

# Austin Energy Fiscal Year 2023 Forecast and Budget Planning

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Finance



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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 this forecasted financial information contained in this presentation are 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 Annual Comprehensive 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](https://assets.austintexas.gov/financeonline/downloads/annual_comprehensive_financial_report/annual_comprehensive_financial_report_2021.pdf)



# Fiscal Year 2023 Forecast and Budget Planning Agenda

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



# Austin Energy Fiscal Year 2023 Forecast and Budget Planning

## Budget Schedule





# City of Austin and Austin Energy Financial and Performance Data Sources

## Austin Finance Online

<https://financeonline.austintexas.gov/afo/finance/>

## City of Austin Budget Documents

[https://financeonline.austintexas.gov/afo/afo\\_content.cfm?s=1](https://financeonline.austintexas.gov/afo/afo_content.cfm?s=1)

## City of Austin Strategic Direction 2023

[https://financeonline.austintexas.gov/afo/afo\\_content.cfm?s=73&p=160](https://financeonline.austintexas.gov/afo/afo_content.cfm?s=73&p=160)

## City of Austin Strategic Performance Dashboard

<https://data.austintexas.gov/stories/s/59fp-raw5>

## Data Austin: Austin Energy

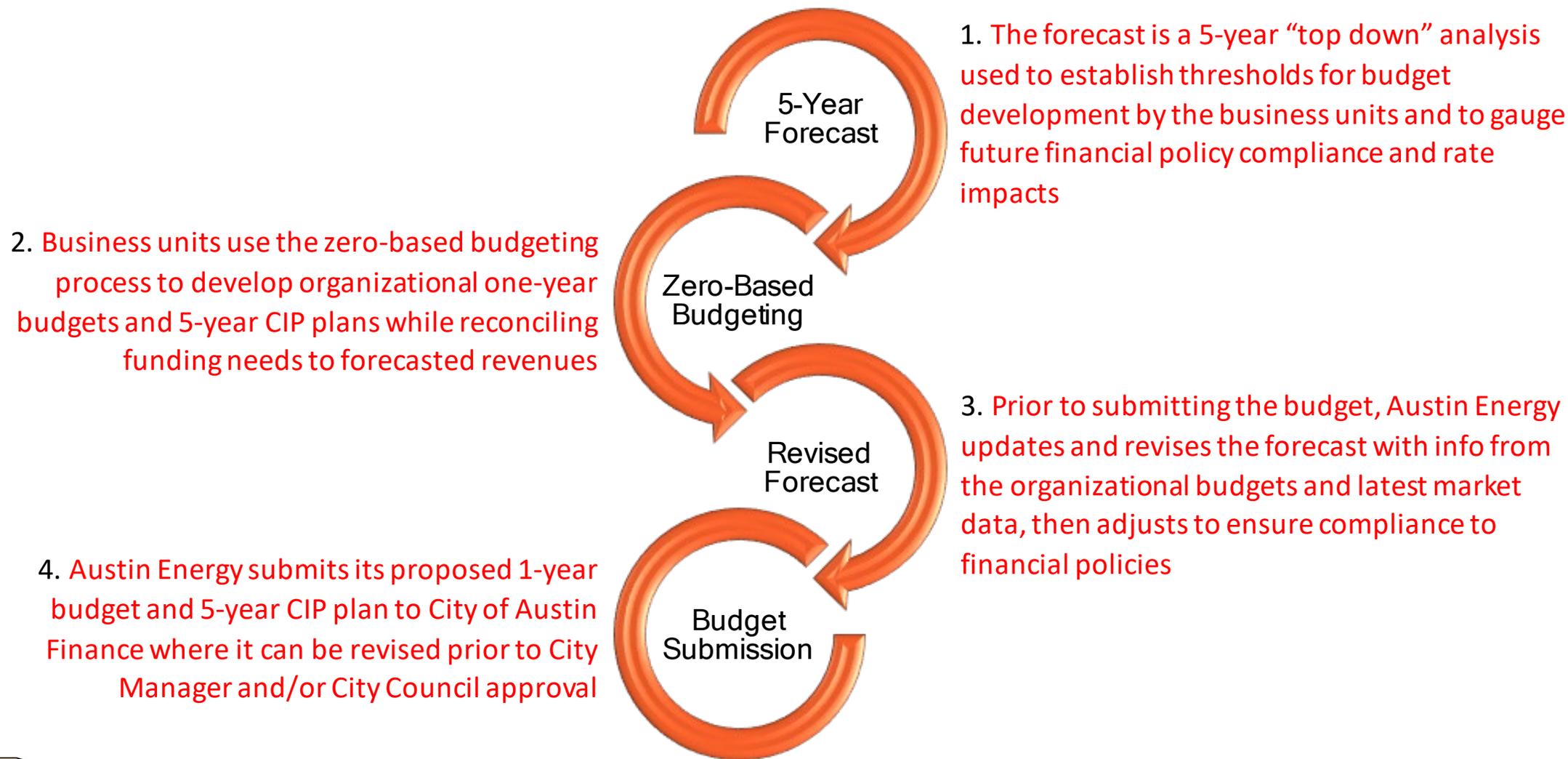
[https://data.austintexas.gov/browse?Additional-Information\\_Department=Austin+Energy&City-of-Austin\\_Department=-Austin+Energy](https://data.austintexas.gov/browse?Additional-Information_Department=Austin+Energy&City-of-Austin_Department=-Austin+Energy)

