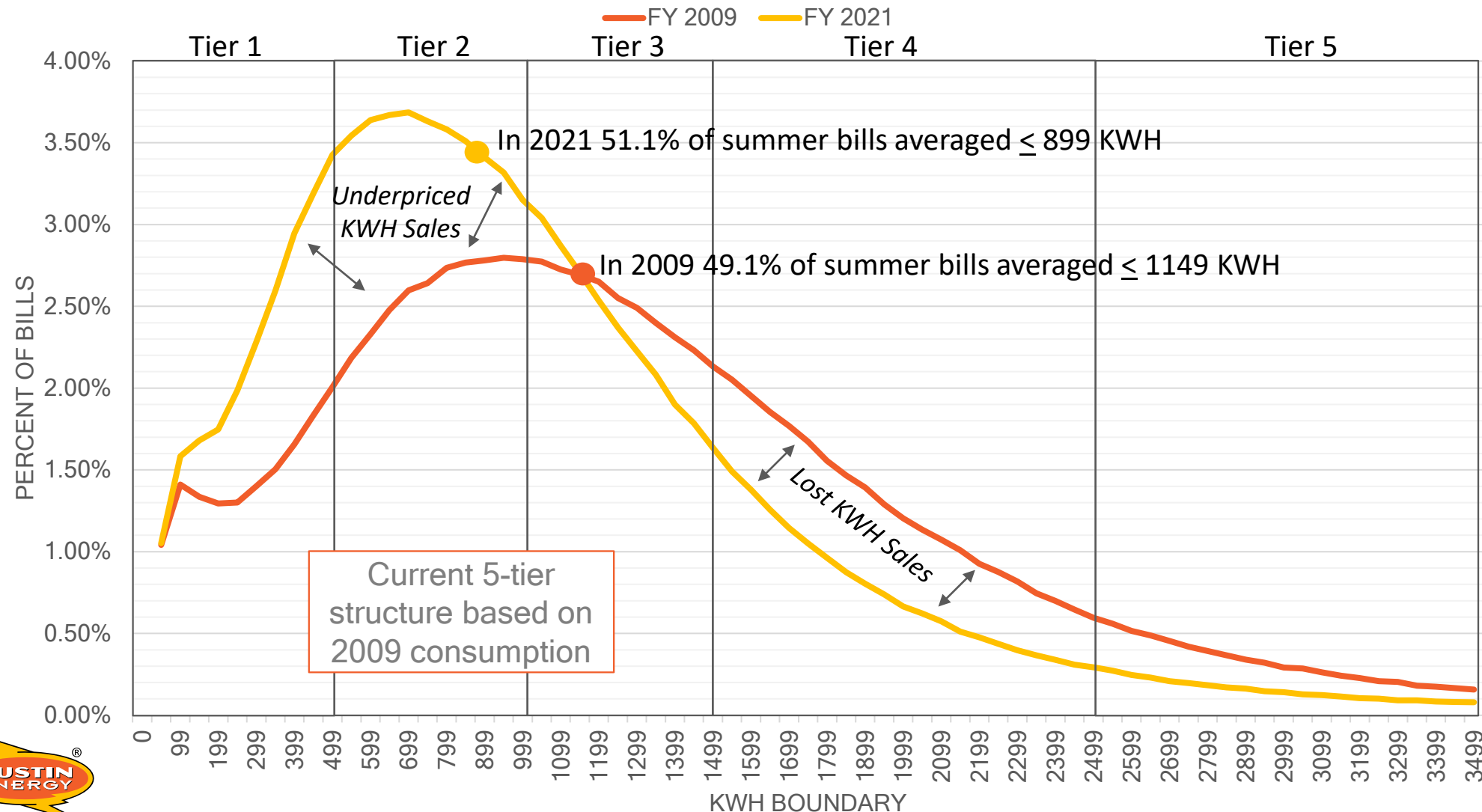
Housing Permits at All-time High with Dramatic Increase in Multi-Family

