

Austin Energy Fiscal Year 2022

Forecast and Budget Planning

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Chief Financial Officer



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Fiscal Year 2022 Forecast and Budget Planning Agenda

- Budget Schedule
- Forecast Inputs, Assumptions and Process
- Forecast Summary
- Budget Planning

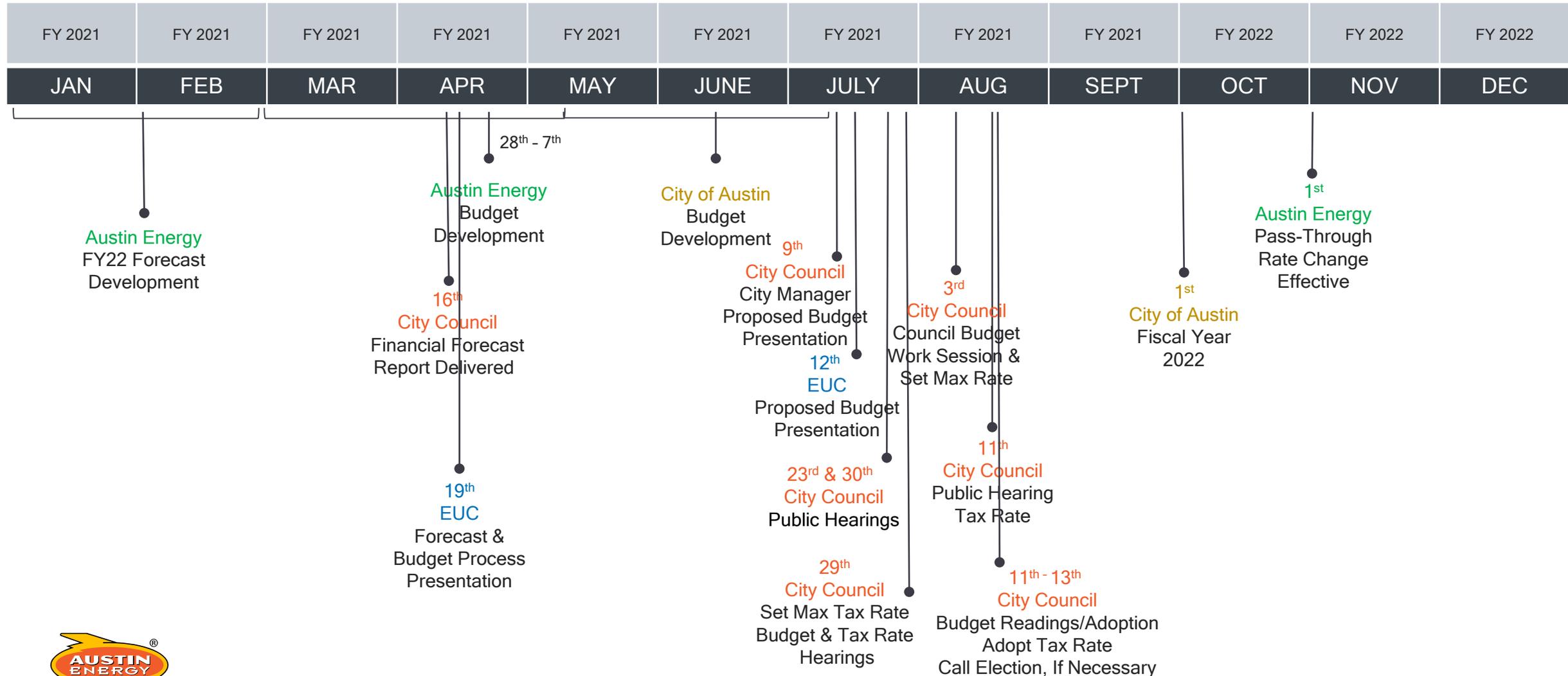


Austin Energy Fiscal Year 2022 Forecast and Budget Planning

Budget Schedule



City of Austin Fiscal Year 2022 Budget Timeline



City of Austin and Austin Energy Financial and Performance Data Sources

Austin Finance Online

<https://www.austintexas.gov/financeonline/finance/index.cfm>

City of Austin Budget Documents

https://www.austintexas.gov/financeonline/afo_content.cfm?s=1

City of Austin Strategic Direction 2023

https://www.austintexas.gov/financeonline/afo_content.cfm?s=73

Performance Austin

<https://cityofaustin.github.io/PerformanceATX/>

Data Austin: Austin Energy

https://data.austintexas.gov/browse?Additional-Information_Department=Austin+Energy

Austin Energy Corporate Reports and Data Library

<https://austinenergy.com/ae/about/reports-and-data-library/reports-and-data-library>



Forecast to Budget 5-Step Process

2. Business units use the targets to allocate funds to accomplish program and project requirements

4. Prior to submitting the budget, Austin Energy updates and revises the forecast with information from the organizational budgets, latest market data and makes adjustments to ensure compliance



1. The forecast is a 5-year “top down” analysis used to establish thresholds for budget development by the business units and to gauge future financial policy compliance and rate impacts

3. Austin Energy uses a “bottom up” approach to develop organizational one-year budgets and 5-year CIP using eCOMBS and PowerPlan while reconciling funding needs to forecasted revenues

5. Austin Energy submits its proposed one-year budget and 5-year CIP to City of Austin Finance where it is compiled, reviewed and possibly revised prior to City Manager approval and presentation to City Council



Austin Energy Fiscal Year 2022 Forecast and Budget Planning

Forecast Inputs, Assumptions and Process



Austin Energy Forecast Inputs

- Preliminary Load Forecast
- Power Supply Cost Forecast (ERCOT Market Forecast)
- Amended Budget (*Current Year Estimate*)
- Adopted 5-Year CIP Forecast (*with revisions*)
- Existing Debt Schedules (Bonds and CP)
- Approved Program Changes
- Historical Financial Trends
- Existing Contractual Obligations
- Adopted City of Austin Financial Policies
- Adopted City of Austin Fees and Tariffs
- City of Austin Forecasting Assumptions
- Austin Energy Forecasting Assumptions
- Approved Public Utility Commission of Texas Transmission (PUCT) Rates (*what we charge*)
- Approved PUCT Postage Stamp Rate (*what we pay*)
- District Cooling Customer Growth and Consumption
- Joint Projects Forecast (Fayette and South Texas)
- Resource, Generation and Climate Protection Plan
- Credit Rating Agency Metrics



Austin Energy Forecast Assumptions

LOAD:

- Includes no discrete provision for potential industrial projects. Perryman includes such projects in the overall forecast pattern
- No COVID Pandemic impact starting Jan 2022

EXPENSE:

- Labor Escalation Factor is at 3% per year
- Inflation is at 0.75% per year on non-labor costs
- Depreciation rate is 2.95%
- Cost of debt: 3% for taxable and non-taxable
- City transfers and payments continue to grow at 5% per year
- No adjustment for the February winter event

REVENUE:

