

Austin Energy's 2022 Base Rate Review:

Introduction and Initial Briefing to the Utility Oversight Committee

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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.

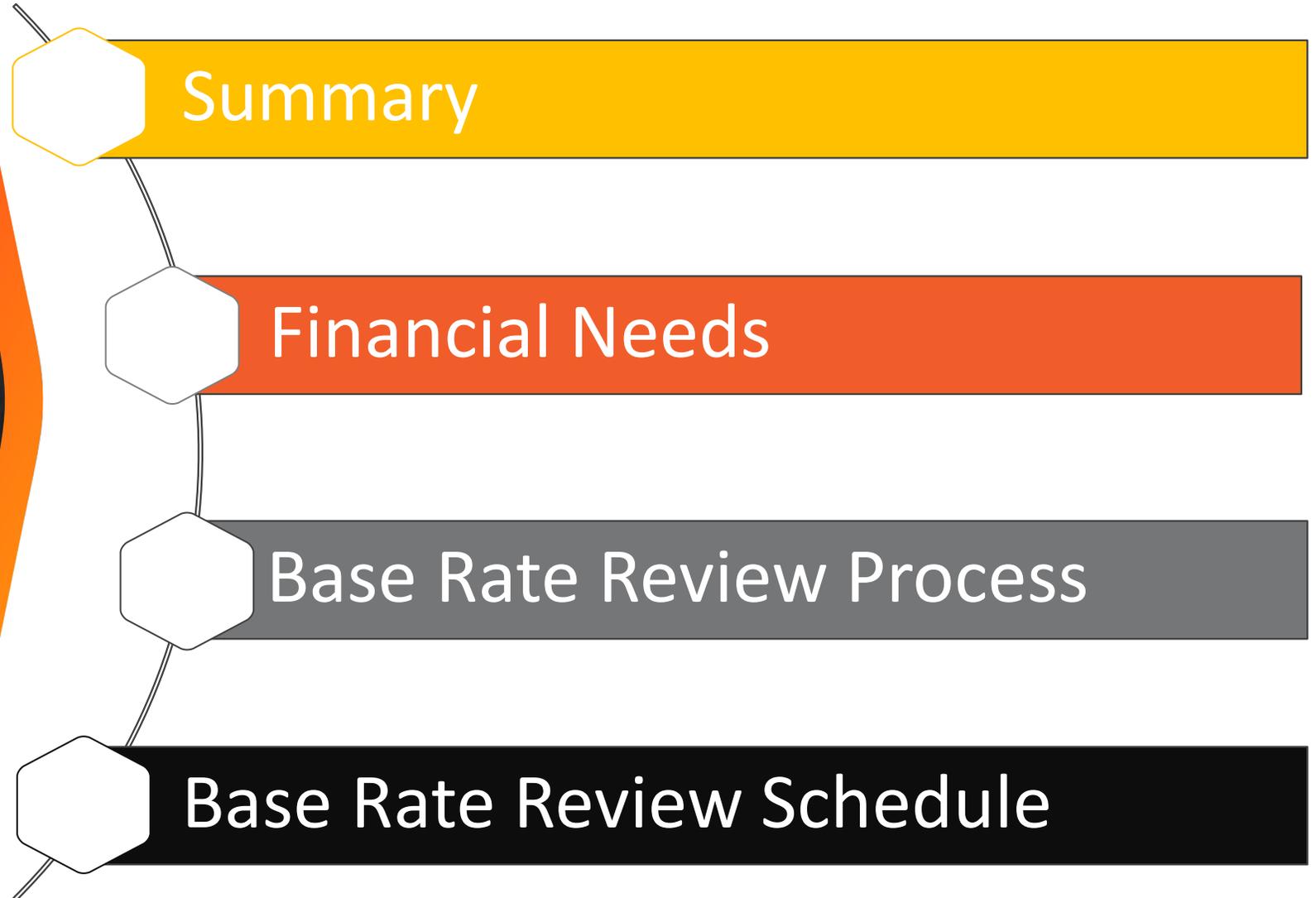
Although the forecasted financial information contained in this presentation is based upon what Austin Energy management believes are reasonable assumptions, there can be no assurance that forecasted financial information will prove to be accurate, as actual results and future events could differ materially 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 Fiscal Years 2020 and 2021, and \$130 million+ in cash reduction**

The Process

- Submit tariff package with base rate proposal: April 18
- Public meetings: mid-April – mid-May
- Participant conferences and review: June – September
- City Council approval: November 17
- Base rate change effective: January 2023

The Ask

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



Guiding Principles for Establishing Base Rates

Equitable and fair rates

Stable bills and simple rates

Protect vulnerable customers

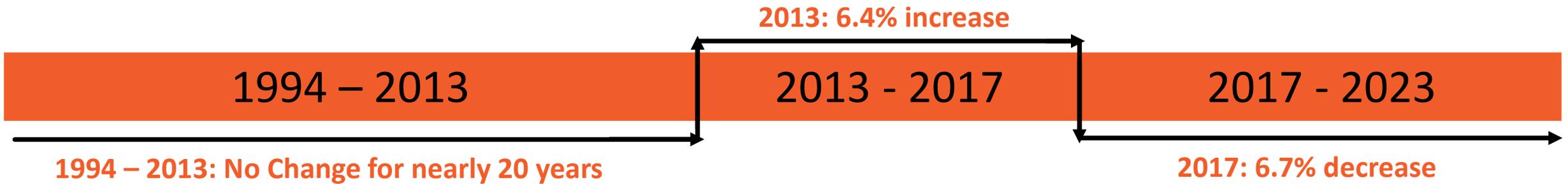
Preserve energy efficiency and conservation

