

Fiscal Year 2019 Proposed Budget Presentation

Electric Utility Commission

Austin Energy
Executive Team



August 13, 2018

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Agenda

- Proposed Budget Summary
- Financial Health
- Major Business Unit Discussions
- Proposed Tariff and Fee Changes
- Budget Adoption Schedule



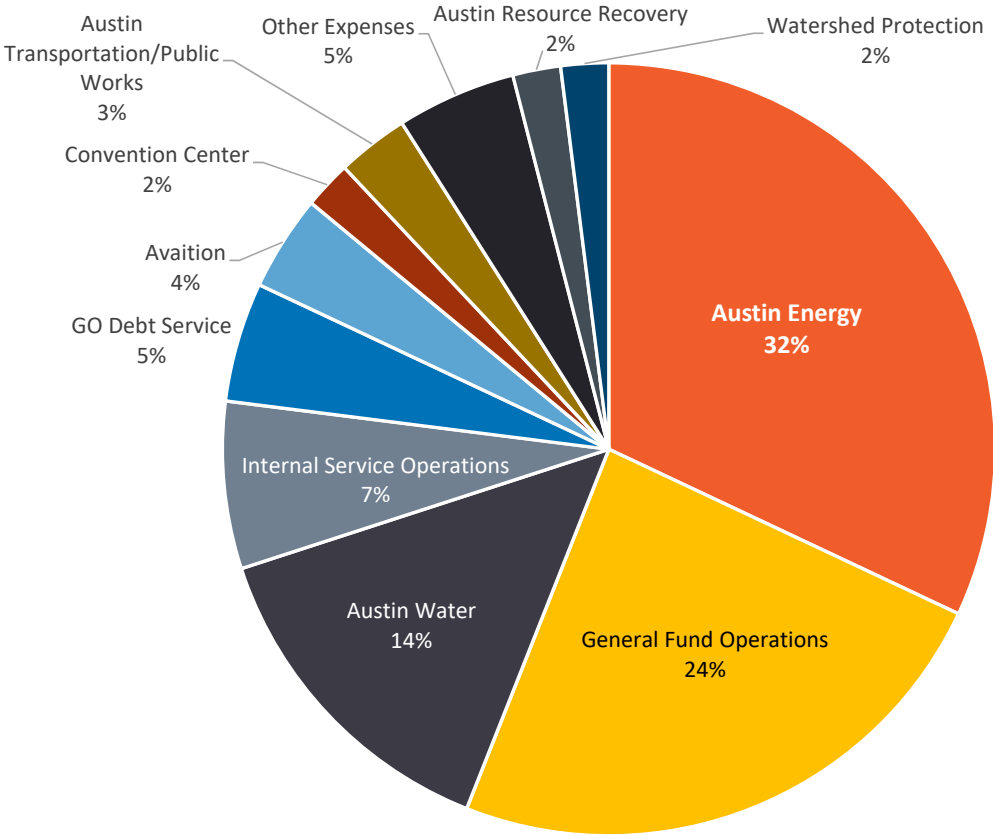
Fiscal Year 2019 Proposed Budget Presentation

Proposed Budget Summary



Austin Energy's Share of the FY 2019 City Budget

All City Funds for FY 2019: \$4.1B



Austin Energy's total Expenditures Budget of \$1.4B in FY 2019 is 32% of the City of Austin's total expenditures budget of \$4.1B



Fund Summary FY 2019

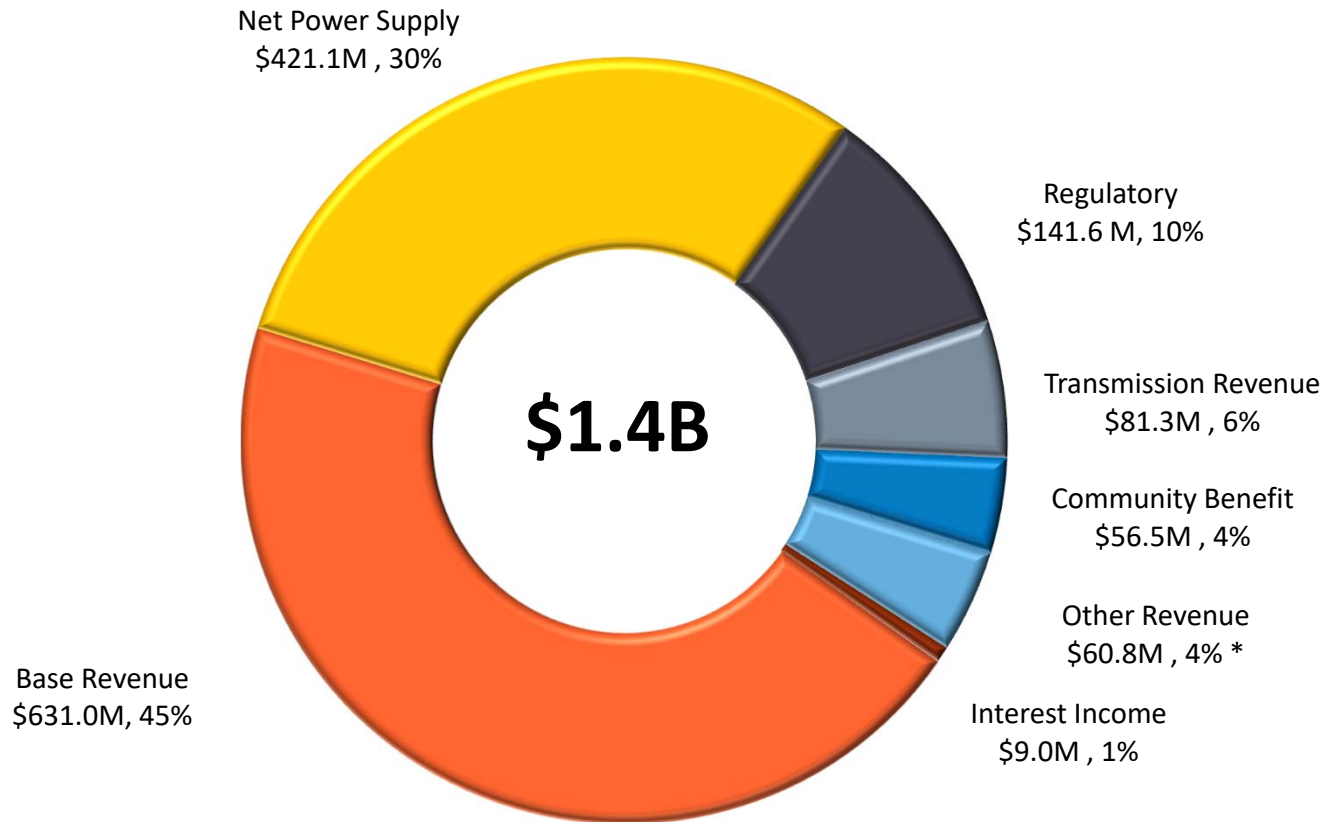
| (\$ millions) | FY 2017 Actual | FY 2018 Amended | FY 2018 Estimated | FY 2019 Proposed | FY 2019 Proposed To FY 2018 Amended | % Change |
|-----------------------|-------------------|--------------------|----------------------|---------------------|--|----------|
| Beginning Balance | \$334.5 | \$379.6 | \$370.8 | \$403.7 | \$24.0 | 6.3% |
| Revenue/Transfers In | 1,374.5 | 1,366.0 | 1,373.7 | 1,401.3 | 35.3 | 2.6% |
| Expenditures: | | | | | | |
| Operating Expenses | 588.8 | 585.4 | 582.1 | 604.0 | 18.6 | 3.2% |
| Power Supply Expenses | 449.3 | 413.1 | 415.1 | 421.1 | 8.0 | 1.9% |
| Debt Service | 96.2 | 100.4 | 100.4 | 103.5 | 3.1 | 3.1% |
| CIP Transfer | 63.1 | 58.7 | 50.6 | 66.6 | 8.0 | 13.6% |
| General Fund Transfer | 108.0 | 109.0 | 109.0 | 110.0 | 1.0 | 0.9% |
| Other Transfers | 43.1 | 48.6 | 48.6 | 54.0 | 5.4 | 11.1% |
| Reserve Transfers | 0.0 | 35.0 | 35.0 | 40.0 | 5.0 | 14.2% |
| Total Expenditures | \$1,348.5 | \$1,350.2 | \$1,340.8 | \$1,399.2 | \$49.1 | 3.6% |
| Excess(Deficiency) | \$26.0 | \$15.8 | \$32.9 | \$2.1 | | |
| Ending Balance | \$370.8 | \$395.4 | \$403.7 | \$405.8 | \$10.3 | 2.6% |
| FTEs | 1,718 | 1,749 | 1,749 | 1,774 | 25 | 1.4% |

In Millions

This information is unaudited and should be read in conjunction with the audited Comprehensive Financial Reports for the City of Austin, when published on www.austintexas.gov/financeonline/finance/main.cfm



FY 2019 Sources of Revenue



*Other revenue includes On-Site Energy (chiller) \$26.1M, Congestion Revenue \$13.0M, infrastructure attachments \$6.0M, Misc. Fees \$14.8M