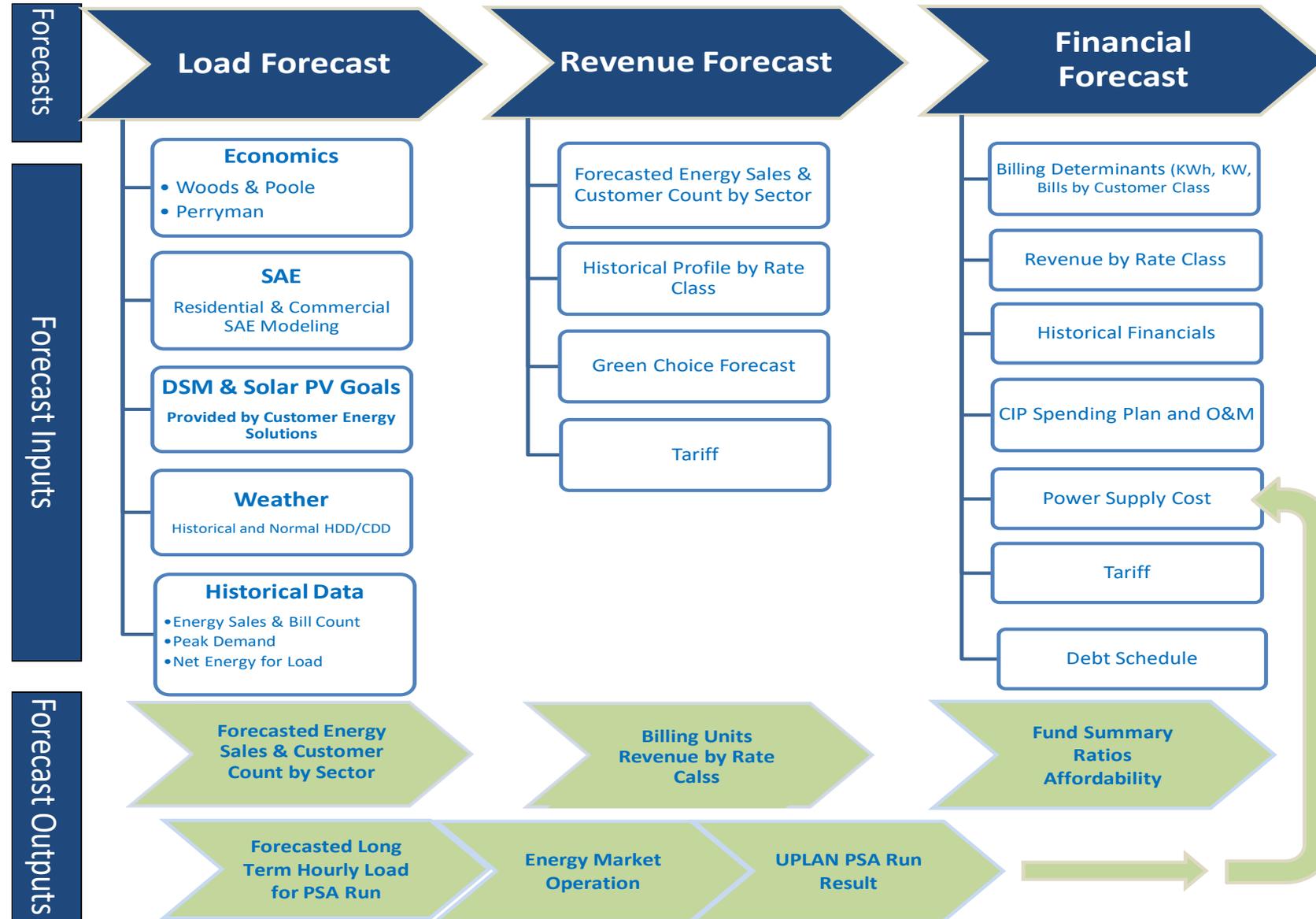
- Base rate change in FY 2024 to maintain financial policy compliance
- Power Supply cost forecast uses UPLAN and revenue is set to equal expenses for each year
- Cost of Nacogdoches Biomass (NAC) recovered through Power Supply Adjustment until January 2024
- Regulatory and Community Benefit Charge revenue is set equal to forecasted expense for each year
- Interest income rate is 0.15% for 2022 and beyond
- Customer Assistance Program (CAP) returns to a 10% discount for the five-year period

CIP:

- 65% cash funded



Austin Energy's Forecasting Process



Austin Energy Fiscal Year 2022 Forecast and Budget Planning

Forecast Summary



Austin Energy Forecast Fund Summary

Millions of \$	FY 2021 Budget	FY 2021 CYE	FY 2022 Forecast	FY 2023 Forecast	FY 2024 Forecast	FY 2025 Forecast	FY 2026 Forecast
Beginning Balance	\$394.2	\$400.7	\$310.4	\$310.0	\$310.4	\$310.7	\$310.8
Revenues/Transfers In	1,416.0	1,393.1	1,477.8	1,534.5	1,587.5	1,601.8	1,644.2
Requirements:							
Operating Expenses	685.3	679.5	674.6	649.9	654.1	676.6	690.4
Power Supply Expenses	359.4	359.4	422.6	464.4	467.6	470.6	498.6
Debt Service	158.1	158.1	164.3	176.8	181.3	183.5	188.5
CIP Transfer	39.9	107.9	39.1	55.2	70.1	68.3	71.4
General Fund Transfer	114.0	114.0	113.0	114.0	116.0	121.0	127.0
Support Transfers	59.4	64.4	60.7	63.8	67.1	70.7	74.5
AE Reserve Transfers	5	0	4.0	10.0	31.0	11.0	0
Total Requirements	\$1,421.1	\$1,483.3	\$1,478.3	\$1,534.1	\$1,587.2	\$1,601.7	\$1,650.4
Excess (Deficiency)	(5.1)	(90.3)	(0.4)	0.5	0.3	0.1	(6.2)
Ending Balance	\$389.1	\$310.4	\$310.0	\$310.4	\$310.7	\$310.8	\$304.6
FTEs	1,813	1,813	1,823	1,833	1,843	1,853	1,863



Austin Energy Forecast CIP Summary

Millions of \$	Budget FY 2021	Forecast FY 2022	Forecast FY 2023	Forecast FY 2024	Forecast FY 2025	Forecast FY 2026	Total 2022-2026
Distribution	\$107.2	\$92.8	\$89.5	\$84.1	\$81.4	\$83.0	\$430.8
Distribution Substation	16.9	10.6	9.1	9.0	9.0	9.2	46.9
Transmission	36.6	25.2	25.2	25.2	24.9	25.3	125.8
Electric Service Delivery	\$160.7	\$128.6	\$123.8	\$118.3	\$115.3	\$117.5	\$603.5
Power Production	\$16.5	\$19.0	\$15.8	\$13.8	\$7.7	\$7.8	\$64.1
Joint Projects	11.4	10.4	11.1	10.6	10.2	12.2	54.5
District Cooling	48.6	25.0	3.9	2.5	5.0	5.1	41.5
General	119.3	20.5	23.8	20.0	22.5	22.8	109.6
Total	\$356.5	\$203.5	\$178.4	\$165.2	\$160.7	\$165.4	\$873.2



Forecasted Key Financial Metrics Summary

	Minimum or Target	Forecast FY 2021	Forecast FY 2022	Forecast FY 2023	Forecast FY 2024	Forecast FY 2025	Forecast FY 2026
Operating Margin	10%	12%	16%	2%	15%	13%	12%
Net Income (Millions of \$)	> \$0	(\$42.9)	\$0.6	(\$176.3)	\$2.7	(\$20.3)	(\$33.4)
Quick Ratio	> 1.5	2.4	2.5	2.5	2.7	2.7	2.8
Days Cash on Hand	150 Days	210 Days	204 Days	210 Days	222 Days	227 Days	223 Days
Debt Service Coverage	> 2.0	1.5	1.6	1.8	2.0	1.9	1.8
Debt to Capital	< 50%	54%	54%	56%	56%	56%	56%