## Austin Energy Corporate Reports and Data Library

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



# Forecast to Budget 4-Step Process



# Austin Energy Fiscal Year 2023 Forecast and Budget Planning

Forecast Inputs, Assumptions and Process



# Austin Energy Forecast Inputs FY23

- 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 FY23

## REVENUE

- Base revenue increase starting Jan 2023 to maintain financial policy compliance
- Pass-through revenue (PSA, Regulatory, and Community Benefit Charge) are based on the cost with no over or under-recovery
- Continue Nacogdoches debt and O&M recovery through Power Supply Adjustment
- Interest income rate is 0.85% for 2023 and beyond

## EXPENSE

- Inflation is at 2.4% for 2023, 1.5% for 2024-2027 on non-labor costs
- Depreciation rate is 2.95%
- Cost of debt: 3% for taxable and non-taxable
- Approved FY2022 5-year Capital Plan with Joint Projects updates
- CIP funded 60% cash (average) in a 5-year period



# City of Austin Forecast Assumptions FY23

## LABOR AND BENEFITS:

- Wage increase 3.0%
- Health insurance contribution increase 0%

## DIRECT EXPENSES:

- Fuel 5%
- Fleet Maintenance 7%

## CITY ALLOCATIONS:

- Administrative Services 5%
- Communications and Technology Management (CTM) 10%
- Combined Transportation, Emergency & Communications Center (CTECC) & Wireless 5%
- City Transfers expected to grow at 5%