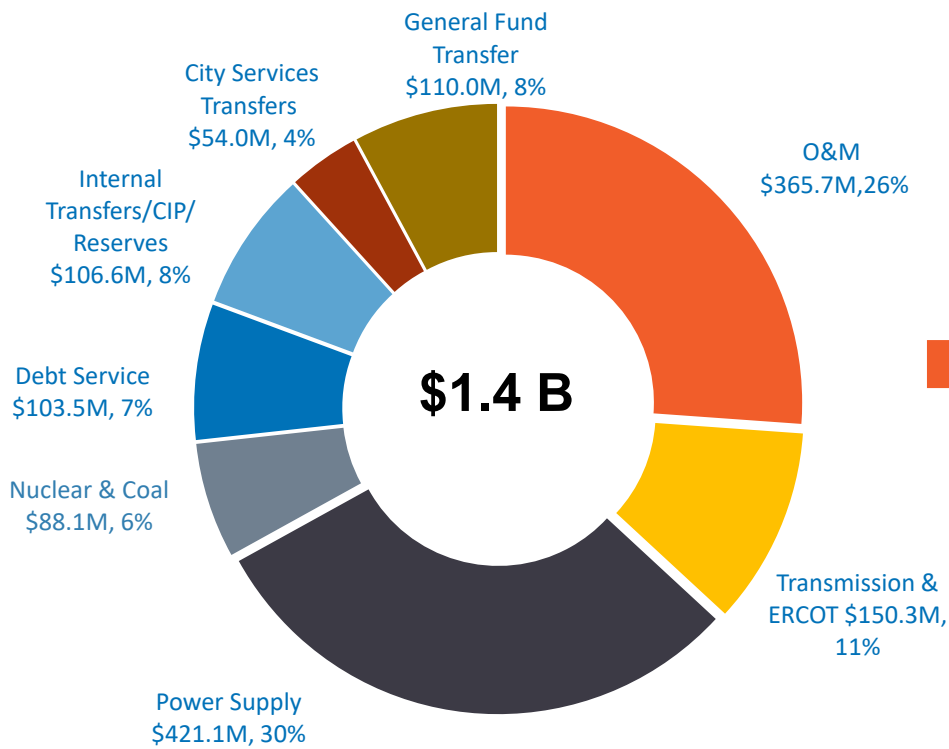
FY 2019 Revenue Budget Highlights

- Base revenue increases \$10.5M due to higher sales
 - Growth in sales (13,330 gigawatt hours vs. 13,251 FY 18) <1%
 - Customer growth (491,527 vs. 477,898 FY 18) 3%
 - No change in base rates
- Power Supply Adjustment to be finalized in late August
- Community Benefit Revenue increases \$5.8M
 - Increase in Energy Efficiency Services rate is partially offset by decreases in the Customer Assistance Program and Service Area Lighting rates
- Regulatory revenue increases \$3.2M due to higher sales
 - No change in Regulatory Charge anticipated

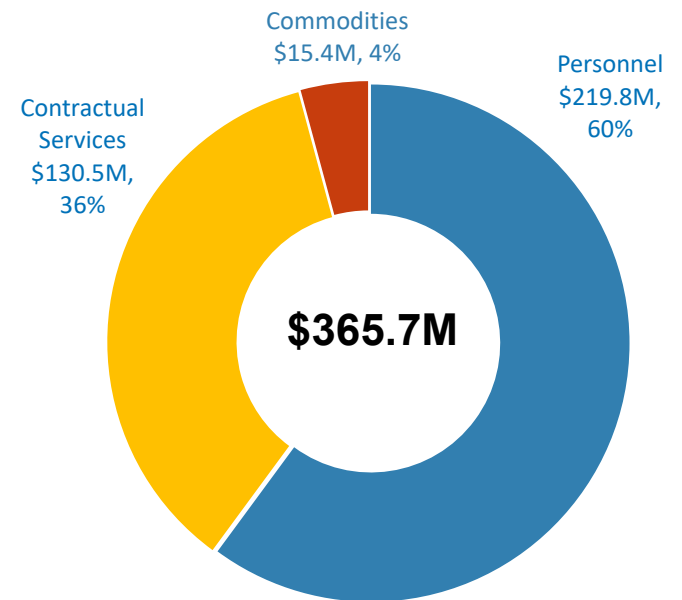


Funding Needed for Austin Energy Operations FY 2019

Operating Requirements



Operations & Maintenance



Austin Strategic Direction 2023

City of Austin's Vision:

- Austin is a beacon of sustainability, social equity, and economic opportunity; where diversity and creativity are celebrated; where community needs and values are recognized; where leadership comes from its community members and where the necessities of life are affordable and accessible to all.

City of Austin's Strategic Outcomes:

- Together we strive to create a complete community where every Austinite has choices at every stage of life that allow us to experience and contribute to all of the following outcomes:

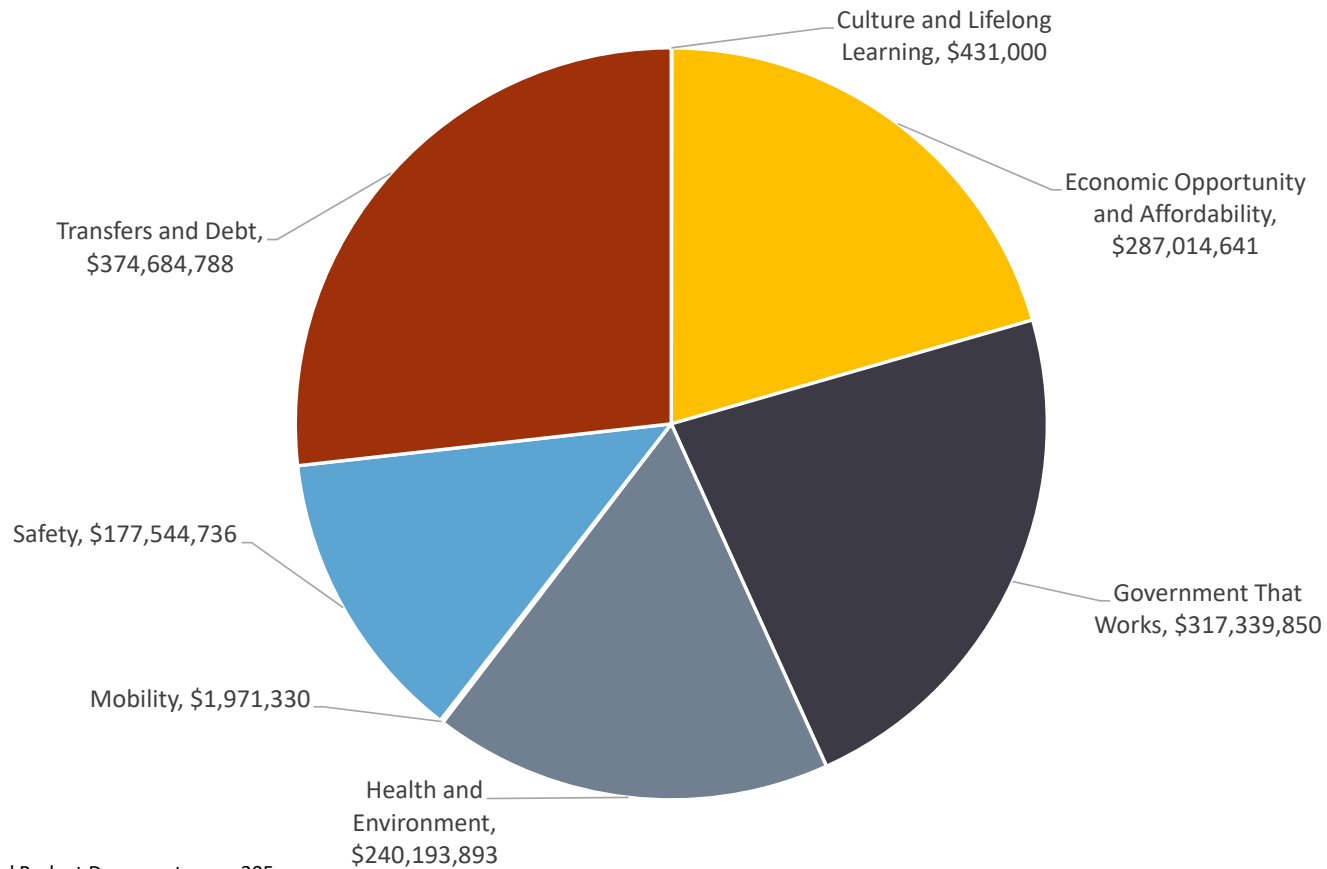
- **Economic Opportunity and Affordability:** Having economic opportunities and resources that enable us to thrive in our community.
- **Mobility:** Getting us where we want to go, when we want to get there, safely and cost-effectively.
- **Safety:** Being safe in our home, at work, and in our community.
- **Health and Environment:** Enjoying a sustainable environment and a healthy life, physically and mentally.
- **Culture and Lifelong Learning:** Being enriched by Austin's unique civic, cultural, ethnic, and learning opportunities.
- **Government That Works for All:** Believing that city government works effectively and collaboratively for all of us—that it is equitable, ethical and innovative.