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



History: Base Rate Changes

Only two base rate changes since 1994



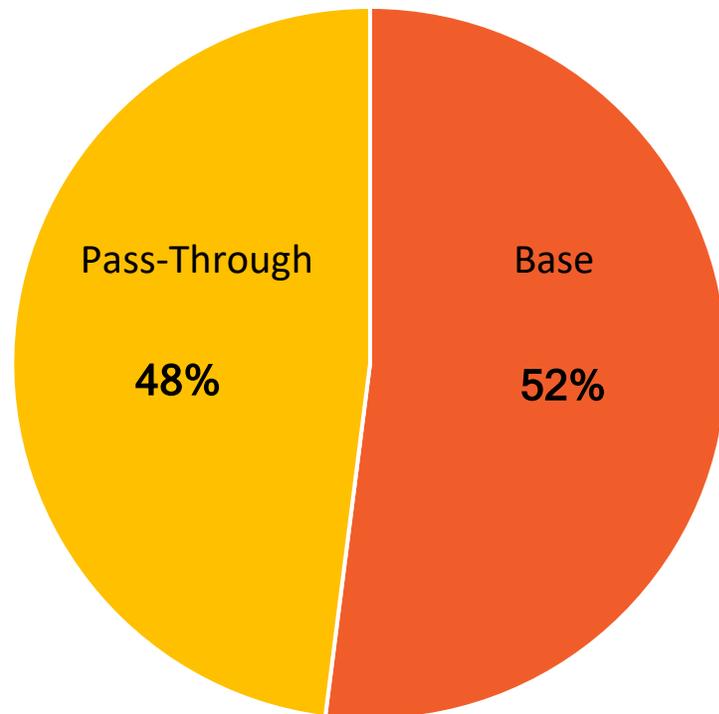
Financial policy requires a base rate review at least every five years.



Will All Rates Be Impacted?

No. Base rates only.

FY 2021 Electric Revenue



- **Base rates:** Cover costs to own and operate the electric system
- **Pass-through rates:** Fuel and power costs, transmission costs, regulatory costs, ERCOT market costs, Customer Assistance Program, energy efficiency programs, street lighting costs

Source: Audited Financial Statements 2021.



Examples of Base Rate Revenue Investments



Supplies & Equipment



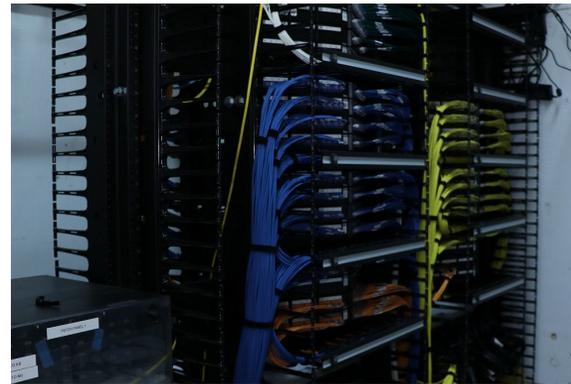
Tree Trimming



Principal + Interest Payments



Employees



Information Technology



General Fund Transfer

BASE RATE REVENUE DOES NOT INCLUDE:

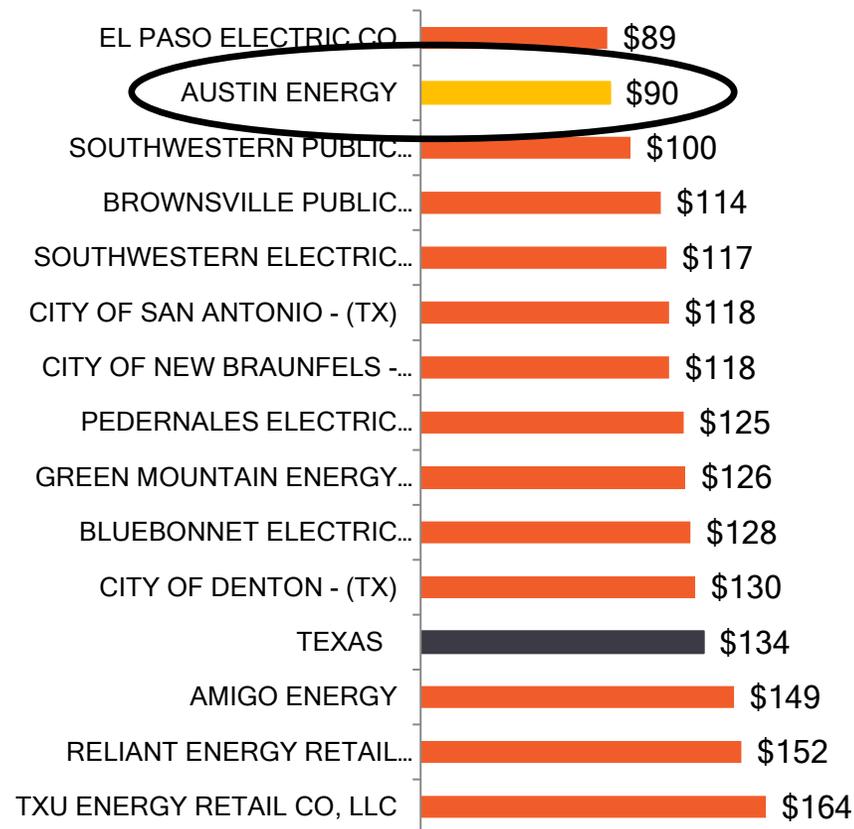
- Customer Assistance Program
- Energy efficiency programs
- Transmission related costs
- Power purchases from ERCOT
- District energy and cooling
- Streetlights