Travis County Residential Building Permits
(Jan. 2003 -Dec. 2021 rolling 12-month total)



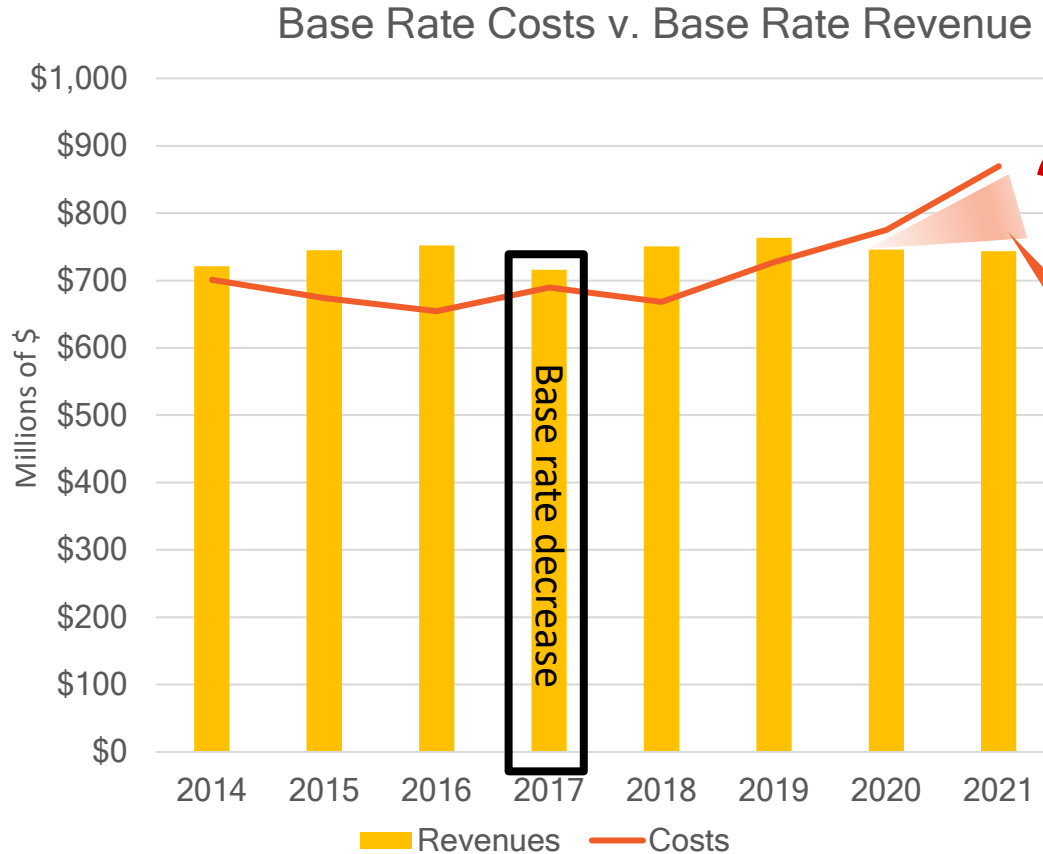
Average Residential Customer Summer Consumption Down 22% Since 2009

Higher billings in lower tiers and a reduction in higher tiers results in unrecovered costs

