



**Customer Driven.
Community Focused.SM**

MEMORANDUM

TO: Mayor and Council Members

CC: Spencer Cronk, City Manager

FROM: Jackie A. Sargent, General Manager, Austin Energy *JAS*

DATE: March 9, 2020

SUBJECT: Rating Agency Actions & EMMA Filing

The purpose of this memo is to update City Council on the attached financial filing made by the City of Austin related to the activities of Austin Energy during the 2021 Winter Weather Event.

On February 24, 2021, Fitch Ratings, Inc. placed Austin Energy, along with every other retail and wholesale public power utility within the geographic footprint of ERCOT that Fitch rates, on negative watch. On March 3, 2021, S&P Global Ratings placed Austin Energy on negative watch, along with a number of other retail and wholesale public power utilities. Austin Energy has provided relevant information to the rating agencies on these and other matters. Austin Energy cannot predict any impact to its bond ratings but is committed to taking actions consistent with maintaining its strong investment grade ratings.

On March 8, 2021, Austin Energy made a voluntary disclosure on the Electronic Municipal Market Access (EMMA). EMMA is a portal that provides investors with key information about municipal bonds. Our disclosure includes known events as of March 5, 2021. There remains a great deal of uncertainty and a lack of information within the ERCOT market and with regulatory and legislative action. One positive development for Austin Energy customers is that, on March 5, the Public Utility Commission of Texas declined to act on a recommendation to reprice energy transactions for the period when the ERCOT emergency alert was in effect. Austin Energy will continue to monitor developments.

Currently, Austin Energy estimates that, over the course of the 2021 Weather Event, it accumulated net revenue of positive \$54 million. Significant uncertainty in the overall outcome remains, however, and Austin Energy estimates that final net revenue results could be realized in a range between positive \$104 million to negative \$16 million.

If you have any questions, please contact Deputy General Manager and Chief Financial & Risk Officer Mark Dombroski.

Rule 15c2-12 Filing Cover Sheet

Issuer Name: City of Austin, Texas
301 West Second Street
Austin, Texas 78701

Issues: N/A

Filing Format ☒ electronic ☐ paper; If available on the Internet, give URL: www.emma.msrb.org

CUSIP Numbers to which the information filed relates (optional):

☐ Nine-digit number(s) (attach additional sheet if necessary):

☒ Six-digit number if information filed relates to all securities of the issuer: _____
* * *

Description of Material Event Notice/Other Material Information

1. _____ Principal and interest payment delinquencies
2. _____ Material non-payment related defaults
3. _____ Unscheduled draws on debt service reserves reflecting financial difficulties
4. _____ Unscheduled draws on credit enhancements reflecting financial difficulties
5. _____ Substitution of credit or liquidity providers, or their failure to perform
6. _____ Adverse tax opinions or events material affecting the tax status of the security
7. _____ Material modifications to rights of security holders
8. _____ Material bond calls or tender offers
9. _____ Defeasances
10. _____ Material release, substitution, or sale of property securing repayment of the securities
11. _____ Rating changes
12. _____ Issuer bankruptcy, insolvency, receivership or similar event
13. _____ Material merger, consolidation, or acquisition of issuer or sale issuer asset sale
14. _____ Material substitution or change in paying agent
15. _____ Incurrence of a material financial obligation
16. _____ An event under the terms of a financial obligation that reflect financial difficulties
17. _____ Notice of non-compliance (specify):
18. X Other material event or information (specify): Voluntary Event Notice

Financial & Operating Data Disclosure Information

(Financial information should not be filed with the MSRB)

☐ Annual Financial Report or CAFR

☐ Financial Information & Operating Data

☐ Other (describe) _____

Fiscal Period Covered: _____

☐ Monthly ☐ Quarterly ☐ Annual ☐ Other: _____
* * *

I hereby represent that I am authorized by the Issuer or its agent to distribute this information publicly:

Name: Bryan Rivera
Employer: City of Austin
Voice Telephone Number: 512-974-7891
Email Address: bryan.rivera@austintexas.gov

Title: Deputy Treasurer

VOLUNTARY EVENT NOTICE

Dated: March 8, 2021

Due: March 8, 2021

CITY OF AUSTIN, TEXAS

301 West Second Street

Austin, Texas 78701

VOLUNTARY FILING

This filing is made voluntarily by City of Austin, Texas (the Issuer), relating to the activities of the City's owned electric utility (Austin Energy), without intention to provide any update to this filing or its subject matter or make similar voluntary filings in the future. Any obligation to do so now or in the future is expressly disclaimed.

The statements contained in this Notice and in any other information herein provided to or accessed by the reader hereof, that are not purely historical, are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, including statements regarding expectations, hopes, intentions, or strategies regarding the future. Readers should not place undue reliance on forward-looking statements. All forward-looking statements included herein are based on information available on the date hereof, and Austin Energy assumes no obligation to update any such forward-looking statements. It is important to note that actual results could differ materially from those in such forward-looking statements.

The forward-looking statements included herein are necessarily based on various assumptions and estimates and are inherently subject to various risks and uncertainties, including risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes or developments in social, economic, business, industry, market, legal, and regulatory circumstances and conditions and actions taken or omitted to be taken by third parties, including customers, suppliers, business partners and competitors, and legislative, judicial, and other governmental authorities and officials. The dynamic, unique, scope, and breadth of the impacts of the hereinafter-defined 2021 Weather Event have further complicated Austin Energy's ability to provide precise data or complete information regarding the circumstances, their short, medium, and long-term impact, and Austin Energy's current and future responses thereto. Assumptions related to the foregoing involve judgments with respect to, among other things, future economic, competitive, and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond the control of Austin Energy. Any of such assumptions could be inaccurate and, therefore, there can be no assurance that the forward-looking statements included herein will prove to be accurate.