Austin Energy is Customer Driven, Community Focused

Affordably Providing Electric Service

Residential Average Monthly Bill for 2020 Second Lowest in Texas

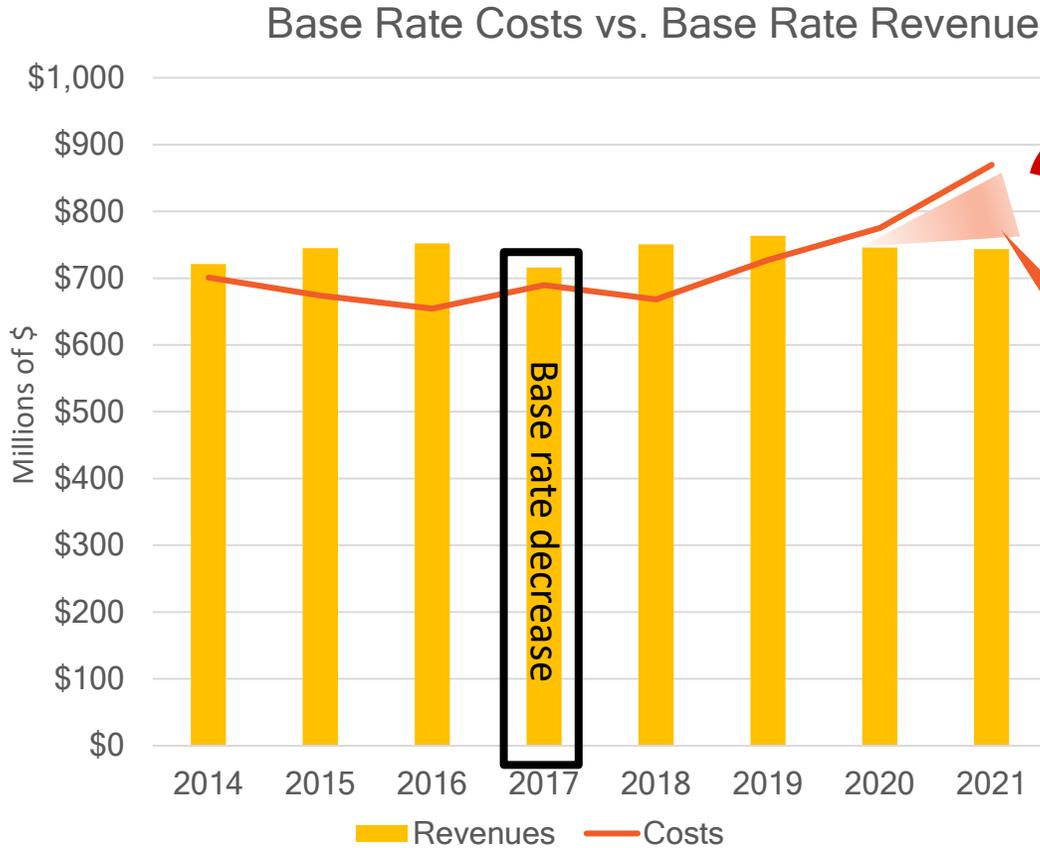


Source: U.S. Energy Information Administration Form 861, October 2021



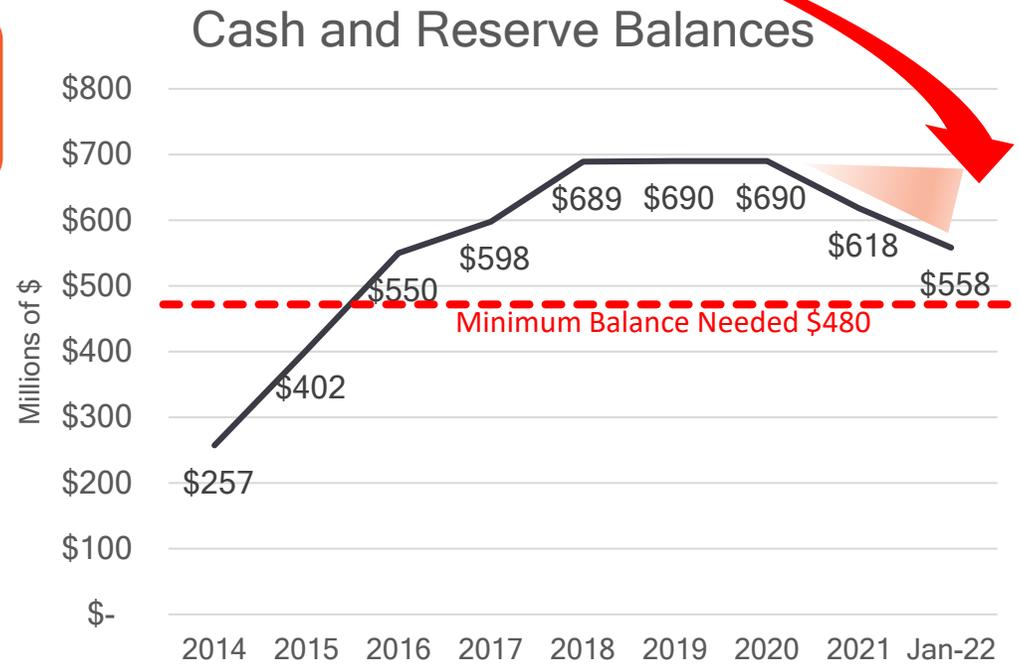
Why is a Base Rate Review Needed Now?

Costs are outpacing revenues



When costs exceed revenue, cash is used to fill the gaps

Costs exceed revenue



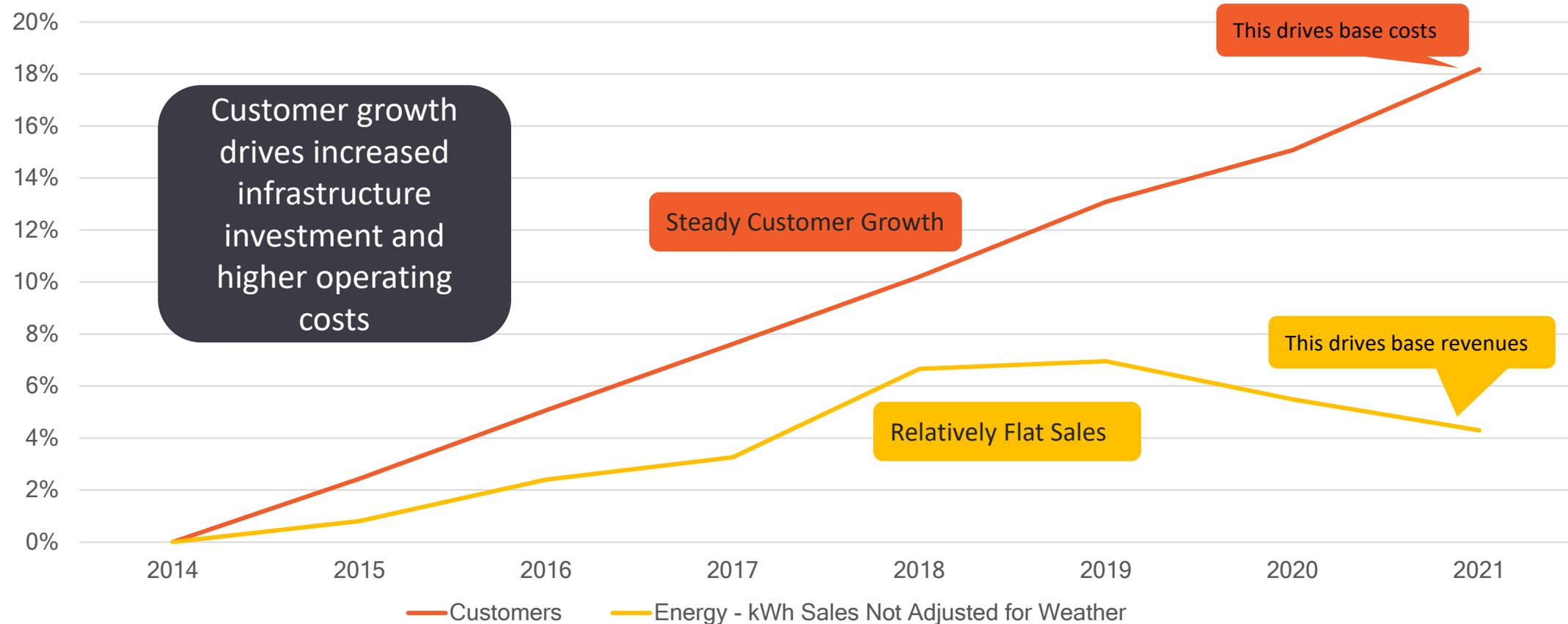
Source: Audited Financial Statements 2014-2021