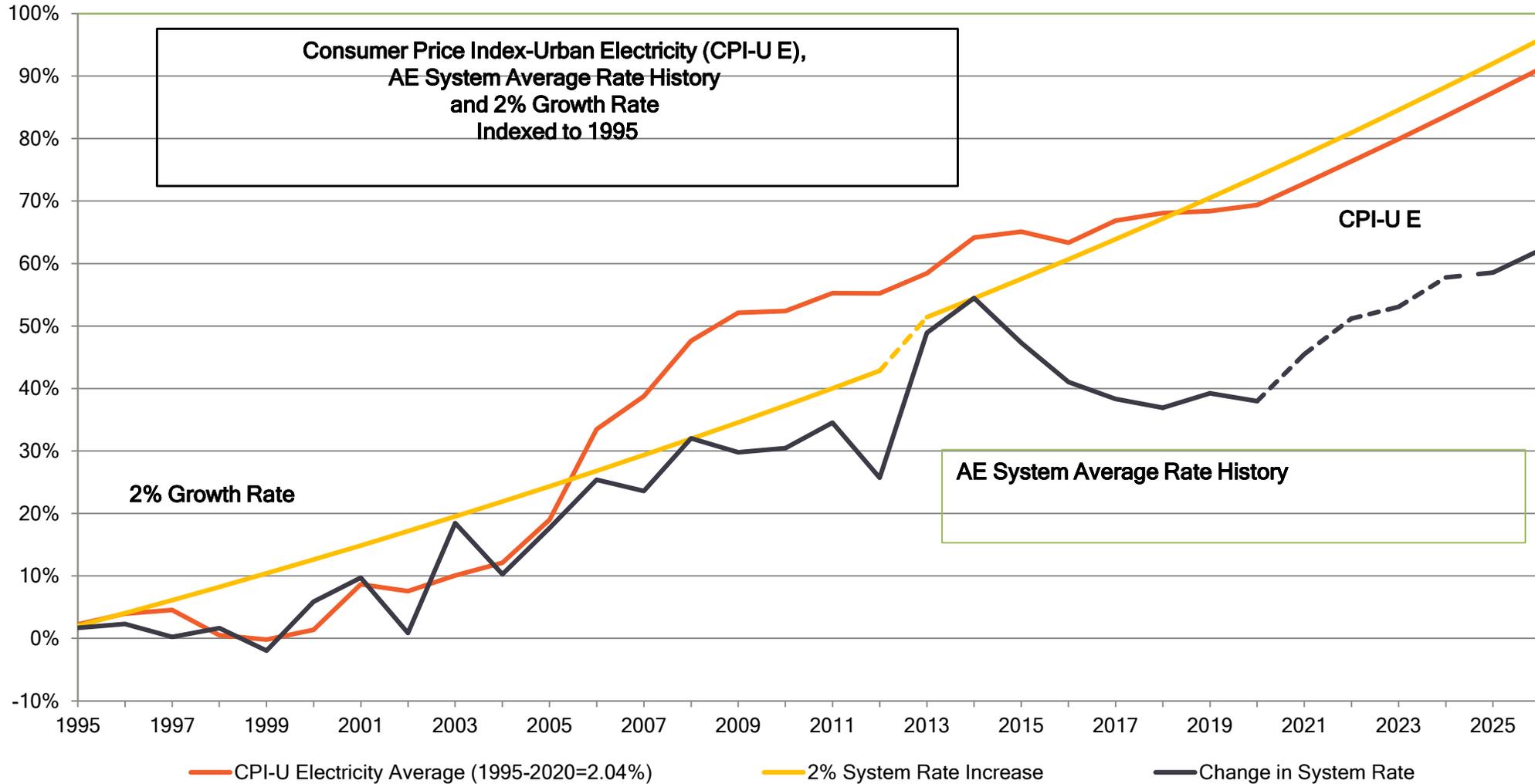
Retail Revenue Summary

	Use of Funds	12% GFT Applied	Basis for Rate	When Adjusted	Last Adjustment	% of Residential Bill (1)
Base Rates	Includes Customer, Energy and Demand Charges: Recovers O&M, G&A and debt service for generation/power supply, distribution, customer services and corporate services	Yes	Cost of Service for Test Year	Rate review performed every 5-years	Jan 2017, Decreased 6.7%	53%
Power Supply Adjustment	Recovers net ERCOT settlements, fuel, hedging, PPA's, GreenChoice® and VoS	No	Actual Expenses	Annually during Budget or if Recovery is ±10%	Nov 2020, Decreased 2%	31%
Regulatory Charge	Recovers ERCOT transmission and related administrative charges/credits and NERC/TRE regulatory fees	Yes	Actual Expenses	Annually during Budget	Nov 2020, Increased 19%	10%
Community Benefit Charge: Service Area Lighting	Recovers cost of street lighting, operations of traffic signals and certain Park lighting	Yes	Actual Expenses	Annually during Budget	Nov 2018, Decreased 10%	1%
Community Benefit Charge: Energy Efficiency Services	Funds the cost of energy efficiency rebates and related costs, weatherization, solar incentives, and the Green Building program	Yes	Actual Expenses	Annually during Budget	Nov 2020, Decreased 29%	3%
Community Benefit Charge: Customer Assistance Program	Funds projects that help qualifying low-income and other disadvantaged residential customers through bill discounts, payment assistance (Plus 1), arrearage management, and weatherization services	Yes	Actual Expenses	Annually during Budget	Nov 2018, Decreased 11%	2%

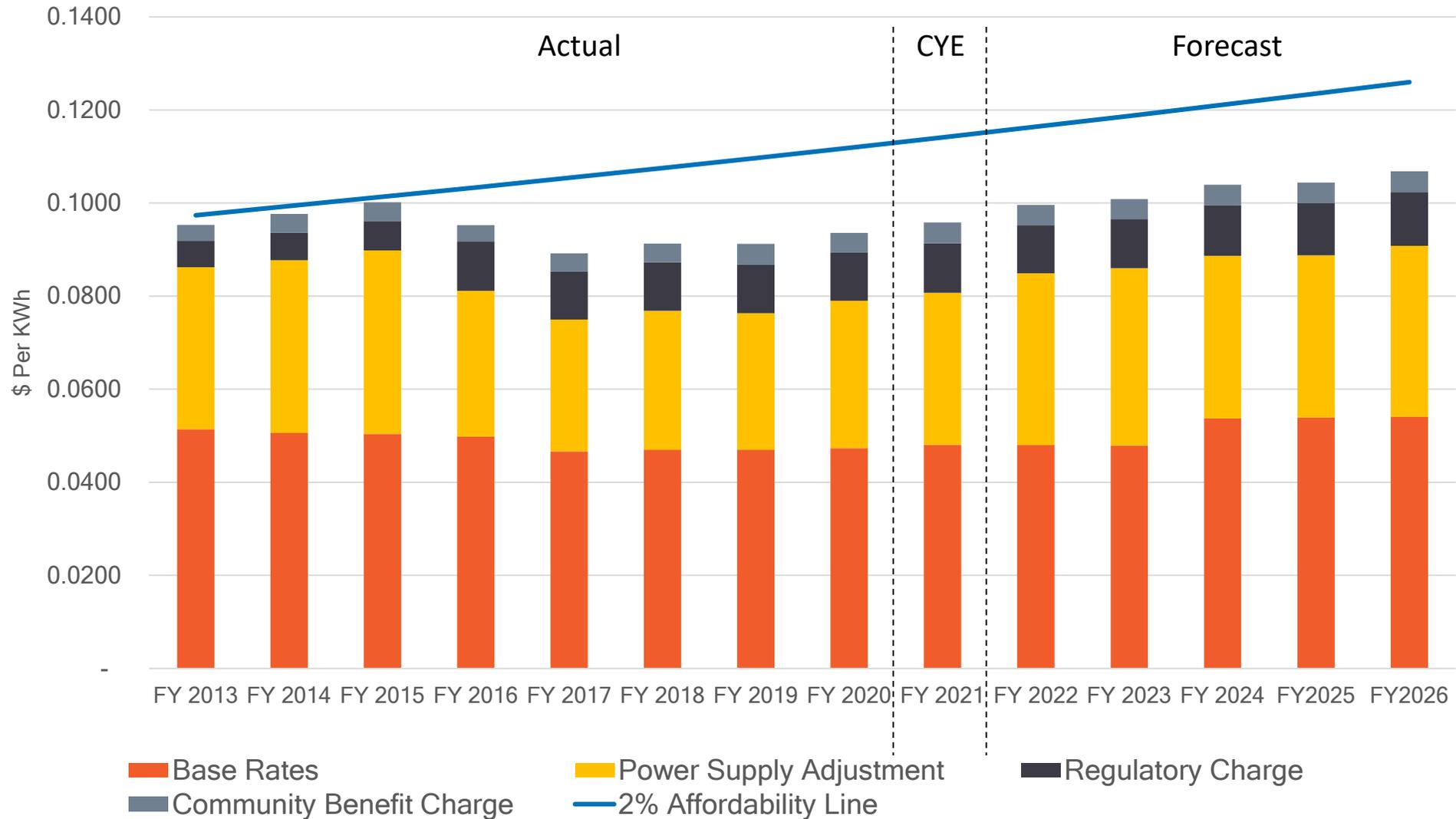
(1) City of Austin Residential Non-CAP Customer using 860 KWh (2019 Typical Monthly Consumption)