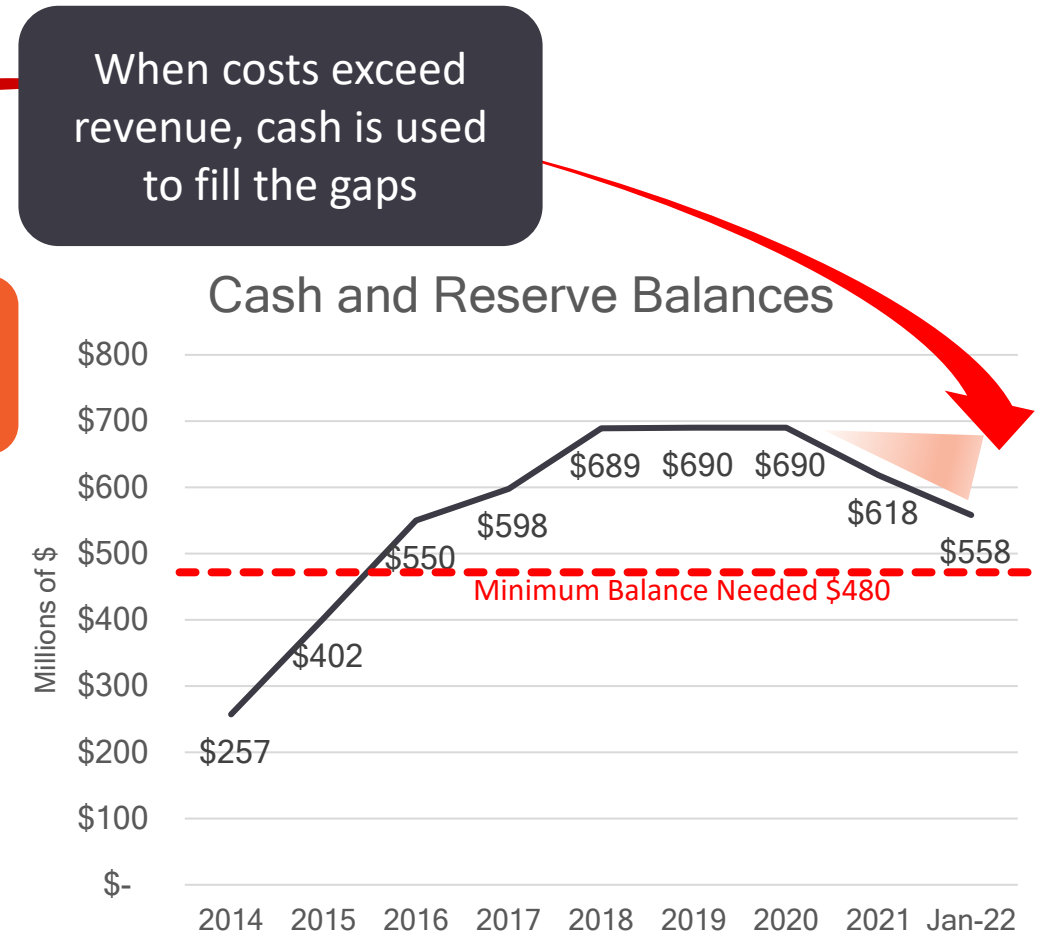


Why is a Base Rate Review Needed Now?

Costs are outpacing revenues



Source: Audited Financial Statements 2014-2021



Source: Audited Financial Statements 2014-2021. Unaudited Financial Statements 2022.

How Does Austin Energy Build Its Cash Balance?

We do not earn a profit and we can not sell shares to generate equity funding

Contributions to Working Capital (Millions of \$)					
	Audited 2017	Audited 2018	Audited 2019	Audited 2020	Audited 2021
(A) Reserve Expense in Base Rates	\$5	\$0	\$0	\$0	\$0
Depreciation & Amortization expense	\$154	\$156	\$198	\$290	\$284
Less: Principal on debt	(37)	(36)	(66)	(78)	(81)
Less: Cash for construction	(63)	(59)	(67)	(80)	(143)
(B) Depreciation contribution	\$54	\$61	\$65	\$132	\$60
(C) Net margin contribution	\$12	\$58	\$3	(\$34)	(\$57)
Contributions to Working Capital (A+B+C)	\$76	\$119	\$68	\$98	\$3

Source: Audited Financial Statements 2017-2021



Why are Adequate Cash Balances so Critical to Austin Energy?