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

Why are Costs Outpacing Revenues?

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

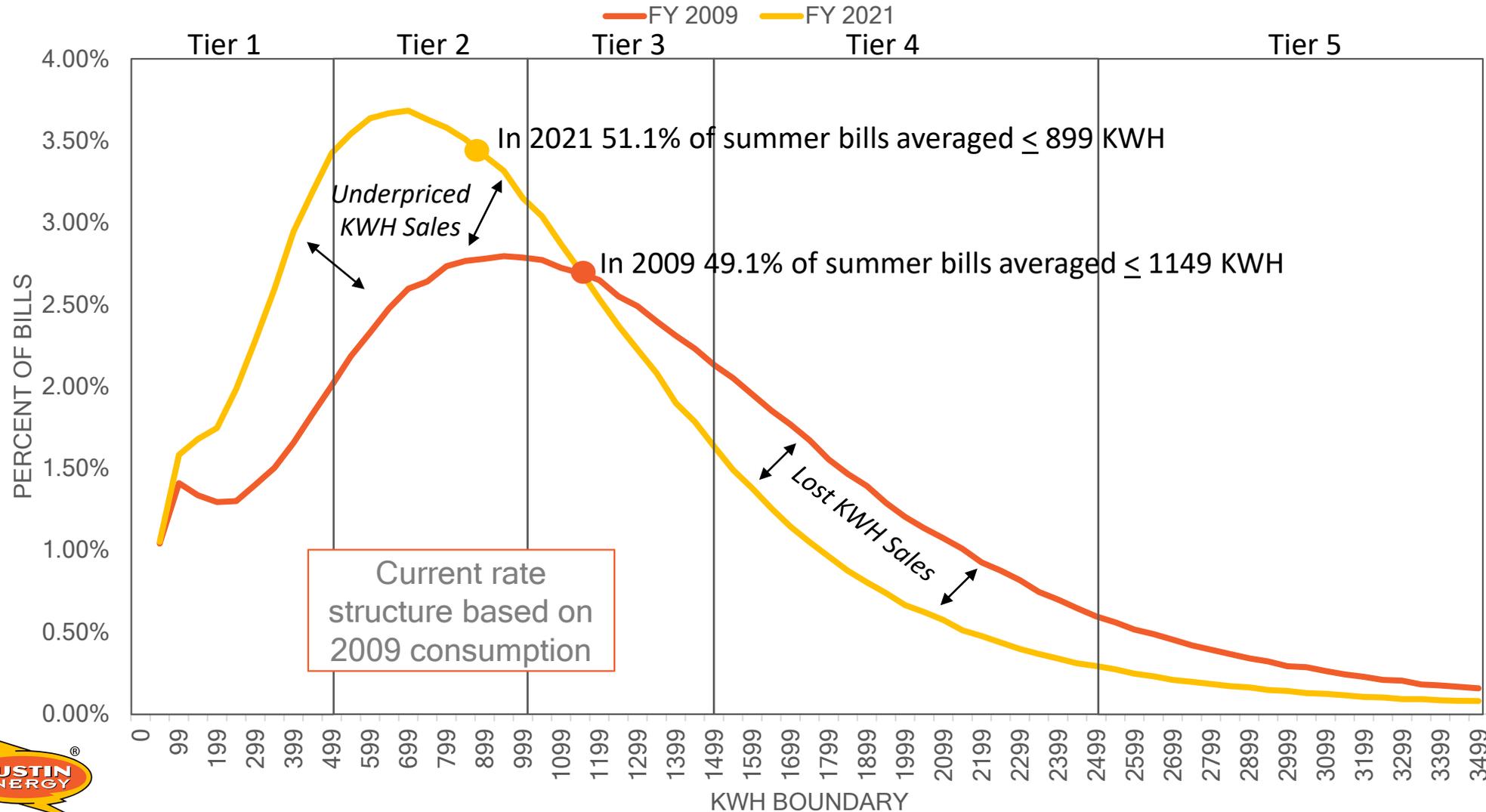


Source: Fund Summary Statements 2014-2021



Outgrown Residential Rate Structure

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



Average residential customer summer consumption down 22% since 2009



Policy Requirements and Credit Rating Impacts

- **Section 4 Master Bond Ordinance:** Requires the City to fix rates to pay all current operating expenses.
- **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.
- **Moody's October 2020 Credit Report:** Factors that could lead to a downgrade include “Failure to implement needed rate increases in a timely manner...resulting in deterioration of key financial metrics.”