Austin Energy System Average Rate History

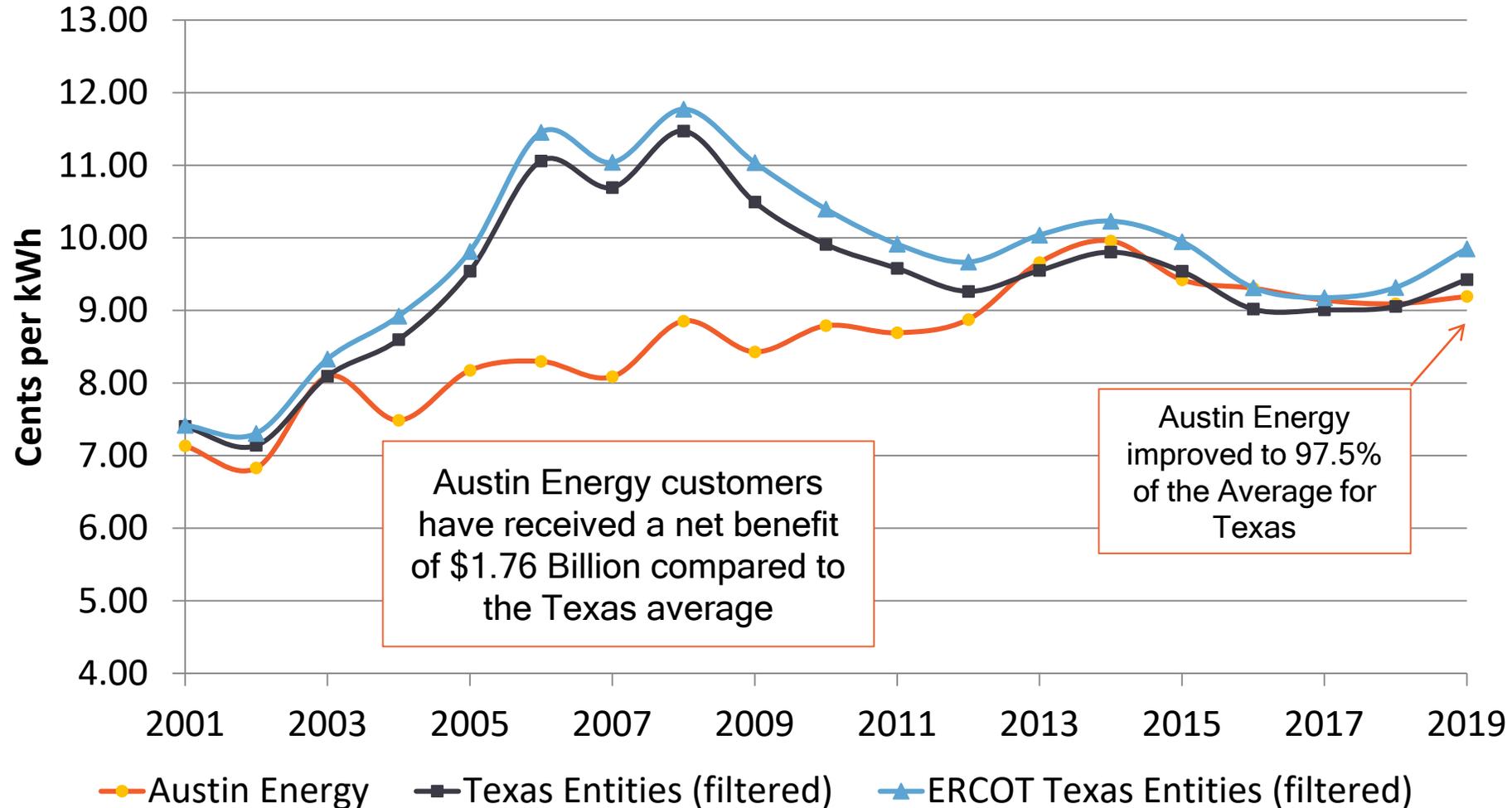


Affordability Goal: Affordability Metric



Affordability Goal: Competitiveness Metric

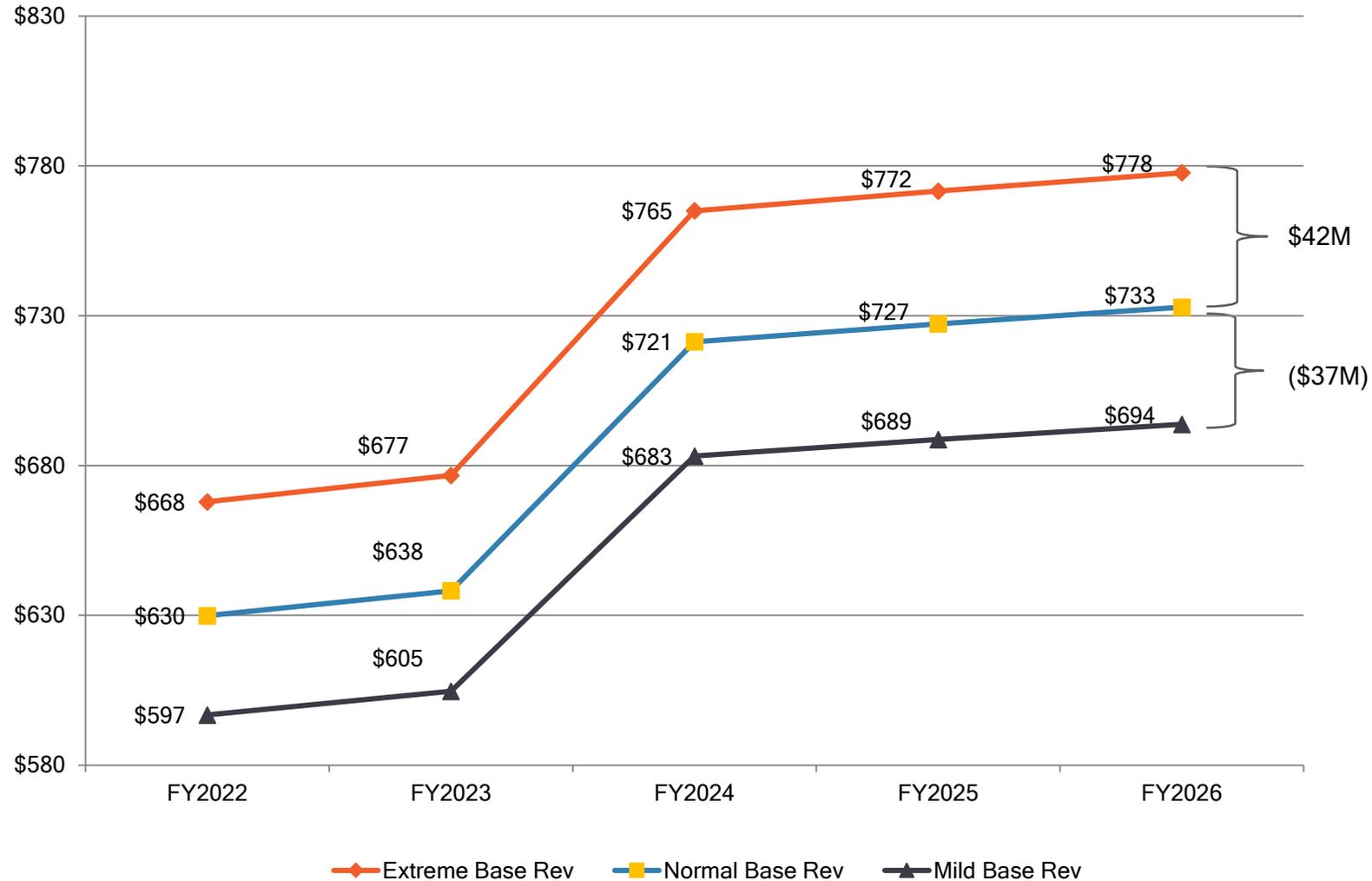