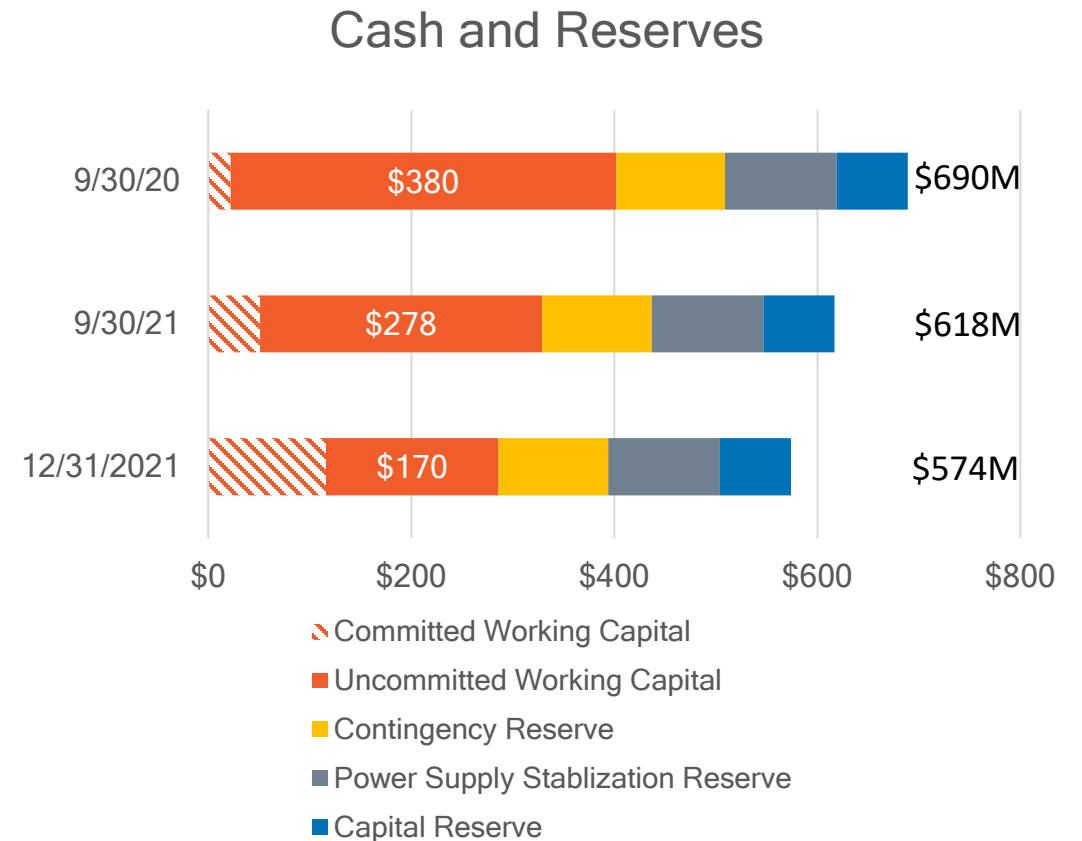
Austin Energy expenses total over \$1.3 Billion every year and we have \$1.8 Billion of debt

Financial policies: Require a minimum of \$480M

Liquidity: Ensure investors and vendors will be paid timely

Cash Management: Manage ebbs and flows of cash resulting from seasonality and pass-through expenses

Capitalization: Cash funding of projects to maintain a favorable capital structure



Source: Audited Financial Statements 2020-2021. Unaudited Financial Statement 2022



Key Financial Metrics Declining

	Minimum or Target	2017	2018	2019	2020	2021
Operating Margin	10%	10%	8%	6%	(3%)	(5%)
Net Income/(Loss) (Millions of \$)	> \$0	\$17	\$58	\$3	(\$34)	(\$57)
Days Cash on Hand	150 Days	205	224	218	222	213
Debt Service Coverage	> 2.0	3.4	3.6	4.0	2.1	1.8
Debt to Capital	< 50%	44%	44%	52%	53%	54%