Key Reasons for Austin Energy Base Rate Review



Austin Energy's Base Rate Review Process



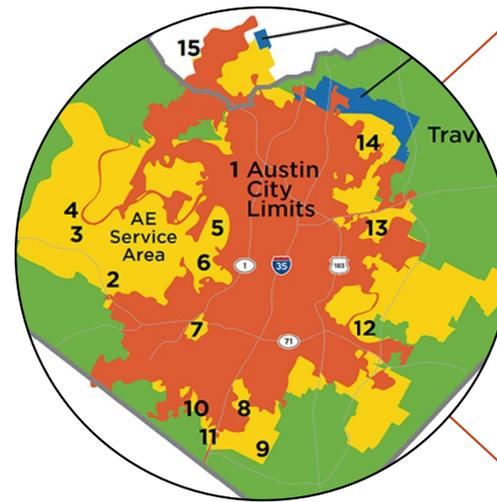
Base Rate Review Process

- 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

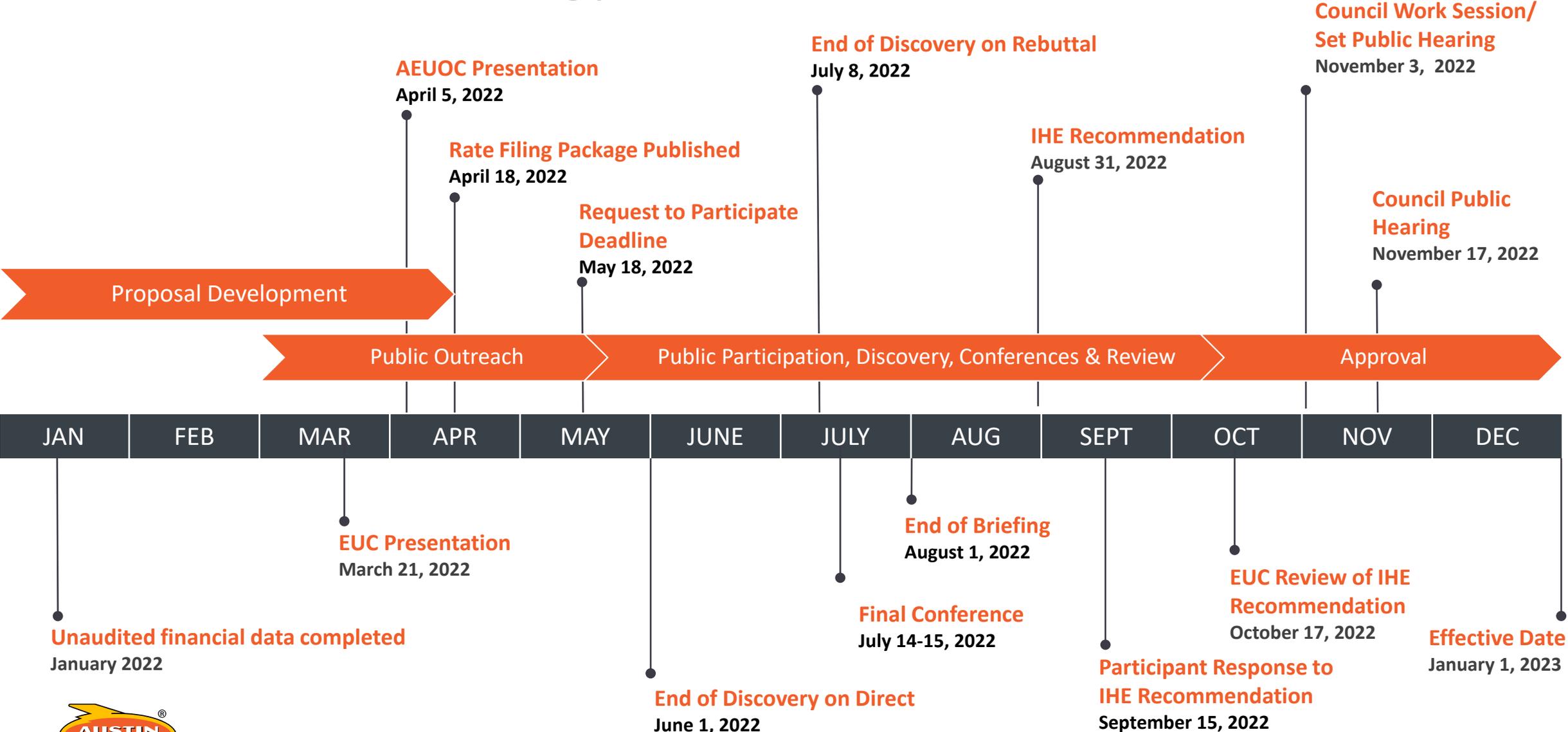
Small to Mid-Sized Businesses

- 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



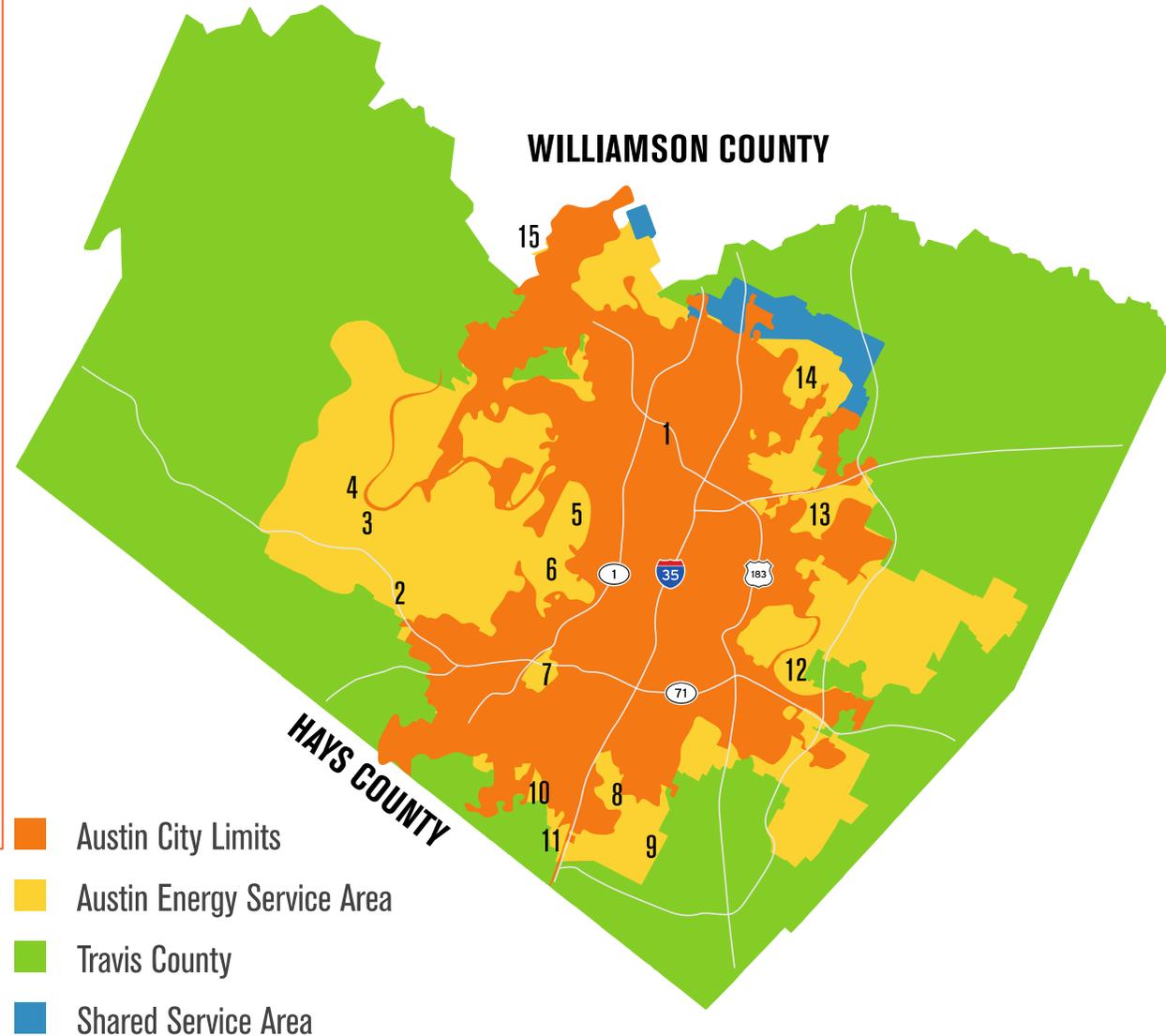


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Austin Energy Serves 15 Communities Across Central Texas