System Average Annual Rates by Calendar Year



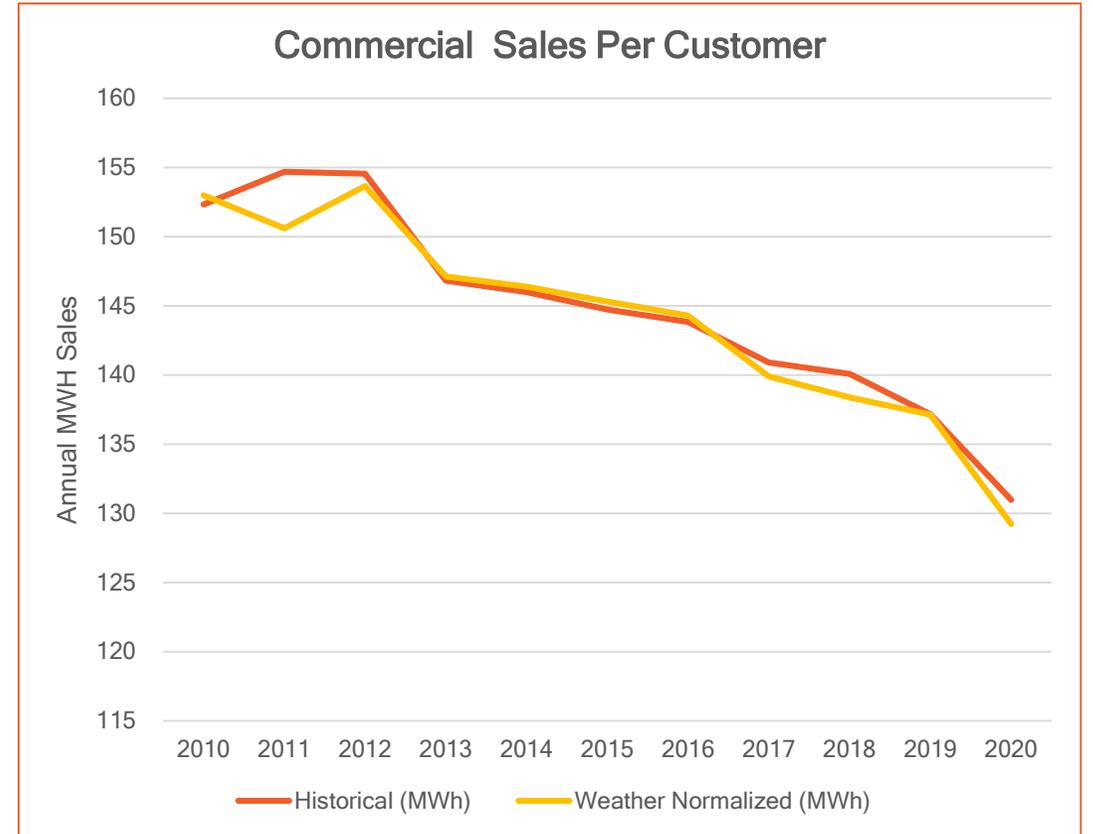
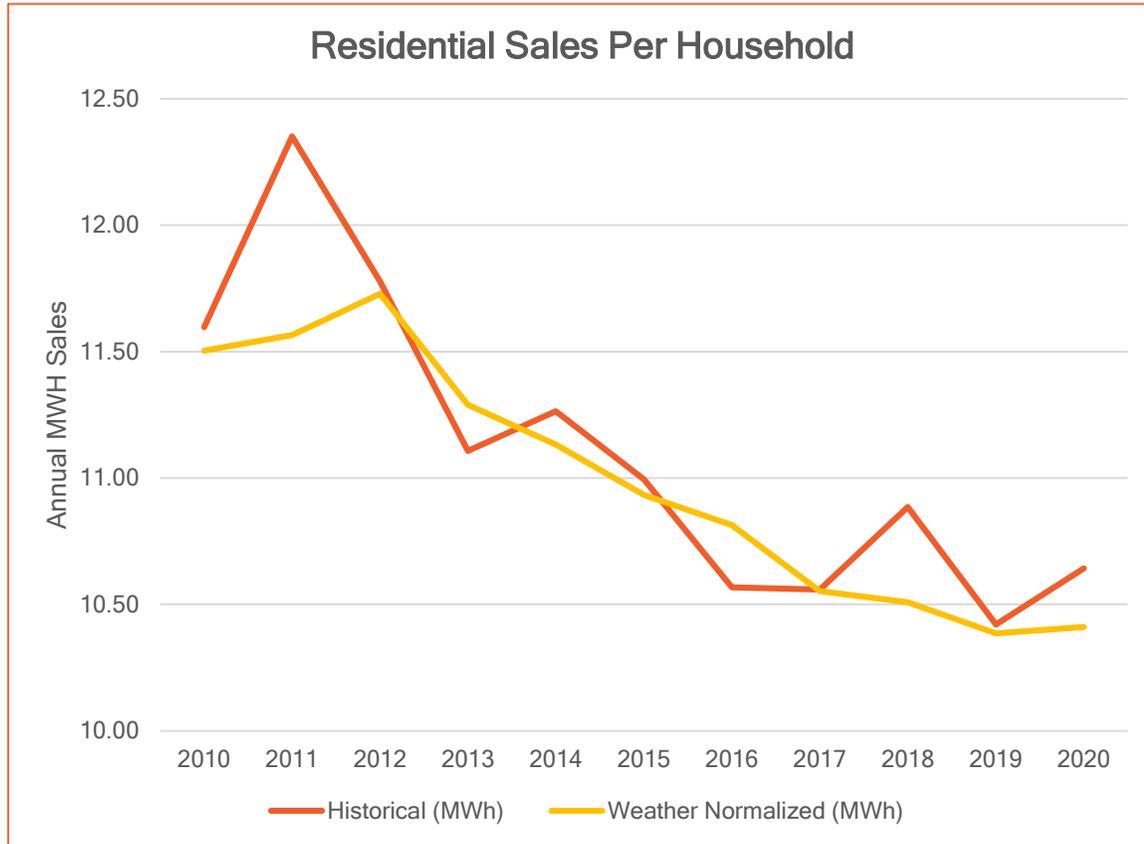
Source: U.S. Energy Information Administration Form 861, October 2020