Source: Audited Financial Statements 2017-2021

Policies Require That Revenue Deficiencies be Addressed

Austin Energy Policies, Bond Covenants and Credit Agency Concerns

- **Section 4 Master Bond Ordinance:** Requires the City to fix rates to pay all current operating expenses. If net revenues are insufficient, the City shall cause such rates to be revised and adjusted to comply with the rate covenant.
- **Austin Energy Financial Policy #17:** A rate adequacy review shall be completed every five years, at a minimum, through performing a cost-of-service study. Electric rates shall be designed to generate sufficient revenue to support the full cost of operations and to ensure a minimum debt service coverage of 2.0x on electric utility revenue bonds.
- **Moody's October 2020 Credit Report:** Factors that could lead to a downgrade:
 - “Failure to implement needed rate increases in a timely manner or political intervention resulting in deterioration of key financial metrics.”
 - “Adjusted debt service coverage ratio (DSCR) falls below 1.8x and adjusted days liquidity on hand of less than 150 days for an extended period.”

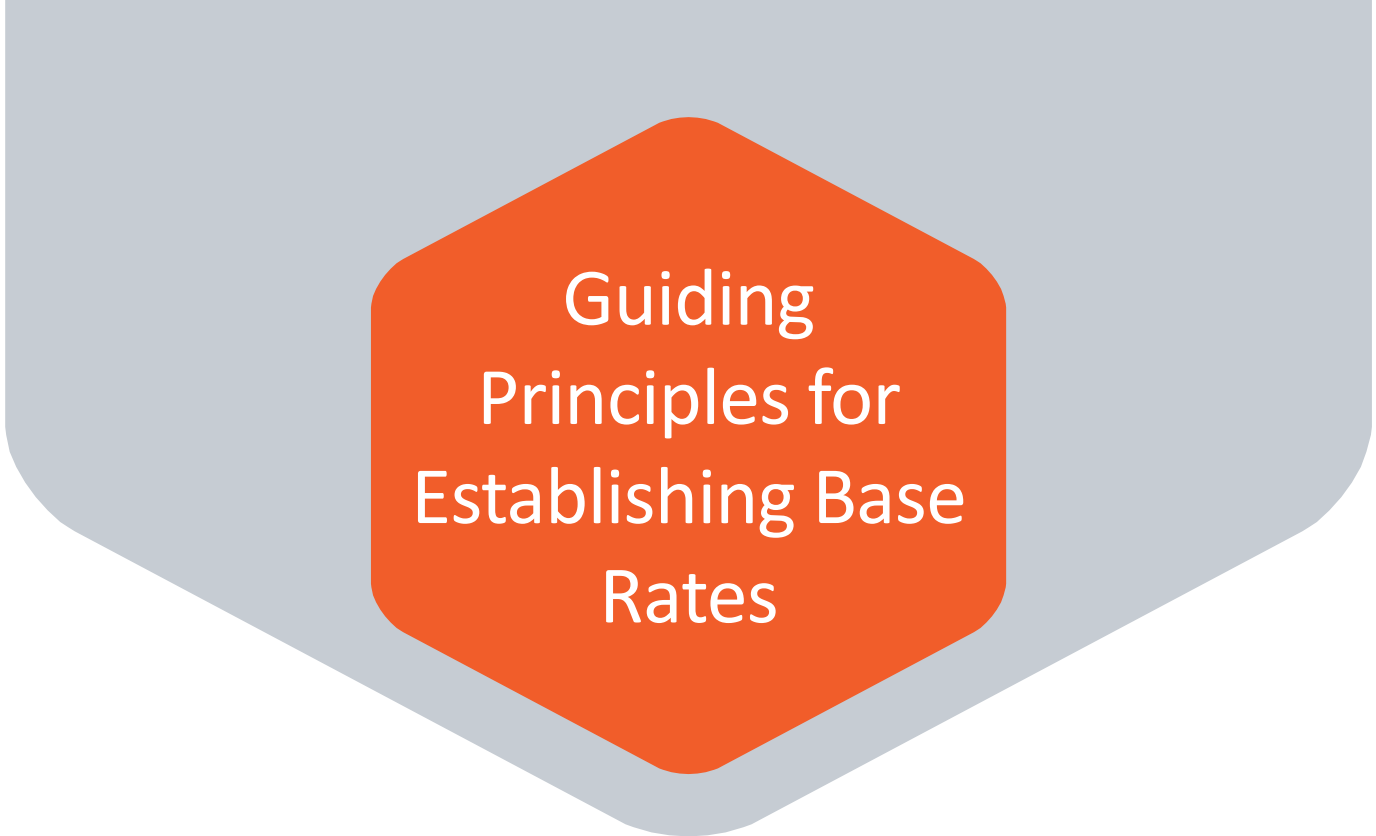


Austin Energy's Base Rate Review Process

A structured process designed to provide an independent recommendation