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

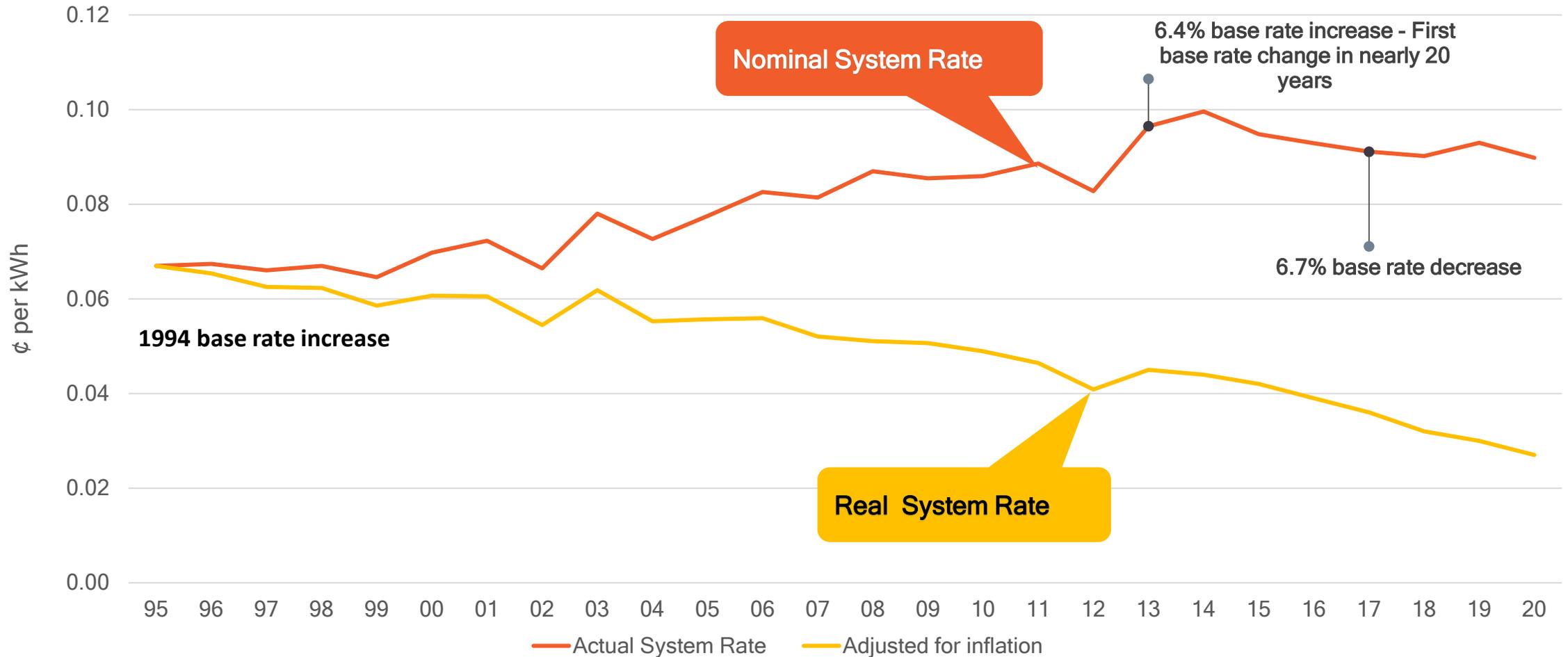


1. City of Austin
2. City of Bee Cave
3. Village of the Hills
4. City of Lakeway
5. City of Rollingwood
6. City of Westlake Hills
7. City of Sunset Valley
8. Village of Creedmoor
9. City of Mustang Ridge
10. Manchaca
11. Buda
12. Del Valle
13. Manor
14. Pflugerville
15. Cedar Park



How has Austin Energy Trended Over Time?