Weather Impacts Base Revenue

Average ~\$80 Million Variance Over the Forecast



Declining Consumption per Customer



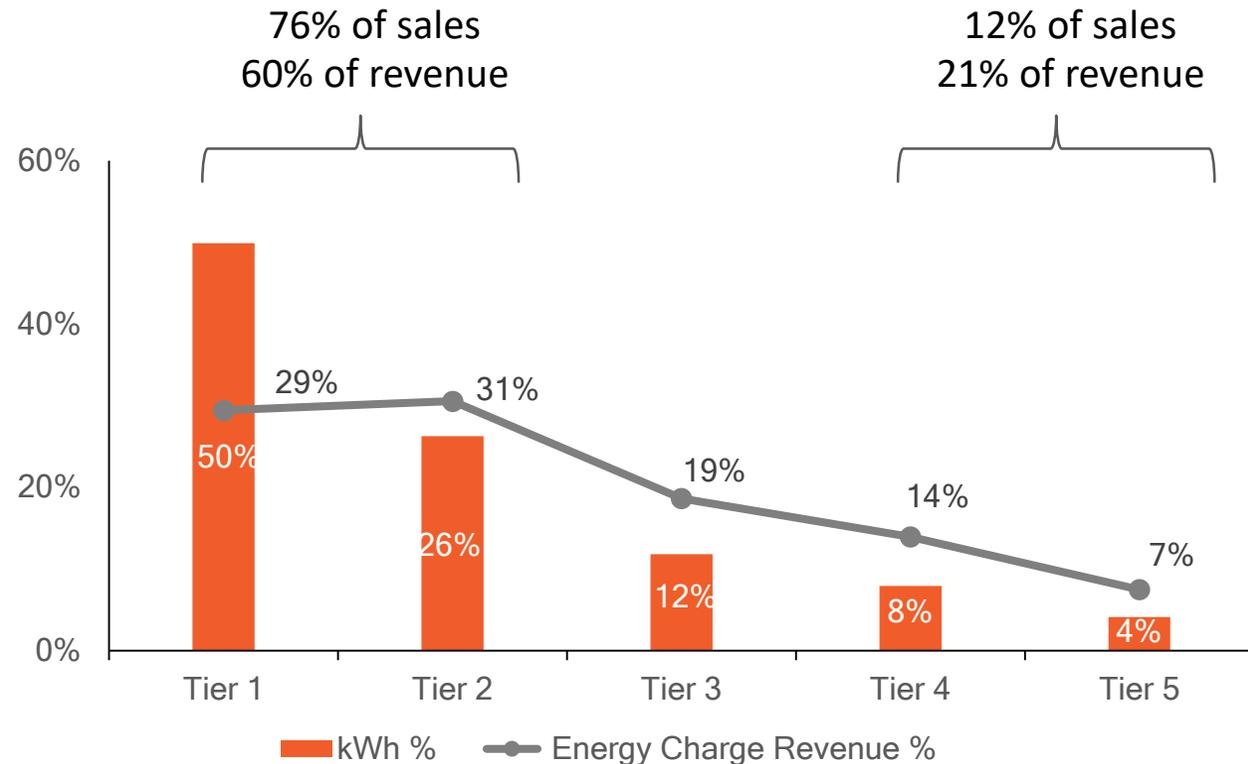
Tiered Rates: Customer Bill Stability and Revenue Impacts

Inclined Block Rates

Austin Energy adopted a 5-tiered residential block structure in 2013 and set the rates for tiers 1 and 2 below cost of service while tiers 4 and 5 are significantly above cost. Consumption in tiers 4 and 5 have decreased 14% since 2012.

Declining average consumption aggregates energy sales into the lower tiers jeopardizing Austin Energy's ability to recover costs and customers' bill stability especially during weather events.

FY2022 Residential Tier Distribution



Customer Growth and Energy Sales

Austin Energy has been experiencing the same trend as other electric providers in the country, stagnated growth in energy sales. However, our consistent growth in customers has masked the effects.

The traditional business model of periodic rate cases with fixed costs recovered in volumetric billing determinants (KWh) must be evaluated in the context of our new reality: Distributed generation, energy efficiency and conservation, new and highly efficient housing stock, aggressive inclined block rates, and demand for energy services. All of this leads to higher fixed costs with fewer KWh being sold and inflation outpacing sales growth.



Austin Energy FY 2022 Forecast Summary

Challenges and Opportunities

- **Financial position is stable but vulnerable**
- Many major decisions still in play
- Flat energy sales with increasing customers
- Declining average consumption threatens cost recovery (fixed costs in variable rates)
- Loss of dispatchable generation reduces wholesale market revenues
- Increasing debt service costs due to aggressive CIP spending in prior years
- Margins are sustained only with planned asset disposals and base rate increase
- Pending base rate change effective FY2024 offset by significant reduction to the PSA as NAC moves to base rates and impact of Winter Storm Uri is realized
- Net income is challenged but cash position continue to remain strong
- Restricted cash reserves increasing
- Forecasted rates remain well-below 2% affordability metric and currently 2.5% below state-wide average system rate



Austin Energy Fiscal Year 2022 Forecast and Budget Planning

Budget Planning



Austin Energy FY 2022 Budget Planning

Summary

- Much of Austin Energy's \$1.4B budget is comprised of costs that cannot be significantly changed in the short run
- Program costs are inputs to the budget (*e.g. Resource Plan and Customer Assistance Program*)
- Relatively flat base rate revenues with assumed cost escalators limit new initiatives without trade-offs
- Power supply costs and the Power Supply Adjustment tariff structure present that greatest volatility in the budget
- Capital spending focuses on meeting continued customer growth, with increased capital spending in substations, district cooling projects and warehouse space
- The FY 2022 budget will look very similar to the FY 2021 budget