Adopted by City Council on March 8, 2018



FY 2019 Proposed O&M Budget by Strategic Outcome

FY2019 Austin Energy Proposed Budget by Strategic Outcome, \$1.4B





FY 2019 Operating Expense Highlights

- City-wide increase in wages 2.5%; \$4.9 M
- Power supply expenses to be finalized in late August
- Technology consulting and services for Customer Care and Billing System and Customer-Facing Portal implementation; \$3.9M
- Increase in rental rates for 811 Barton Springs and additional space for the Utility Contact Center on Ben White; \$1.9M
- Consulting and Contract staffing increases for new technology and continued technology work efforts \$1.4M
- Allocation of Human Capital Management System in Payment for Direct Services to the City; \$0.3M





FY 2019 Personnel Changes

- Austin Energy currently has 1,749 FTEs for FY 2018 with a 4.9% vacancy rate
- FY 2019 Proposed Budget includes conversion of 23 temporary/contract positions and 2 new positions for a total net impact of \$833K
- Net addition of 25 FTE's brings total to 1,774

Conversion of temporary and contractor positions to FTE:

- 3 in Customer Energy Solutions
- 5 in Electric Service Delivery
- 10 in Customer Solutions for Customer Care
- 1 in Revenue Measurement – Meter Reading Support
- 4 in IT

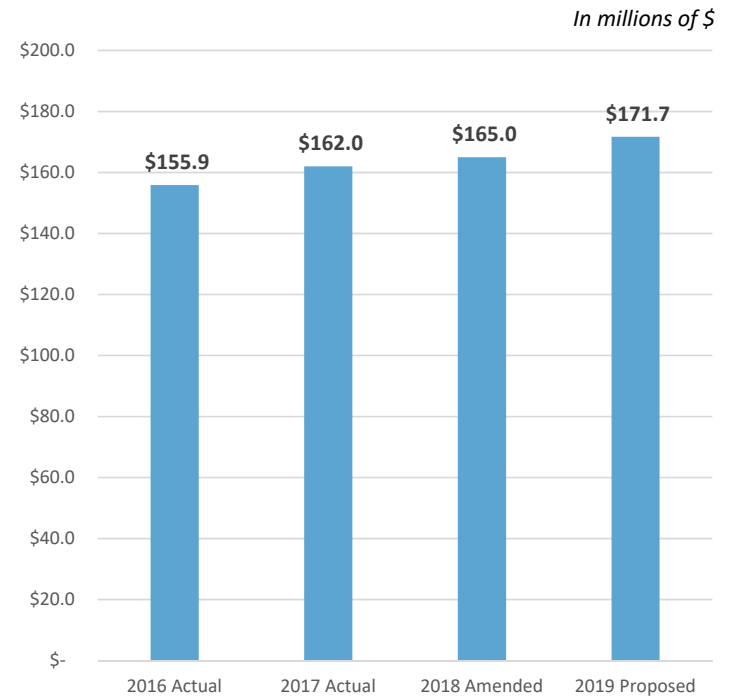
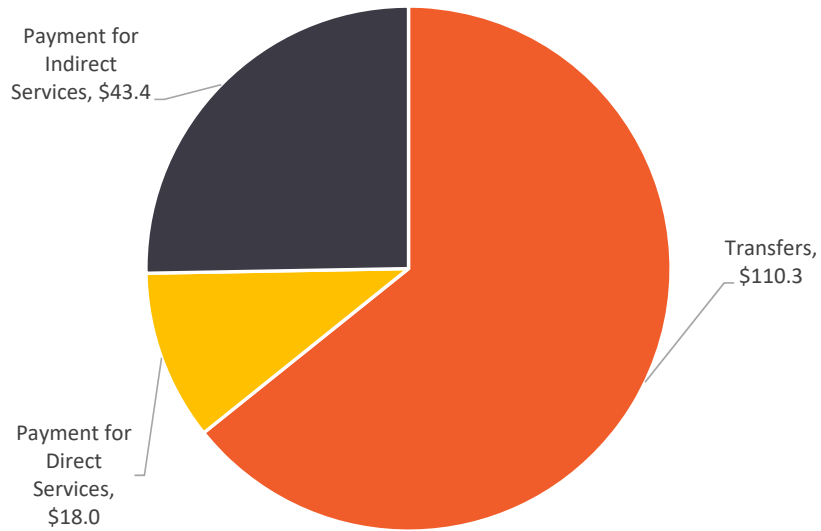
New program positions:

- 2 in Onsite Energy Resources



City Transfers & Payments for Direct and Indirect Services

FY 2019 Proposed Budget : Transfers and Payments to the City (In millions of \$)



Capital Improvement Plan 5-Year Spend Plan

In millions of \$

| Business Unit | <i>FY 2018 Estimate</i> | FY 2019 | FY 2020 | FY 2021 | FY 2022 | FY 2023 | 2019 – 2023 Total |
|---------------------------|-------------------------|----------------|----------------|----------------|----------------|----------------|-------------------|
| Distribution | \$95.6 | \$90.7 | \$95.0 | \$96.5 | \$95.0 | \$91.2 | \$468.4 |
| Distribution Substation | 10.5 | 13.3 | 19.4 | 12.6 | 4.9 | 8.2 | 58.4 |
| Transmission* | 23.7 | 53.7 | 60.0 | 102.6 | 81.5 | 47.5 | 345.3 |
| Electric Service Delivery | 129.8 | 157.7 | 174.4 | 211.7 | 181.4 | 146.9 | 872.1 |
| Power Production | 7.2 | 13.5 | 15.3 | 8.7 | 8.1 | 11.5 | 57.1 |
| Joint Projects | 13.0 | 9.9 | 11.0 | 11.3 | 11.1 | 11.9 | 55.2 |
| On-Site Energy Resources* | 28.2 | 52.2 | 43.0 | 25.0 | 6.7 | 0.8 | 127.7 |
| General | 15.1 | 18.5 | 10.9 | 137.3 | 5.5 | 5.5 | 177.7 |
| Total | \$193.3 | \$251.8 | \$254.6 | \$394.0 | \$212.8 | \$176.6 | \$1,289.8 |

* Recovery of capital expenditures is not a component of retail rates



Financing the Capital Improvement Plan

In millions of \$

| Business Unit | <i>FY 2018 Estimate</i> | FY 2019 | FY 2020 | FY 2021 | FY 2022 | FY 2023 | 2019 – 2023 Total |
|---------------------------------------|-----------------------------|----------------|----------------|----------------|----------------|----------------|----------------------|
| Total Capital Improvement Plan | \$193.3 | \$251.8 | \$254.6 | \$394.0 | \$212.8 | \$176.6 | \$1,289.8 |
| Debt | 103.0 | 147.0 | 117.6 | 108.8 | 88.3 | 67.4 | 529.1 |
| Cash | 65.2 | 76.2 | 109.3 | 257.5 | 96.8 | 81.5 | 621.3 |
| Contribution in aid of construction | 25.1 | 28.6 | 27.7 | 27.7 | 27.7 | 27.7 | 139.4 |
| Total | \$193.3 | \$251.8 | \$254.6 | \$394.0 | \$212.8 | \$176.6 | \$1,289.8 |
| Debt % | 53.3% | 58.4% | 46.2% | 27.6% | 41.5% | 38.2% | 41.0% |
| Cash % | 33.7% | 30.3% | 42.9% | 65.4% | 45.5% | 46.1% | 48.2% |
| Contribution in aid of construction % | 13.0% | 11.4% | 10.9% | 7.0% | 13.0% | 15.7% | 10.8% |