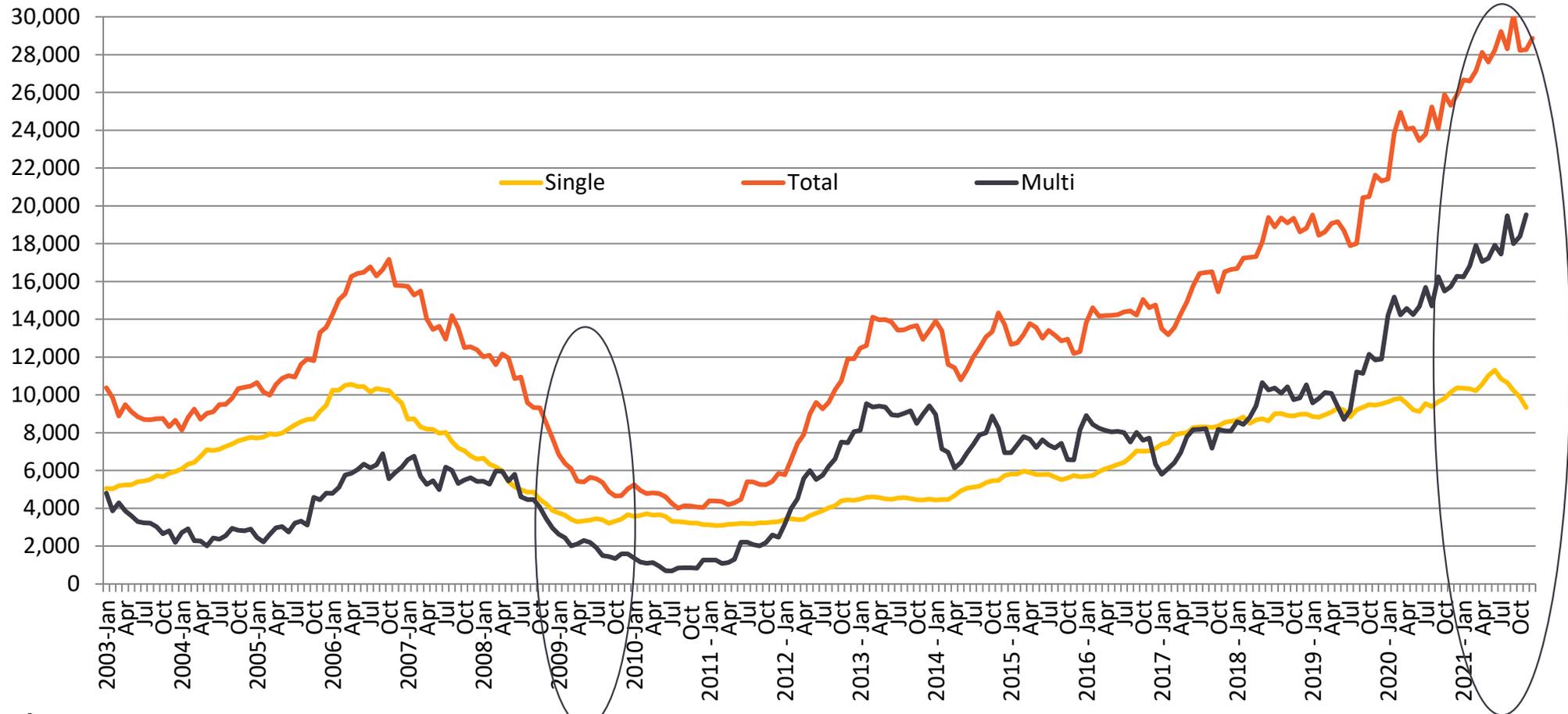
System Average Annual Rates* by Calendar Year