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 ⁽¹⁾

- 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

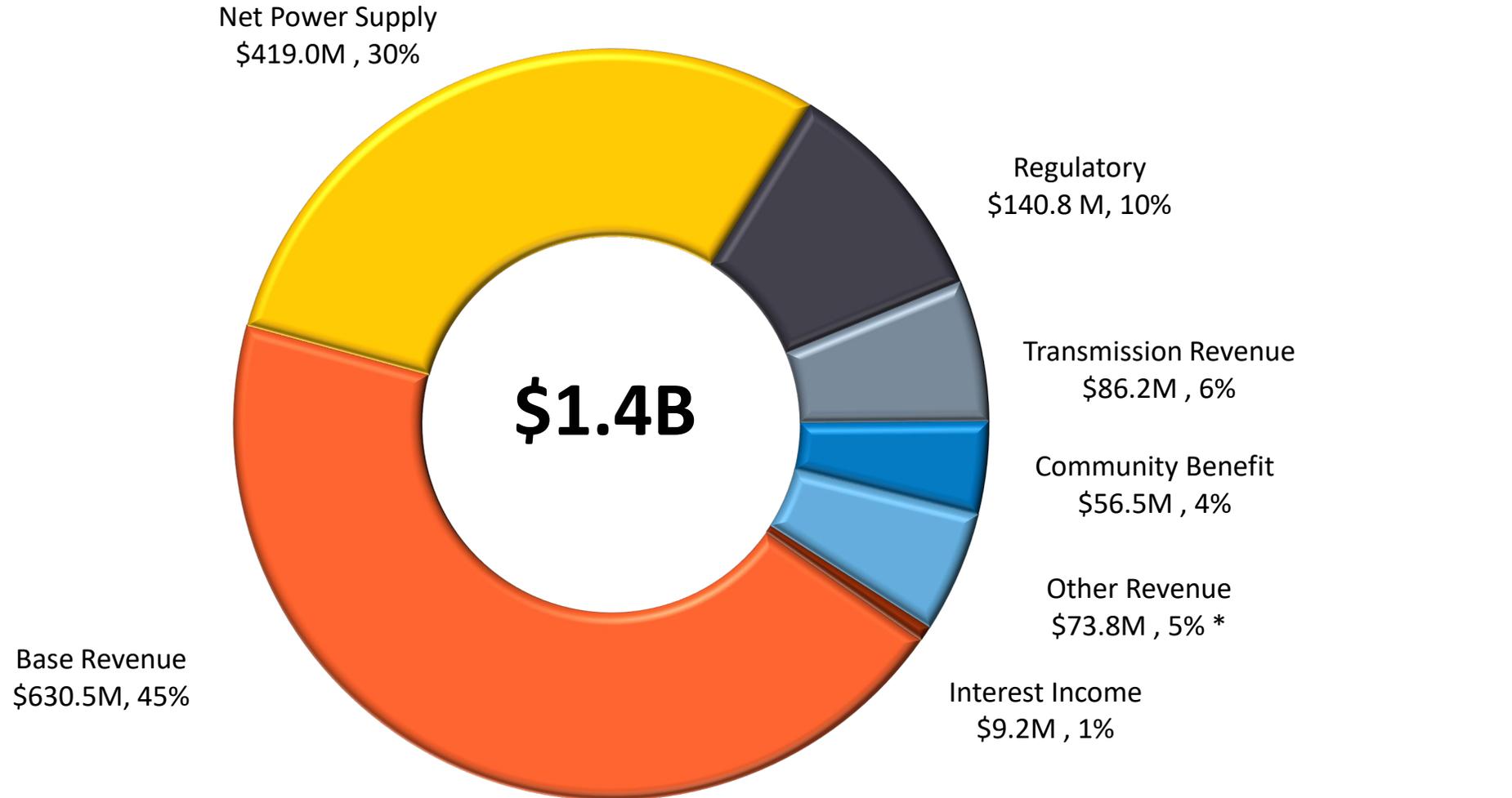
GAAP Financial Statements ⁽²⁾

- Reports the Statement of Revenues, Expenses and Fund Net Position, Statement of Net Position 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



(1) (2) Provided in separate handout

FY 2021 Sources of Revenue

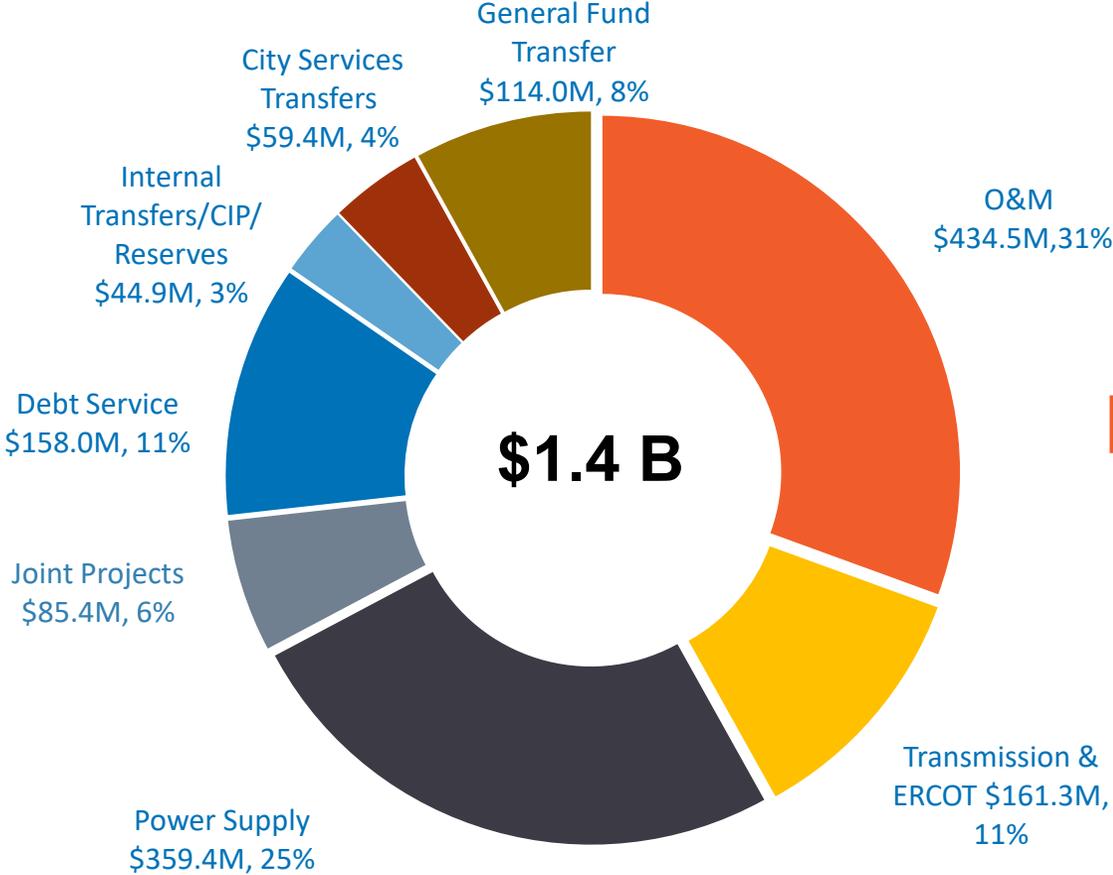


*Other revenue includes District Cooling (chiller) \$30.2M, Congestion Revenue \$20.5M, infrastructure attachments \$6.6M, Misc. Fees \$15.1M