Fiscal Year 2019 Proposed Budget Presentation

Financial Health



Average Residential Customer Bill Impact

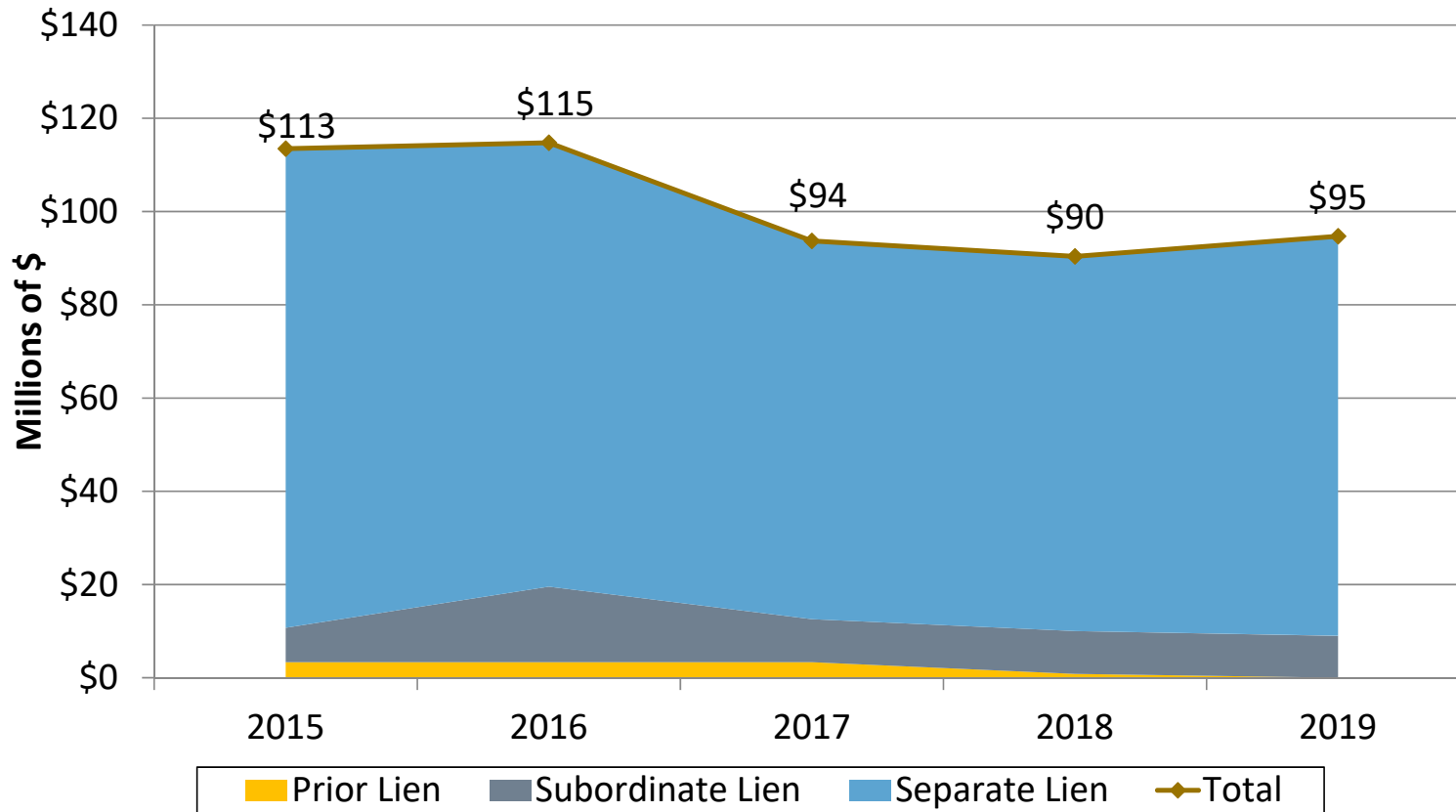
Unbundled 5-Tier Inclining Block Energy Rate (Inside City of Austin)

| Average Monthly Bill | Energy (kWh) | FY 2018 Rate | FY 2019 Rate | \$ Change | % Change |
|---|--------------|-----------------|-----------------|---------------|------------|
| Customer Charge | | \$ 10.00 | \$ 10.00 | \$ - | 0.0% |
| Base Electricity Charge | 860 | \$ 35.01 | \$ 35.01 | \$ - | 0.0% |
| Power Supply Adjustment (PSA)* | 860 | \$ 25.45 | \$ 25.45 | \$ - | 0.0% |
| Community Benefit Charge (CBC) | 860 | \$ 4.83 | \$ 5.06 | \$.23 | 4.8% |
| Regulatory Charge | 860 | \$ 11.71 | \$ 11.71 | \$ - | 0.0% |
| Total Monthly Bill | 860 | \$ 87.00 | \$ 87.23 | \$.23 | .3% |
| Total CAP Customer Discounted Bill | 860 | \$ 67.97 | \$ 68.51 | \$.54 | .8% |

* The PSA and other pass throughs will be updated with final proposed numbers in August 2018.



Debt Service by Fiscal Year FY 2015-2019



| | 2015 | 2016 | 2017 | 2018 | 2019 |
|------------------|----------|---------|----------|----------|---------|
| Debt Outstanding | \$ 1,276 | \$1,222 | \$ 1,181 | \$ 1,145 | \$1,102 |



Austin Energy Financial Health

| | 2018 Minimum | 2017 Actual | 2018 Estimate | 2019 Forecast |
|--|-----------------|----------------|------------------|------------------|
| Standard & Poor's (S&P) credit rating on separate-lien revenue bonds | AA | AA | AA | AA |
| Working Capital | \$131M | \$406M | \$414M | \$443M |
| Days Cash on Hand (Fitch) | 150 days | 215 | 237 | 256 |
| Debt Service Coverage (before GFT) * | 2.5X | 3.1 | 3.8 | 3.8 |
| Debt Service Coverage (after GFT) * | 2.0X | 2.2 | 2.7 | 2.7 |
| Debt to Capitalization | 50% | 44% | 44% | 46% |
| Net Income | \$10M | \$17M | \$37M | \$17M |

* Debt service coverage ratios presented do not include imputed debt associated with power purchase agreements



Austin Energy Financial Health - Reserves

| | 2018 Minimum | 2017 Actual | 2018 Estimate | 2019 Forecast |
|------------------------------------|-----------------|----------------|------------------|------------------|
| Working Capital | \$131M | \$406M | \$414M | \$443M |
| Contingency Reserve | \$96M | \$96M | \$96M | \$101M |
| Power Supply Stabilization Reserve | \$102M | \$90M | \$95M | \$105M |
| Capital Reserve | \$81M | \$12M | \$42M | \$67M |
| | | | | |
| Total | \$410M | \$604M | \$646M | \$716M |

| | | 2018 Budget | 2019 Forecast |
|-----------------------------|--|----------------|------------------|
| Non-Nuclear Decommissioning | | \$14M | \$22M |

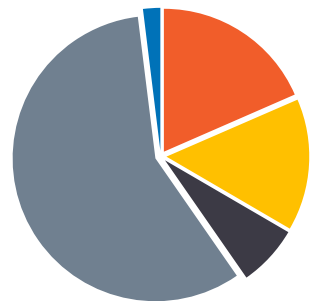
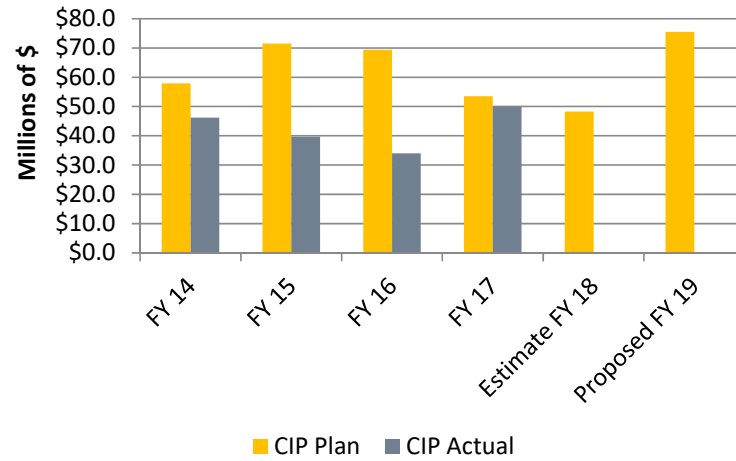
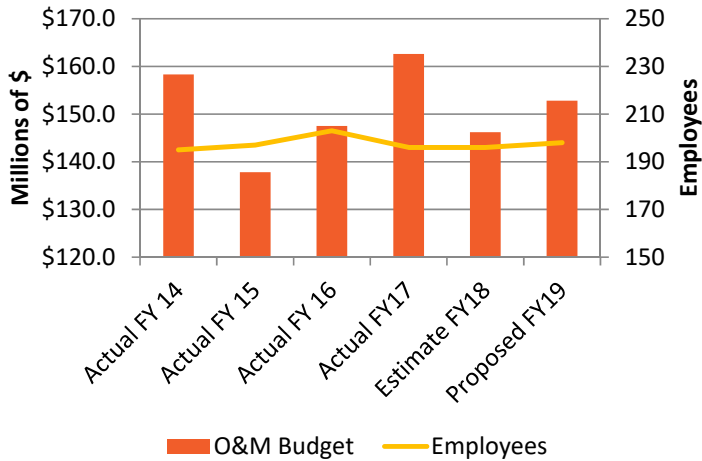


Fiscal Year 2019 Proposed Budget Presentation

Major Business Unit Discussions



FY 2019 Power Generation & On-Site Energy Resources Budget Summary



- STP & FPP- O&M budget increased by \$ 4.4M due to increase in cyclic increases in planned outage and maintenance expenses
- 2 FTE's added due to new chiller plant growth
- Decker and Sand Hill decrease of (\$1.1M) in maintenance and services.
- OSER O&M budget for FY19 \$15.1M
- Downtown District Cooling Plant 3 capital expenses of \$26.2M
- ACC Cooling Plant capital expenses of \$11.4M
- Downtown Chiller Capacity Addition capital expenses of \$7.8M
- Domain District Plant Chiller (3) capital expenses of \$3.3M
- Sand Hill Energy Center capital expenses of \$2.8M



- Labor and Benefits
- Contractuals
- Maintenance Contracts
- Joint Projects
- Commodities