*Note: Includes base rates and pass-through rates

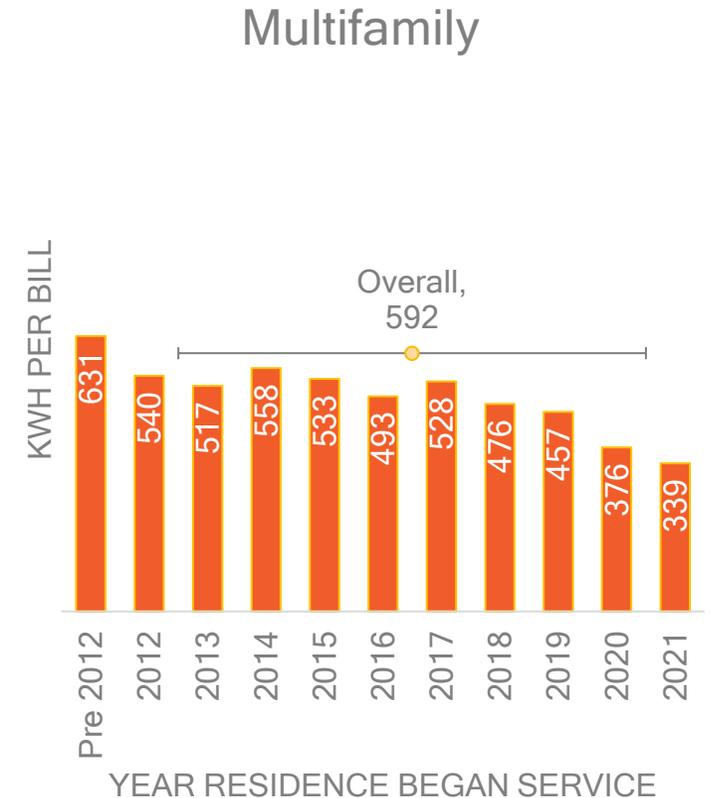
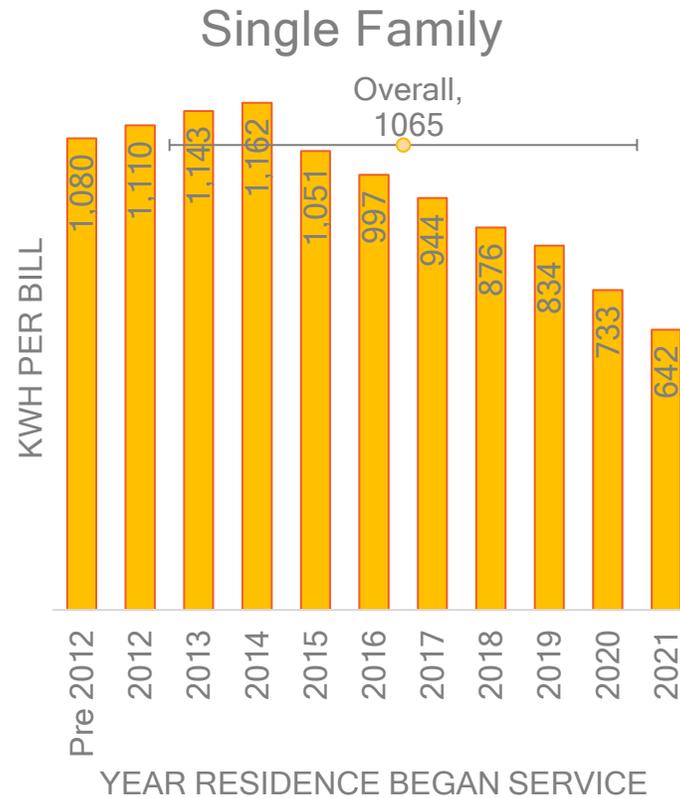
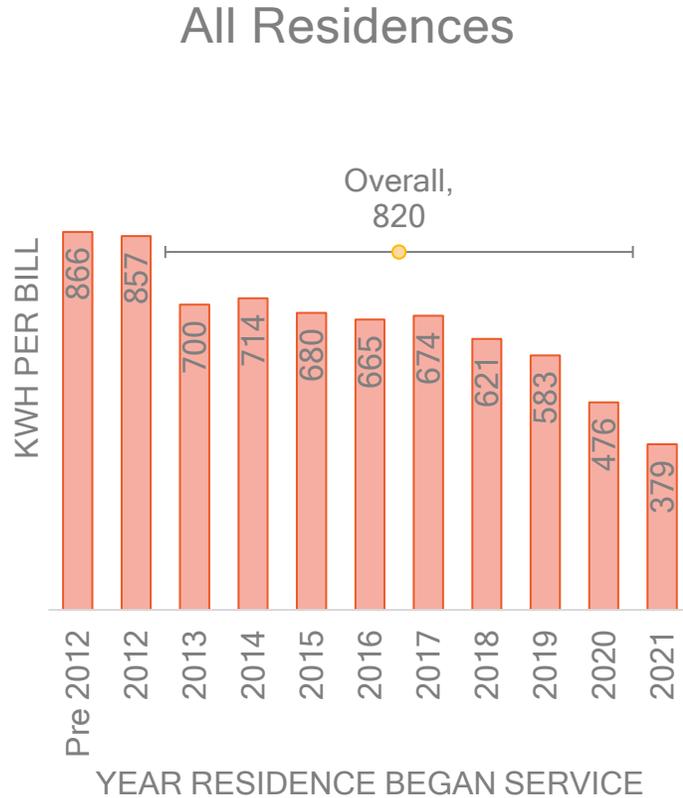
Housing Permits at All-time High with Dramatic Increase in Multi-Family

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



Outgrowing the Old Rate Structure

Average Residential kWh per Bill



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?

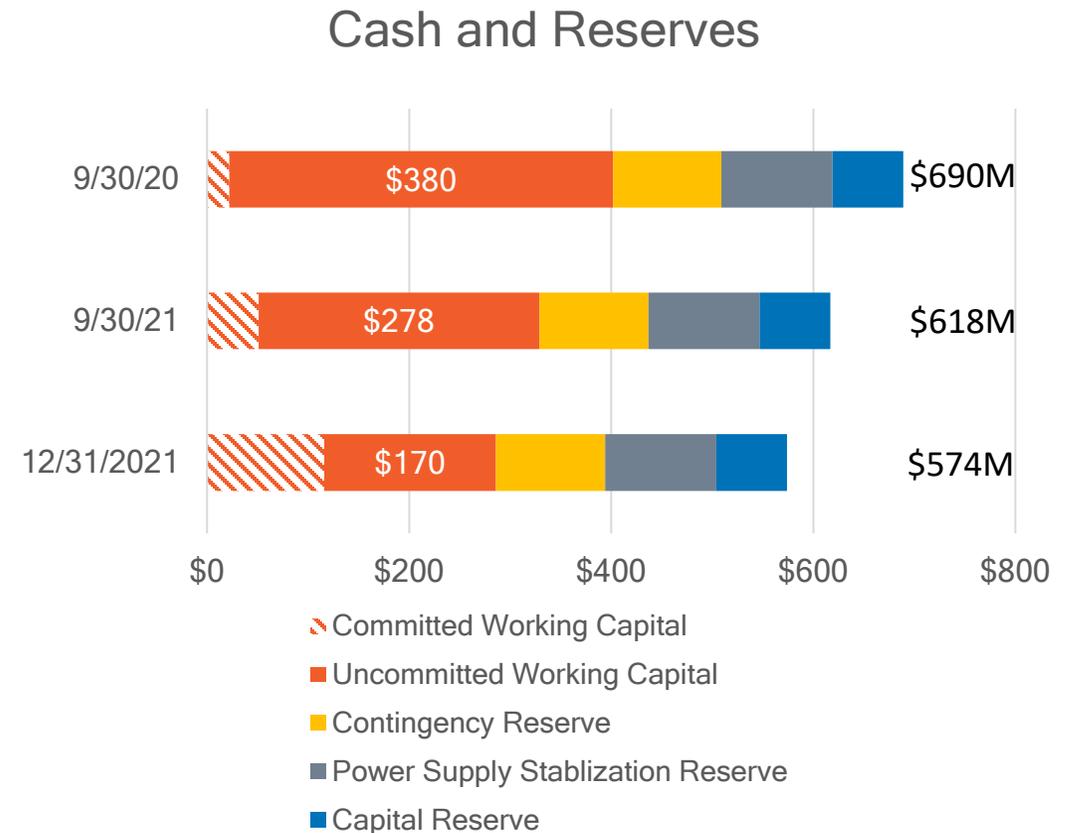
Austin Energy expenses total over \$1.3 Billion every year and we have \$1.8 Billion of debt

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