Texas 2021 Winter Weather Event – General Overview

From February 14, 2021 through February 19, 2021, much of the continental United States, including Texas, experienced a severe winter storm resulting from the southern migration of a polar vortex that meteorologists characterize as the most significant in terms of scope and duration since monitoring of these weather phenomena began in the 1950s (such winter storm, the "2021 Weather Event"). As a result of the 2021 Weather Event, Texas experienced statewide, record breaking cold weather. Temperatures in Austin remained below freezing for 162 consecutive hours, with a low temperature of 7 degrees recorded on February 16, 2021.

As the 2021 Weather Event covered the State, the Electric Reliability Council of Texas ("ERCOT") implemented what were initially expected to be rolling blackouts to conserve electricity and address energy needs across the entirety of the State; however, due to the severity of 2021 Weather Event and the corresponding increase in demand on the Texas electric grid, combined with limited availability of generation, widespread and prolonged power outages began

at 1:00 a.m., Central time, on Monday, February 15, 2021, and continued throughout the week. Ultimately, approximately 4,000,000 Texas residents were without power for significant stretches of the week.

In initial response to the 2021 Weather Event, the Texas Governor, on February 18, 2021, declared a new emergency item for the current Texas legislative session (in session until May 31, 2021) in which he requested the Legislature to mandate the winterization of Texas' power system and to ensure the necessary funding for winterization. In addition, the Governor announced he is requesting a Major Disaster Declaration — which includes Individual Assistance, Public Assistance, and the Hazard Mitigation Grant Program — from the White House. This declaration will allow eligible Texans to apply for assistance to help address broken pipes and related property damage. The Governor previously requested a Federal Emergency Declaration from the White House which was granted on Sunday, February 21, 2021.

The Texas Governor also declared reform of ERCOT as an emergency item for the current Texas Legislature and has called for the resignation of its leadership (multiple Board resignations have since occurred). On Friday, February 19, 2021, the Texas Attorney General issued Civil Investigative Demands to ERCOT and investor-owned power companies regarding power outages, emergency plans, energy pricing, and related issues resulting from the impacts of the 2021 Weather Event. Lawsuits against ERCOT have been filed throughout the State.

Impact of 2021 Weather Event on Austin Energy

Austin Energy generation assets largely stayed online during the 2021 Weather Event. Combined with ERCOT-mandated load sheds, this resulted in Austin Energy generation output exceeding its customer's usage. Austin Energy was able to more than fully offset the unprecedentedly high gas prices and costs to serve its customers with corresponding revenues from the generation fleet. While there is still on-going market settlement activity and information to gather, Austin Energy estimates that once load and fuel costs are fully accounted for, it is *currently* in a net positive financial position from the effects of the 2021 Weather Event.

Austin Energy, however, now has potential financial exposure on two fronts – the risk of market defaults being passed through to Austin Energy by ERCOT, and the possibility that the Texas Public Utility Commission (*TPUC*) will retroactively reprice market transactions during certain time periods of the 2021 Weather Event. While there is pressure on the TPUC to reprice at least some aspects of the market, on March 5, 2021 the TPUC declined to act on the independent market monitor's recommendation to reprice energy transactions for the period after cessation of mandatory load-sheds, and indicated they were unlikely to do so for fear of creating unintended consequences in the market.

Austin Energy estimates that over the course of the 2021 Weather Event, it accumulated net revenue of positive \$54 million. Significant uncertainty in the overall outcome remains, and Austin Energy estimates that final net revenue results could be realized in a range between positive \$104 million to negative \$16 million.

Austin Energy has \$866 million in liquidity as of March 4, 2021, after accounting for all power and fuel costs from the 2021 Weather Event. Austin Energy does not anticipate liquidity issues even under the negative range of possible outcomes.

There is already movement to begin repricing some aspects of the market, and ERCOT has begun significantly short-paying invoices owed to Austin Energy because of cash-flow issues caused by payment defaults by other parties in their payments owed to ERCOT. This may be a short-term issue as market liquidity improves, but the long-term issue is what is called “uplift”, where ERCOT can try to permanently assign a share of defaulted amounts to Austin Energy and other load-serving entities (i.e., power purchasers).

There remains a great deal of uncertainty and a lack of information. Austin Energy is and will be monitoring developments to see which risk appears most acute, both from a legislative and a financial standpoint.

Rating Agency Actions

On February 24, 2021, Fitch Ratings, Inc. (*Fitch*) placed Austin Energy along with every other retail and wholesale public power utility within the geographic footprint of ERCOT and rated by Fitch on negative watch. On March 3, 2021, S&P Global Ratings (*S&P*) placed Austin Energy on negative watch, along with a number of other retail and wholesale public power utilities. Austin Energy has provided relevant information to the rating agencies on these and other matters. Austin Energy cannot predict any impact to its bond ratings but is committed to taking actions consistent with maintaining its strong investment grade ratings. This disclosure includes known events as of March 5, 2021.

Other Market Impacts Related to the 2021 Weather Event

On March 1, 2021, it was reported in the financial news that Brazos Electric Cooperative, Inc. ("Brazos"), a wholesale electric provider for its 16 retail electric cooperative members and an electric power generator and purchaser within ERCOT, filed for Chapter 11 bankruptcy with an unpayable \$1.8 billion bill from ERCOT resulting from the 2021 Weather Event. The bankruptcy filing will impact ERCOT and as a result may indirectly impact Austin Energy.

* * *