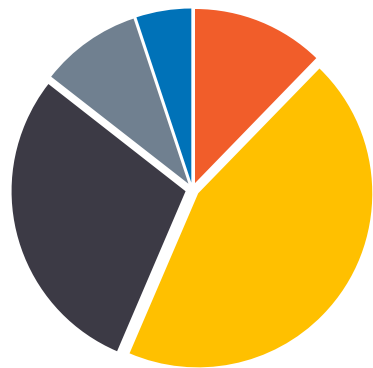
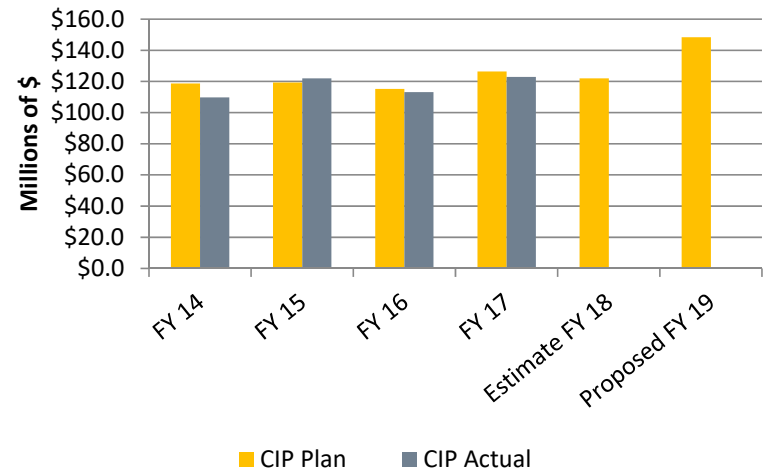
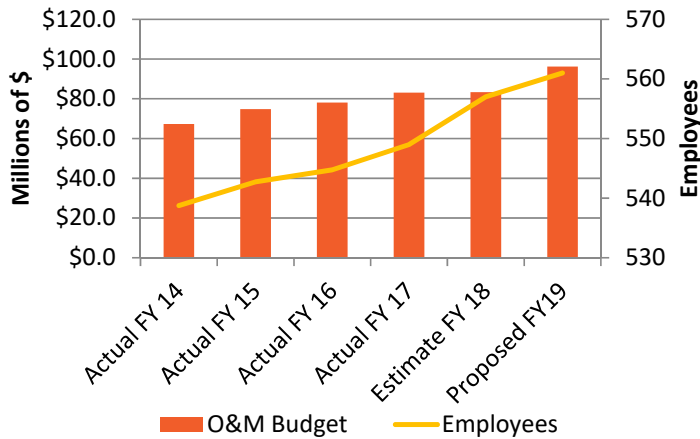
FY 2019 Power Generation & On-Site Energy CIP Highlights 5-Year Spend Plan

| | <i>FY 2018 Estimate</i> | FY 2019 | FY 2020 | FY 2021 | FY 2022 | FY 2023 | 2019 – 2023 Total |
|--|-----------------------------|---------|---------|---------|---------|---------|----------------------|
| District Cooling Plant #3 | \$1.3 | \$26.2 | \$16.7 | \$7.3 | \$0.0 | \$0.0 | \$50.2 |
| Satellite - ACC Plant | \$1.8 | \$11.4 | \$12.4 | \$3.0 | \$0.0 | \$0.0 | \$26.8 |
| Downtown Chiller Capacity Addition | \$0.4 | \$7.8 | \$5.0 | \$0.0 | \$0.0 | \$0.0 | \$12.8 |
| Domain District Plant Chiller | \$0.0 | \$3.3 | \$0.3 | \$0.0 | \$0.0 | \$0.0 | \$3.6 |
| Sand Hill Energy Center Capital Program | \$0.0 | \$2.8 | \$4.6 | \$2.6 | \$4.6 | \$7.2 | \$21.8 |

in millions



FY 2019 Electric Service Delivery Budget Summary



- Labor and Benefits
- Labor Capital Projects
- Contractuals
- Line Clearance Contract
- Commodities

- Conversion of 5 temporary and contractor positions to FTE
- \$6.5M transfer of advanced metering infrastructure contract from Customer Care
- Increased \$0.9M to vegetation management program
- increased \$0.7M to network design engineering services
- \$4.4 million for replacement of the Supervisory Control and Data Acquisition-Energy Management System (SCADA-EMS) and ADMS
- \$12.8 million for meter upgrades as part of electric grid modernization



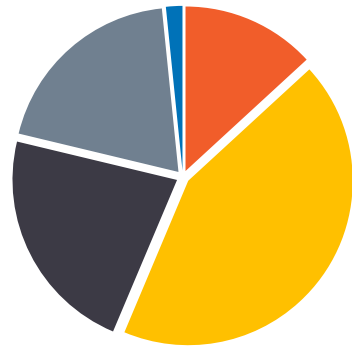
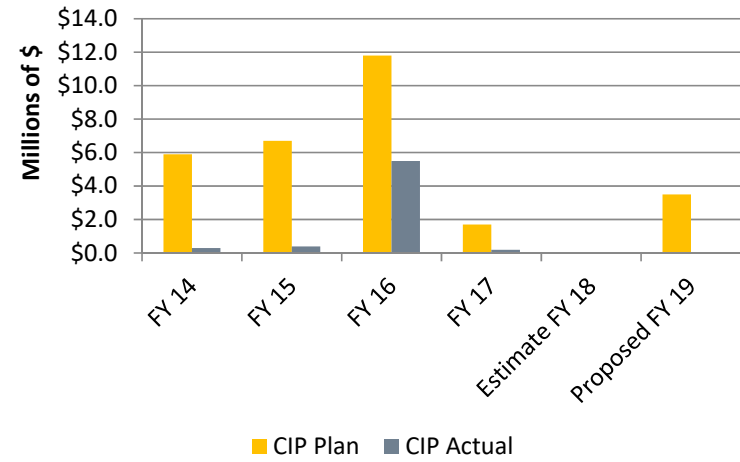
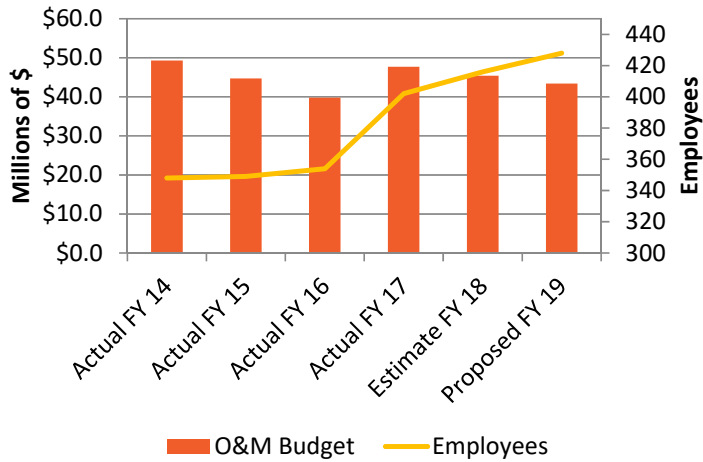
FY 2019 Electric Service Delivery CIP Highlights 5-Year Spend Plan

| | <i>FY 2018 Estimate</i> | FY 2019 | FY 2020 | FY 2021 | FY 2022 | FY 2023 | 2019 – 2023 Total |
|---|-----------------------------|---------|---------|---------|---------|---------|----------------------|
| Decker Decommissioning Transmission Projects | \$0.0 | \$0.2 | \$10.2 | \$48.1 | \$30.9 | \$0.0 | \$89.4 |
| Meter Replacements | \$13.9 | \$12.8 | \$14.3 | \$12.8 | \$8.8 | \$5.8 | \$54.5 |
| Substation Projects | \$0.8 | \$4.4 | \$17.7 | \$8.1 | \$19.6 | \$8.2 | \$57.7 |
| Lakeshore to Northland Substation Reconductor | \$0.0 | \$0.0 | \$0.0 | \$3.5 | \$3.5 | \$10.7 | \$17.7 |
| Fiesta to Mueller Substation Conversion- New Circuit | \$0.0 | \$0.0 | \$0.0 | \$0.1 | \$2.4 | \$10.7 | \$13.2 |

In millions



FY 2019 Customer Care Budget Summary

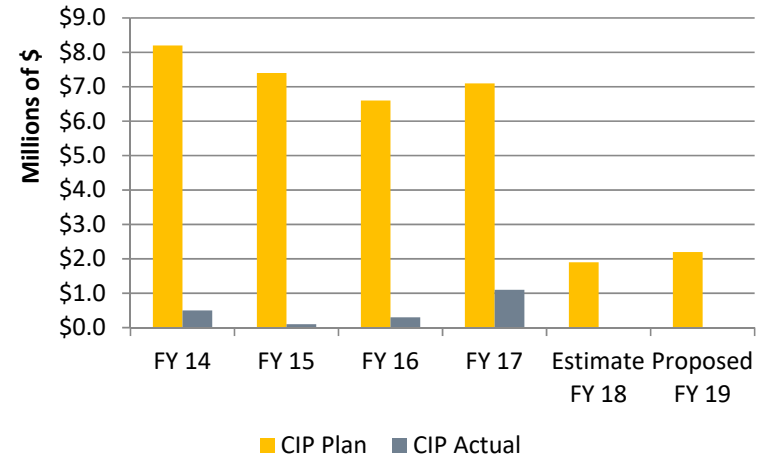
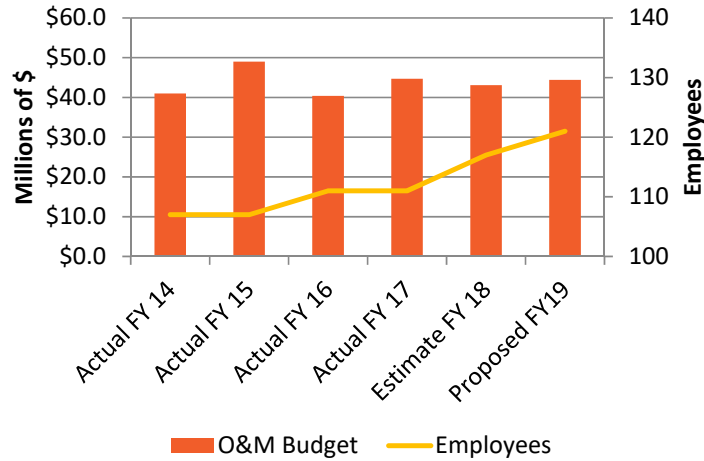