What comes next? How does the process work?





Guiding Principles for Establishing Base Rates

Equitable and fair rates

Stable bills and simple rates

Protect vulnerable customers

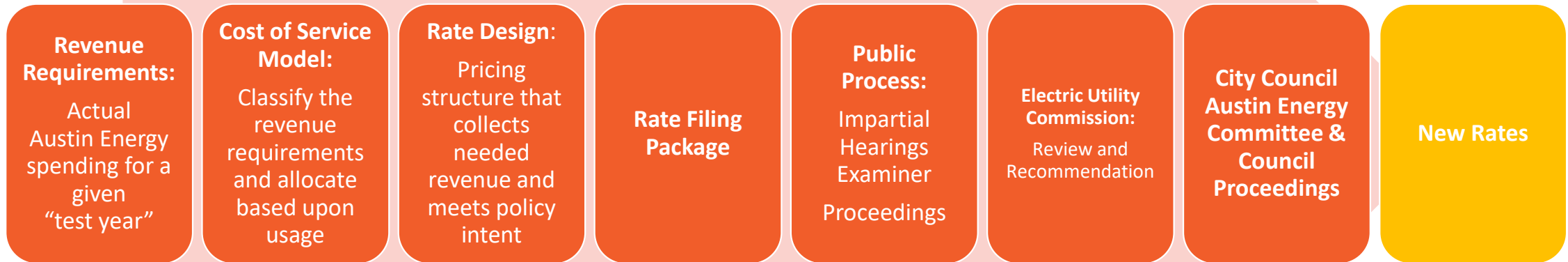
Preserve energy efficiency and conservation

Austin Energy will need to balance multiple guiding principles during this base rate review



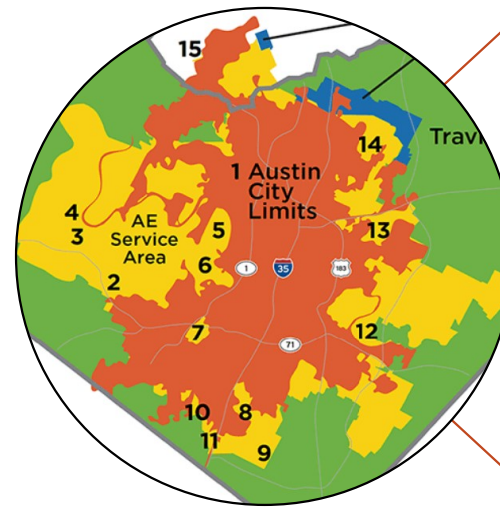
Base Rate Review Process

- Public, transparent process similar to the 2016 rate case
- Includes Impartial Hearing Examiner and Independent Consumer Advocate
 - Independent Consumer Advocate's role is to represent residential and small business customers throughout the process
- Establishes guidelines, roles and responsibilities
- Community outreach and open participation to all customers



Targeted Community Outreach

- Customer groups have different concerns and will be impacted differently
- Public meetings: April – May
- Present need for base rate review and rate recommendations
- Feedback opportunities at meetings and through comment forms
- Explain how to participate in the process



Residential

- Virtual and in-person public meetings
- Support for CAP customers, with involvement from community partners