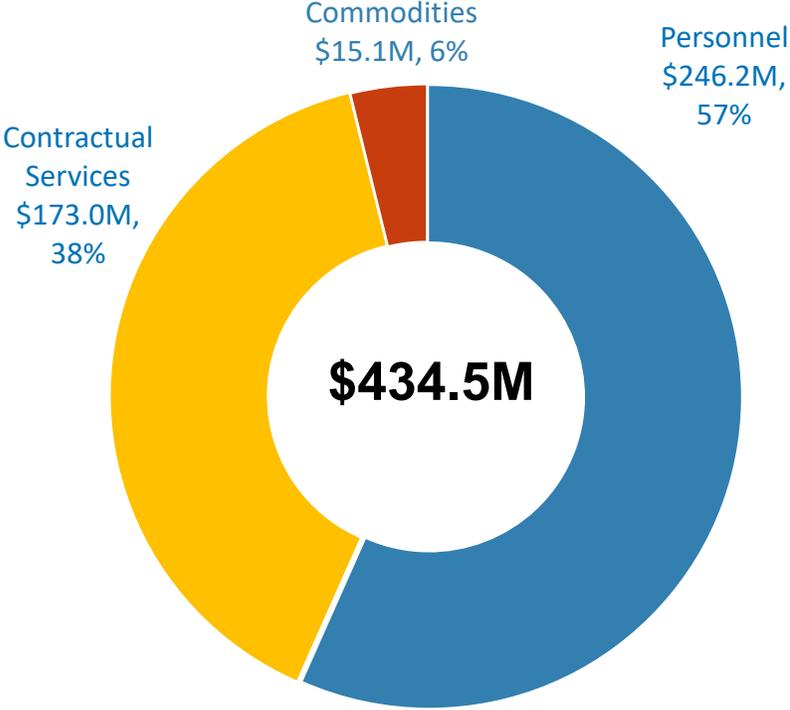


Resources that Austin Energy Uses for its Operations in FY2021

Operating Requirements



Operations & Maintenance



Non-Discretionary Requirements FY 2021

Austin Energy’s budget includes spending which is non-discretionary in nature. Austin Energy has little or no control over the required spending levels in the short or mid-range time horizon.

Component of the Non-Discretionary Requirements	Fiscal Year 2021 Amended Amount
Transmission & ERCOT: Austin Energy purchases the power it needs from ERCOT to serve its customers. This represents the cost to transmit that power to the Austin Energy load zone which is equivalent to ≈ 4% of ERCOT’s total cost for transmission.	\$161.3M
Debt Service: Austin Energy has approximately \$1.9 Billion in commercial paper and bonds. This represents the principal and interest payment on that debt.	\$158.0M
General Fund Transfer: By policy, Austin Energy transfers 12% of its non-power supply revenue less District Cooling revenue (3-year average is used) to the City’s General Fund.	\$114.0M
Internal Transfers/Capital Spending/Reserves: By policy, Austin Energy funds approximately 35-60% of capital projects with cash. Austin Energy also funds and maintains certain Reserves with this cash. This represents the transfer of cash to those accounts.	\$39.9M
Joint Projects: Austin Energy partners with CPS Energy and NRG Energy at South Texas Nuclear Project and the Lower Colorado River Authority at Fayette Power Plant. This represents Austin Energy’s share of the operating cost for those joint projects.	\$85.4M
City Services: Austin Energy uses the services of other City departments such as fleets, technology, legal, City Manager’s Office and City Council. This represents Austin Energy’s direct and allocated costs from the City.	\$53.0M
Economic Development Fund Transfer: Austin Energy, Austin Water and Austin Resource Recovery provide funding for the City’s Economic Development Fund. This represents Austin Energy’s allocation of costs from the City.	\$8.4M
Total Non-Discretionary Requirements	\$620.0M



Power Supply Costs FY 2021

Austin Energy’s budget includes the recovery of power supply costs. This presents the net cost of the electricity needed to serve our retail customers. These cost are largely non-discretionary as they are driven by market pricing, response to customer load and the requirements of the Resource Plan. Positive wholesale revenue reduces retail customers’ costs. Properly managed, generation acts as a physical hedge for serving our load.

Components of Power Supply Cost	Fiscal Year 2021 Budgeted Amount
Estimated revenue earned by selling power to ERCOT from our generation facilities and our renewable energy Purchase Power Agreements (wholesale market). The price is based upon competitive market pricing. Actual revenues can fluctuate significantly.	(\$442.9M)
Less: Estimated cost of the fuel and Purchase Power Agreements used to generate power (wholesale market). Fuel cost are based upon competitive market pricing and Purchase Power Agreements are based on contract rates. Actual cost can fluctuate significantly.	\$417.5M
Less: Estimated cost of power purchased from ERCOT to serve retail customers (retail market). The amount of power required to serve our customers is fairly predictable, but the cost is market based and can fluctuate significantly. Austin Energy hedges energy prices as a way to protect the utility from price spikes.	\$364.2M
Less: ERCOT cost associated with serving Austin Energy’s load (retail market). Austin Energy incurs certain costs associated with its need to serve retail customers.	\$20.6M
Net Power Supply Cost	\$359.4M



Operations & Maintenance FY 2021

Austin Energy’s budget includes expenditures for Operations & Maintenance. This spending represents Contractuals, Commodities and Personnel. Portions of this budget are controllable or discretionary, but much is necessary to support efficient and safe operations of the utility. Reductions in proper maintenance leads to increased capital costs.

Operations & Maintenance Component	Fiscal Year 2021 Amended Amount
Personnel: Austin Energy is authorized 1,813 employees and 112 temporary employees. An assumption is made that 6% of the positions will be vacant at any one time. This represents 94% of the cost for salaries, payroll taxes, benefits and 100% of the cost of health insurance.	\$246.2M
Contractuals: Austin Energy requires support of contractors, consultants and support services to provide for safe, efficient and clean electricity. Austin Energy also requires support to meet certain policy requirements, such as energy efficiency and demand reduction. This represents expenses and payments for those contractual items. <i>(Discussed in more detail later)</i>	\$173.2M
Commodities: Austin Energy requires software, tools, chemicals, safety equipment, replacement materials and parts to operate and maintain the utility. This represents expenses and payments for those commodities. <i>(Discussed in more detail later)</i>	\$15.1M
Total Operations & Maintenance Requirements	\$434.5M



Contractuals: Top Ten Items FY 2021

Austin Energy's Contractuals budget for 2021 is \$266.4 Million. It is offset with \$93.2 Million of interdepartmental reimbursements and refunds. The top ten items within the Contractuals budget represent \$135. Million, or 51% of the entire Contractuals budget.

Total Value in Contractual Expense Category for Fiscal Year 2021	\$266,391,999
Maintenance - Computer Hardware/Software	\$28,715,890
Conservation and Solar Rebates	\$22,486,910
Line Clearance Services, Distribution & Transmission	\$20,000,000
Maintenance - General Plant Equipment	\$12,738,856
Information Technology Contract Employees	\$11,422,764
Information Technology Consulting Services	\$10,923,691
Temporary Contract Employees in Customer Care	\$9,407,314
Bad Debt Expense	\$8,774,666
Real Estate Leasing for Office Space	\$5,628,756
Liability Insurance Premiums on Assets	\$5,182,000
Total Value of Top Ten Items in Contractuals	\$135,280,847



Commodities: Top Ten Items FY 2021

Austin Energy's Commodities budget for 2021 is \$15.1 Million. The top ten items within the Commodities budget represent \$10.2 Million, or 67% of the entire Commodities budget.

Total Value in Commodities Expense Category for Fiscal Year 2021	\$15,113,130
Inventory Purchase	\$1,575,000
Small Tools/Minor Equipment	\$1,289,041
Office Furnishings	\$1,239,235
Safety Equipment	\$1,214,708
Chemicals	\$1,033,855
Software	\$1,021,279
Minor Computer Hardware	\$979,069
Clothing/Clothing Material	\$638,517
Electrical Conductors - Hardware/Wire/Cable	\$625,835
Educational/Promotional Materials	\$565,459
Total Value of Top Ten Items in Commodities	\$10,181,998





**Customer Driven.
Community Focused.**