- Labor and Benefits
 ■ Contractuals
 ■ Oracle Contract
- Staffing Services
 ■ Commodities

- \$6.5M transfer of advanced metering infrastructure contract to Electric Service Delivery
- One time increase of \$3.2M for Customer Care and Billing System customer-facing portal implementation
- Convert 1 temporary position for Meter Reading Support and 10 temporary positions for Customer Solutions to 11 FTEs
- \$7.5M for Interactive Voice Response (IVR) Enhancement in 5 yr. CIP plan
- \$0.6M for tax district software in 5 yr. CIP plan



FY 2019 Customer Energy Solutions Budget Summary



- Labor and Benefits
- Energy Efficiency Incentives
- Contractuals
- Solar Program

- Convert 3 temporary and contractor FTE's to administer energy efficiency and green building programs
- Increase of \$1.1M for consulting services and Conservation Programs Rebates & Incentives
- Solar budget incentives of \$7.5 M unchanged
- Non-solar demand side management budget of \$35M is 2.6% of gross revenues
- 10 CIP-Electric vehicle fast charging stations
- Meets all Council and GenPlan Goals



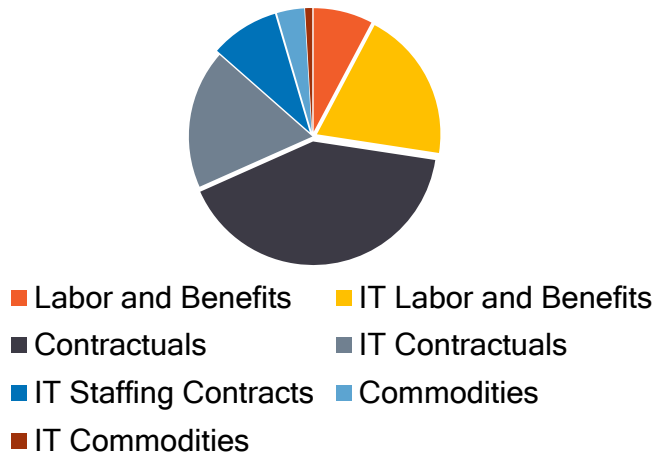
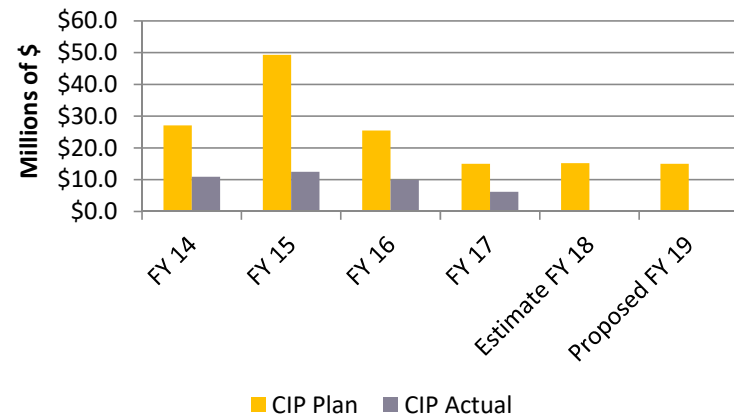
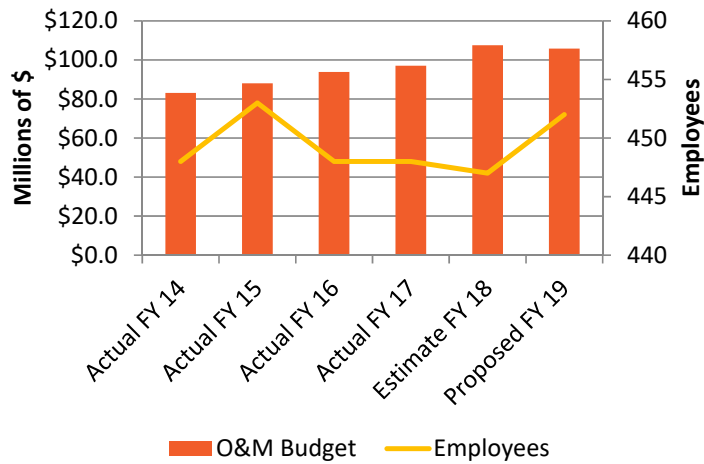
Energy Efficiency Programs

Community Benefits Charge: Energy Efficiency Services Incentives (in thousands)

| Component | FY 2018 Amended Budget | FY 2019 Proposed Budget | Variance |
|---|------------------------|-------------------------|--------------|
| Customer Assistance Program (CAP) Weatherization Direct Incentives (DI) | \$1,000 | \$1,000 | - |
| Austin Energy Weatherization DI | 1,427 | 1,277 | (150) |
| Appliance Efficiency Program | 1,300 | 1,500 | 200 |
| Commercial Power Partner | 52 | 90 | 38 |
| Commercial - Existing Construction | 2,400 | 3,100 | 700 |
| Home Performance Energy Star | 1,500 | 1,650 | 150 |
| Load Coop | 1,237 | 1,270 | 33 |
| Loan Options | 250 | 300 | 50 |
| Multi-Family Rebates | 850 | 525 | (325) |
| Multi-Family Weatherization DI | 1,000 | 675 | (325) |
| Residential Power Partner - Aggregate | 1,158 | 1,483 | 325 |
| Small Businesses | 1,700 | 1,900 | 200 |
| Solar Program | 5,000 | 5,000 | - |
| Solar PV Performance Based Incentive Program | 2,500 | 2,500 | - |
| Strategic Partnership with Utilities & Retailers SPUR | 800 | 875 | 75 |
| Water Heater Timers | 688 | 495 | (193) |
| Other | 488 | 288 | (200) |
| Total CBC: Energy Efficiency Services Incentives | \$23,350 | \$23,928 | \$578 |



FY 2019 Support Services Budget Summary

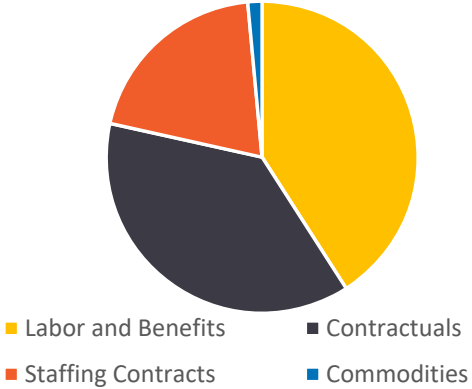
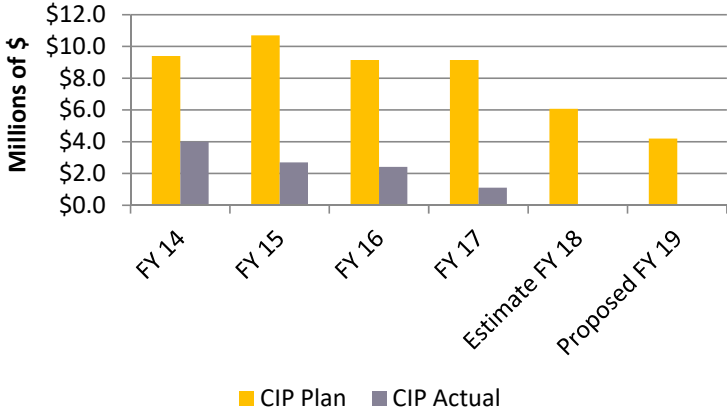
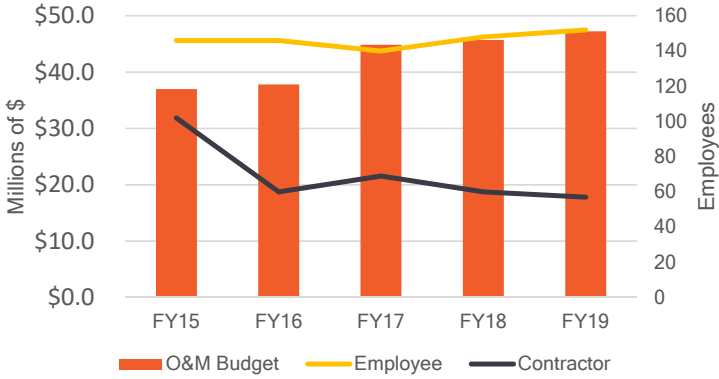