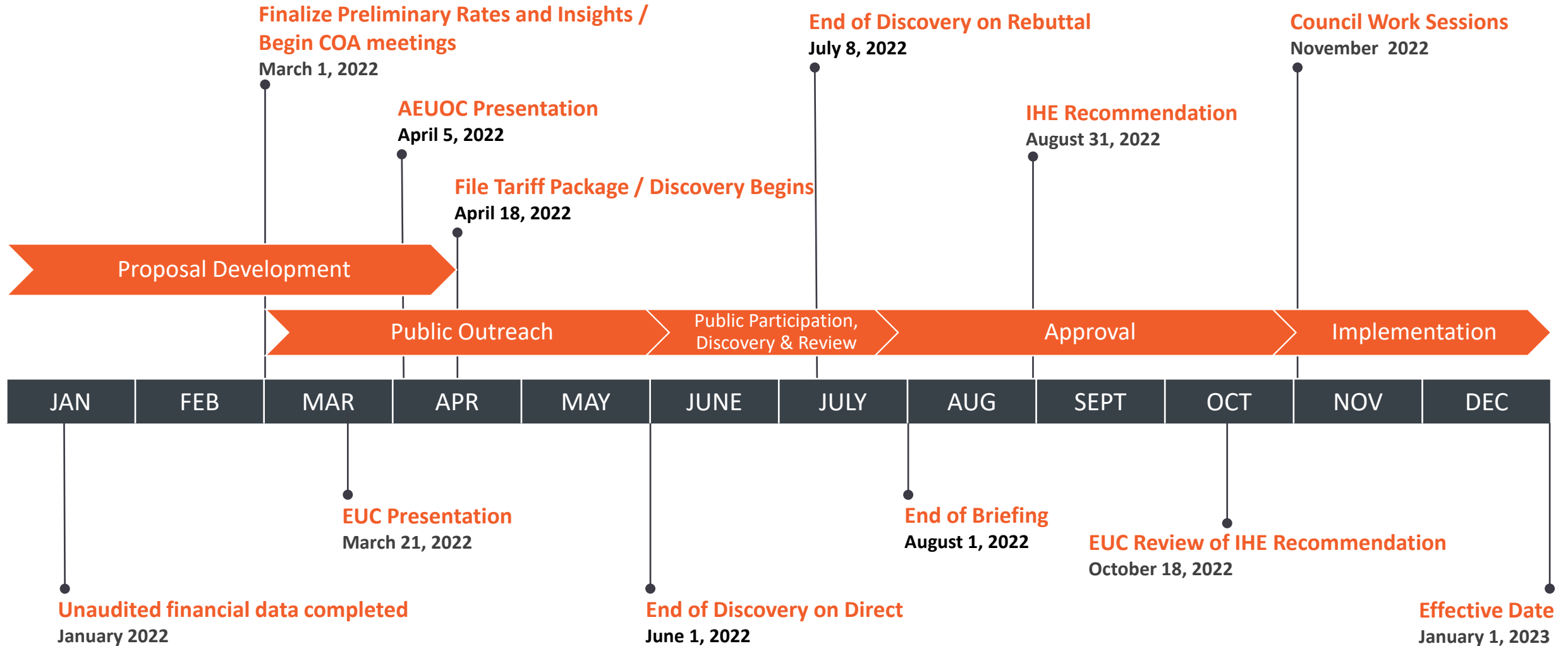
Small to Mid-Sized Businesses

- Virtual and in-person meetings
- Additional outreach through local business and stakeholder groups

Large Key Accounts

- Virtual and in-person meetings
- Key Accounts team to lead engagement

Austin Energy Base Rate Review Timeline



Expected Outcomes from the Base Rate Review

- Full recovery of base rate costs, improved financial metrics, compliance with bond covenants, financial policies and 'AA' credit expectations
- A revised residential rate structure that better recovers costs while enhancing fairness
- Gradual move for each customer class to pay their share of costs
- Greater equity for our more vulnerable customers through better rate design





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