- Increase leased/rental space for \$1.9M
- Decreased corporate contingency by \$10M
- \$3.5M in FY19 capital expenses for Financial Risk Management System Upgrade

Information Technology details on next slide



FY 2019 Information Technology Budget Summary



- Hardware and software maintenance increases \$0.7M
- Consulting and Contract staffing increases for new technology and continued technology work efforts \$1.4M
- Conversion of 4 contractor positions to FTEs
- Capital Improvement Projects trending down while O&M is trending up due to Cloud Services



Fiscal Year 2019 Proposed Budget Presentation

Proposed Tariff and Fee Changes



FY 2019 Tariff and Fee Changes

| Fee Schedule Changes | Current | Proposed |
|--|-------------|-------------|
| Hit and Damaged Pad Mount Transformer | \$ 6,800.00 | \$ 7,130.00 |
| Hit and Damaged Streetlight Pole | \$ 3,610.00 | \$ 3,650.00 |
| Hit and Damaged Utility Pole | \$ 8,075.00 | \$ 8,270.00 |
| Impacted Streetlight Pole (without replacement) | \$ 385.00 | \$ 430.00 |
| Impacted Utility Pole (without replacement) | \$ 775.00 | \$ 930.00 |
| Non-Scheduled Disconnect (non-emergency) | \$ 170.00 | \$ 250.00 |
| District Heating and Cooling Inspection Fee (per additional visit after first two inspections) | - | \$ 250.00 |
| After Hours Outage (Up to 2 hours, then \$400/hour thereafter). | Cost + 15% | \$ 800.00 |

Changes to Fee Language:

- Meter tampering now includes “customer initiated unsafe conditions”
- Distribution design - additional facility due to customer changes / first design no longer free

Tariff Changes:

- Remove Seasonality from Power Supply Adjustment
- Proposed PSA, Regulatory and CBC pass through rates finalized in August



Pass Through Charges

Financial Accounting Standard 71: Regulatory Requirements*

FAS 71 provides guidance in preparing general purpose financial statements for most public utilities. FAS 71 permits rates (prices) to be set at levels intended to recover the estimated costs of providing regulated services or products.

Regulatory Assets (Regulatory Assets on the Balance Sheet):

- Rate actions of a regulator can reduce or eliminate the value of an asset. If a regulator excludes all or part of a cost from allowable costs and it is not probable that the cost will be included as an allowable cost in a future period, the cost cannot be expected to result in future revenue through the rate-making process. Accordingly, **the carrying amount of any related asset should be reduced to the extent that the asset has been impaired.**

Regulatory Liabilities (Deferred Inflows on the Balance Sheet):

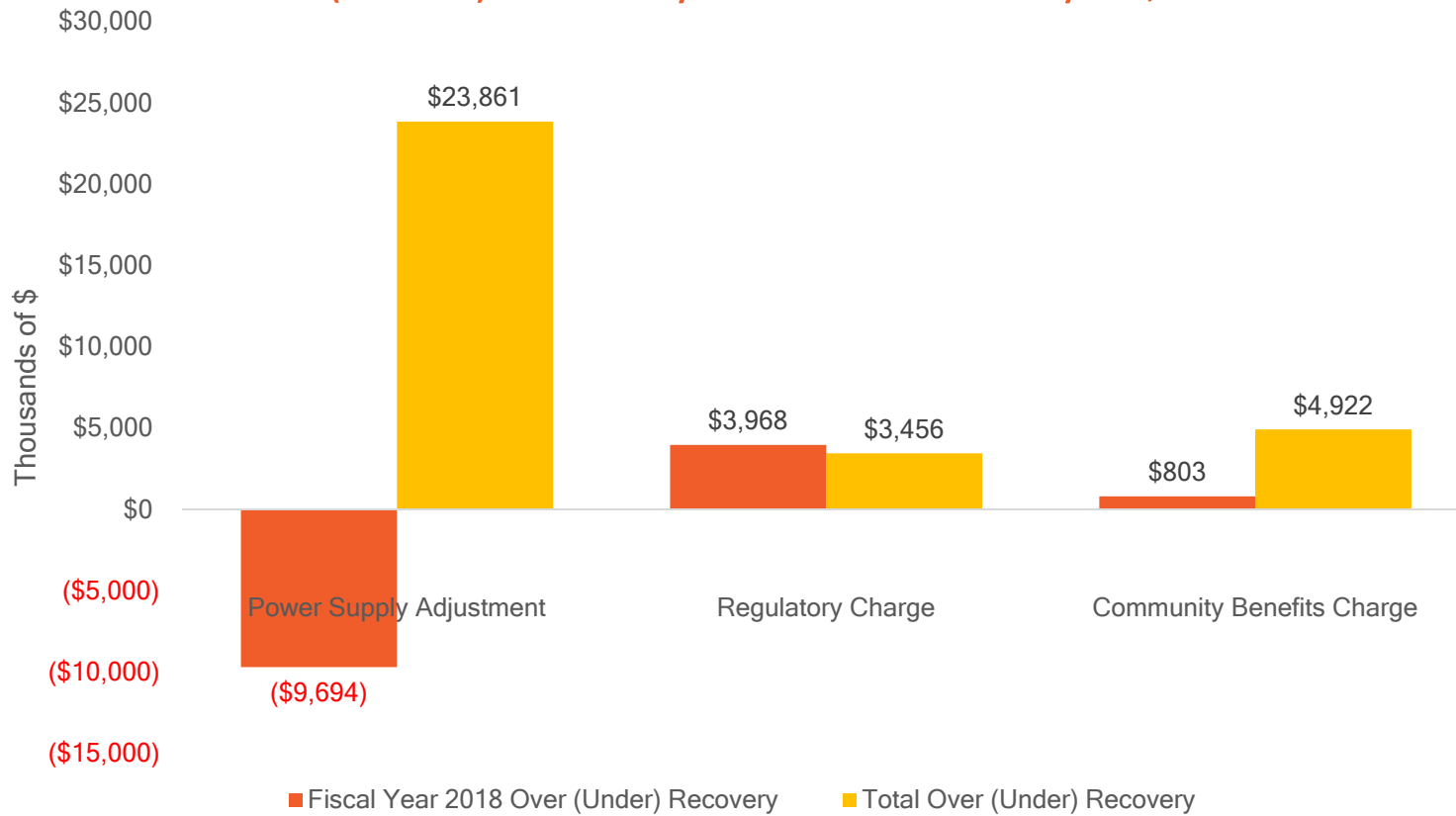
- A regulator can provide current rates intended to recover costs that are **expected to be incurred in the future with the understanding that if those costs are not incurred, future rates will be reduced by corresponding amounts.** If current rates are intended to recover such costs and the regulator requires the regulated business-type activity to remain accountable for any amounts charged pursuant to such rates and not yet expended for the intended purpose, the regulated business-type activity should not recognize as revenues amounts charged pursuant to such rates. Those **amounts should be deferred and recognized as revenue when the associated costs are incurred.**

* Now known as Governmental Accounting Standards Board Statement No. 62



Pass Through Charges

Over (Under) Recovery Amount as of July 31, 2018

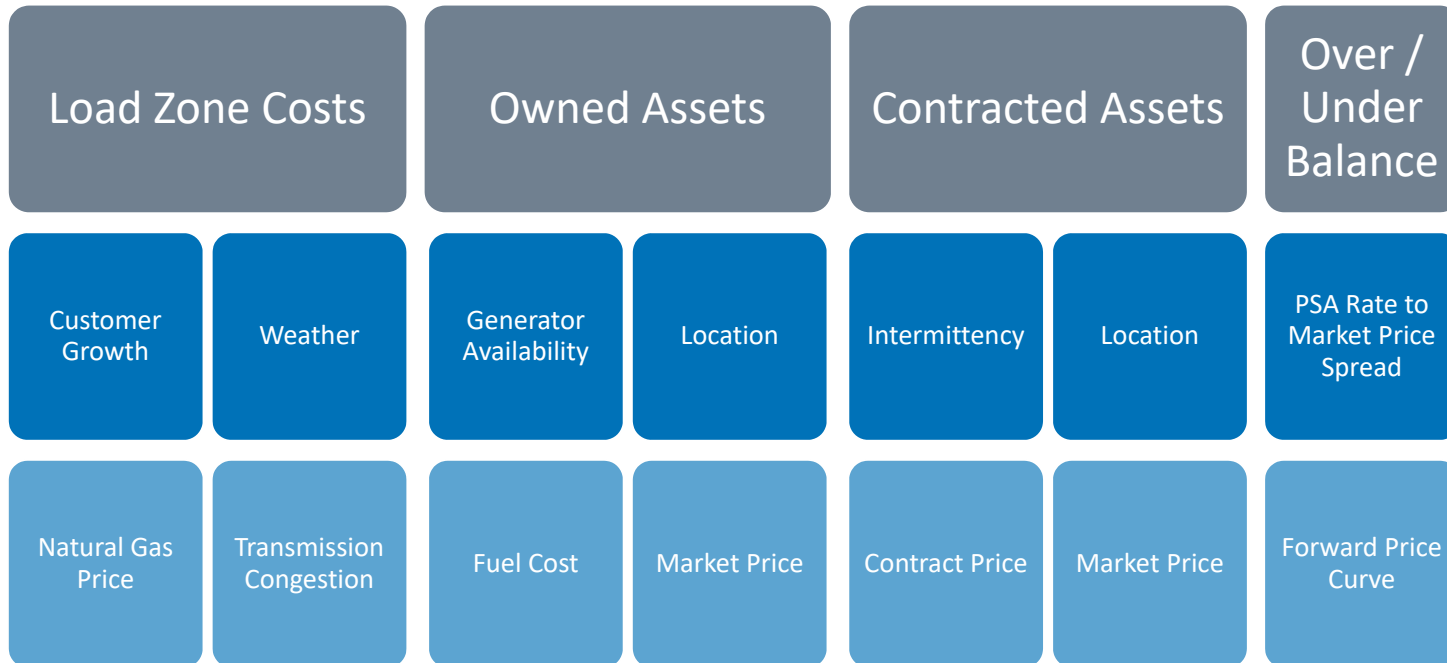


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Power Supply Adjustment Drivers

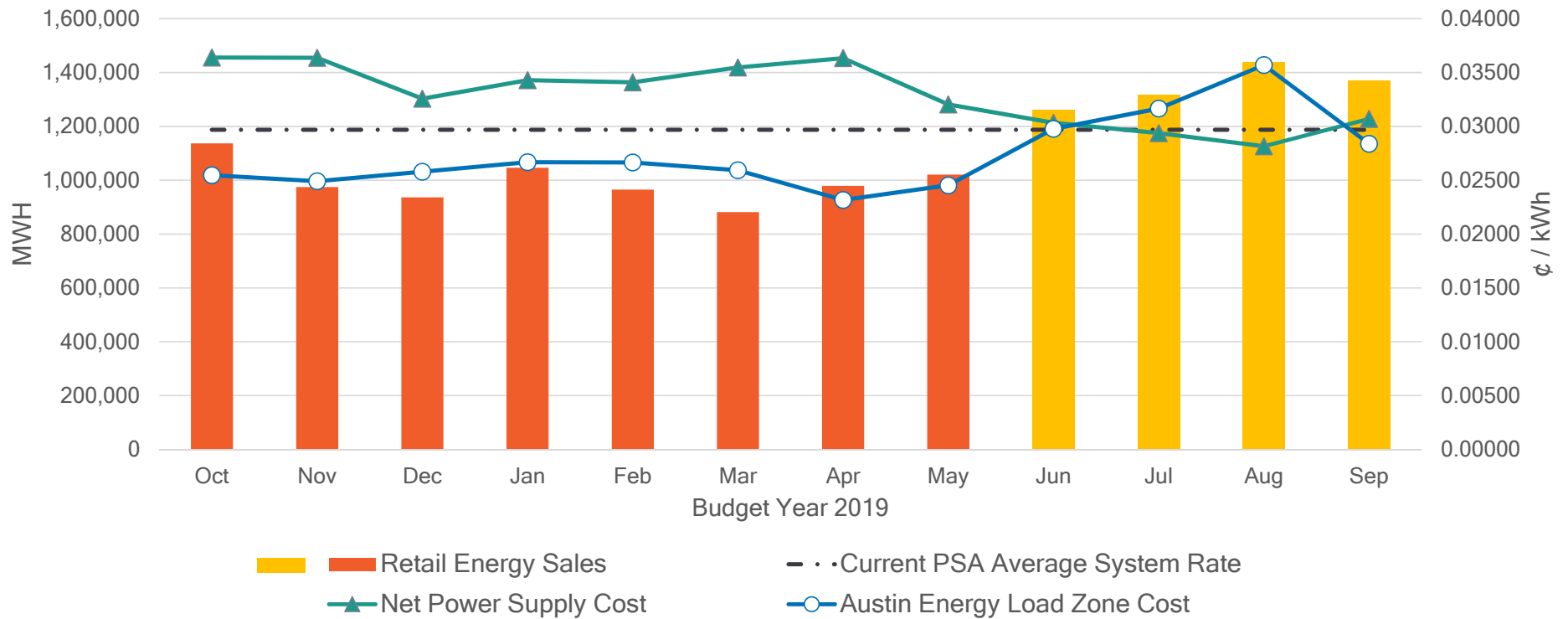
Major Elements Impacting PSA

Cost Drivers



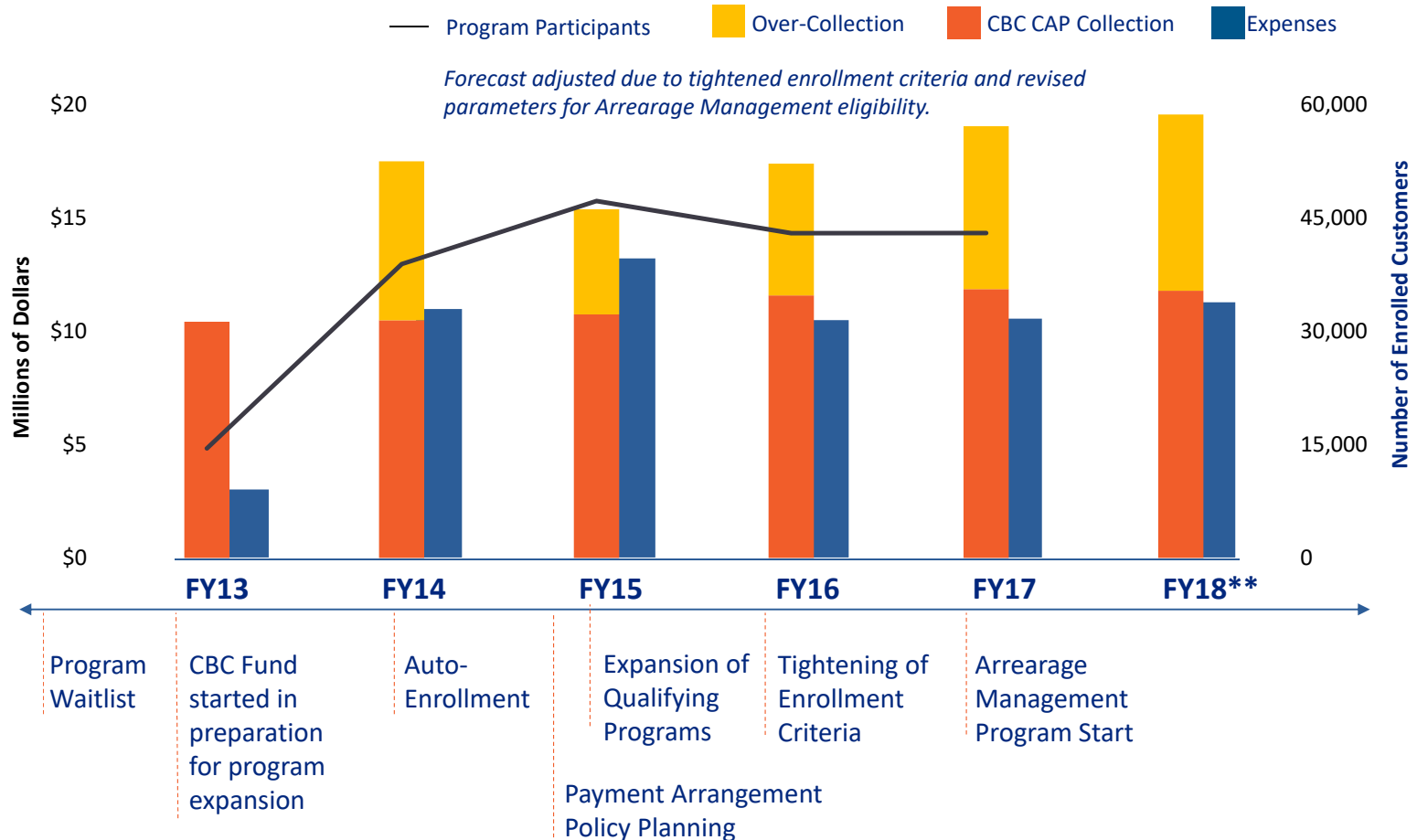
FY 2019 Forecasted Energy and Costs

Elimination of the Seasonal Power Supply Adjustment



Community Benefit Charge (CBC): Customer Assistance Program (CAP)

Collections, Expenses & Enrollment



This information is unaudited and should be read in conjunction with the audited Comprehensive Financial Reports for the City of Austin, when published on www.austintexas.gov/financeonline/finance/main.cfm

Fiscal Year 2019 Proposed Budget Presentation

Budget Adoption Schedule





FY 2019 Budget Adoption Schedule

- August 6 - Budget work session #1
 - Proposed Budget available to the public
- August 9 - Budget work session #2
 - Department Presentations on select topics
- August 13 - Budget work-session with EUC
- August 15 - Budget work session #3
 - Council deliberations on select topics
- August 22 - Public Hearing on Utility rates
- August 29 - Budget work sessions #4 – no set agenda
- August 30 – Budget/Tax Rate Hearing/Utility Rate Hearing
 - Austin Energy publishes final proposed PSA rate
- September 11-13 - Budget readings and adoption





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