# Other Events and Assumptions

## GENERATION AND POWER SUPPLY

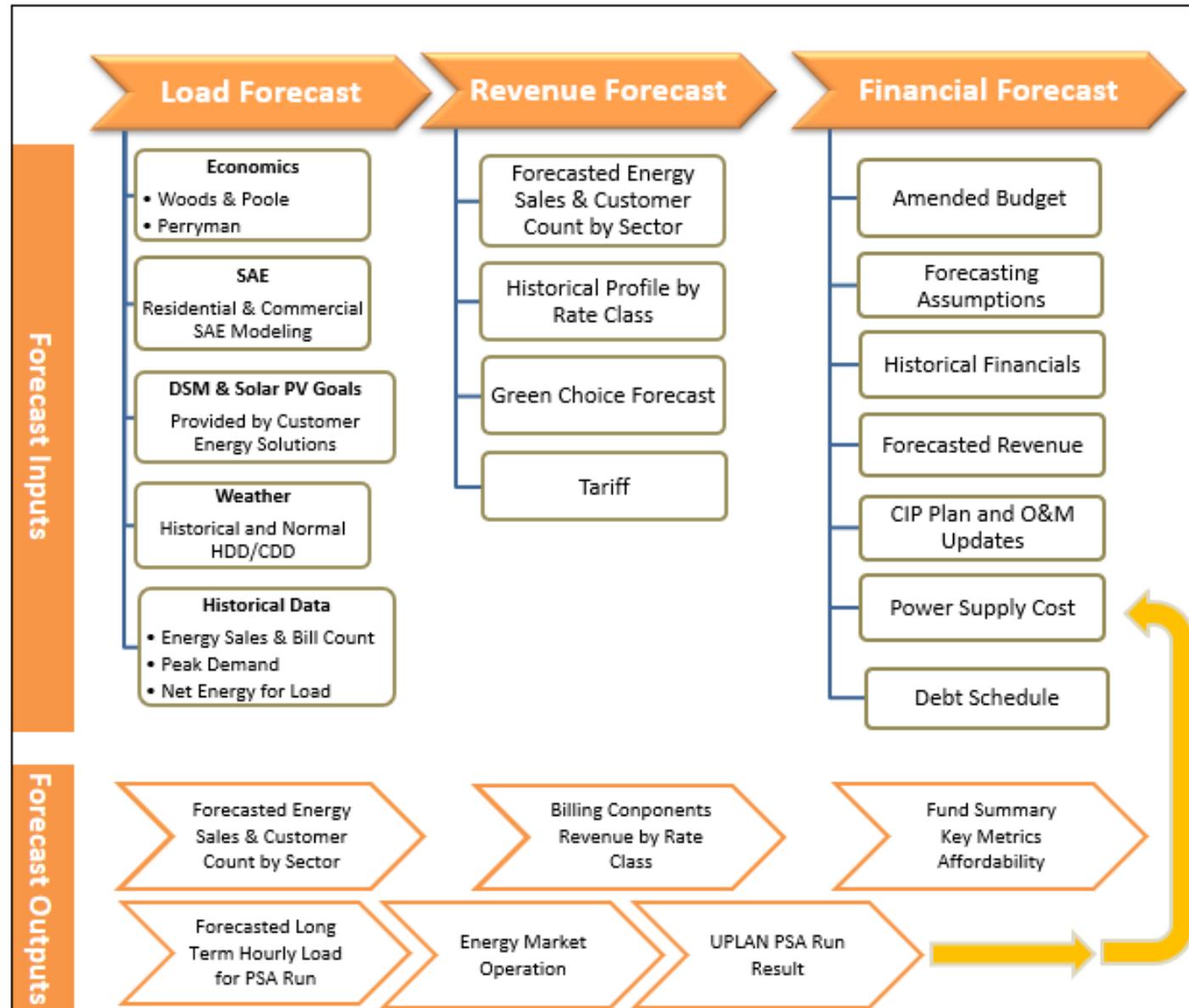
- Decker Unit 2 ceased operations in March 2022
- Fayette – Austin Energy’s share continues to run with reduced dispatch to meet carbon emission goals
- 475MW solar PPA additions in 2023
- Hackberry wind PPA expires on December 31, 2023
- Power supply costs based on the latest generation resource updates and forecasted market price

## ASSETS

- \$31.5M on sales of TLC to City of Austin with cash transfer payment method for the next 5 years
- Decker Unit 2 retired with no gain or loss in disposals



# Austin Energy's Forecasting Process



# Austin Energy Fiscal Year 2023 Forecast and Budget Planning

## Forecast Summary



# Austin Energy's Forecast Fund Summary

(in millions \$)	FY 2022 Budget	FY 2022 CYE	FY 2023 Forecast	FY 2024 Forecast	FY 2025 Forecast	FY 2026 Forecast	FY 2027 Forecast
Beginning Balance	\$261.0	\$303.9	\$242.1	\$242.2	\$242.3	\$244.0	\$245.5
Revenues/Transfers In	1,490.3	1,505.0	1,568.0	1,595.7	1,604.8	1,612.8	1,624.8
Requirements:							
Operating Expenses	715.3	719.1	728.1	734.1	755.7	776.5	782.6
Power Supply Expenses	422.3	422.3	408.7	398.4	391.3	382.6	380.8
Debt Service	161.9	161.9	166.6	183.9	184.2	185.7	194.5
CIP (Cash Transfer)	40.2	92.4	81.7	87.6	55.1	55.6	51.8
General Fund Transfer	114.0	114.0	115.0	119.0	126.0	131.0	134.0
Support Transfers	55.9	57.1	60.8	62.5	65.8	68.9	72.6
AE Reserve Transfers	0	0	7.0	10.0	25.0	11.0	8.0
<b>Total Requirements</b>	<b>\$1,509.6</b>	<b>\$1,566.8</b>	<b>\$1,567.9</b>	<b>\$1,595.5</b>	<b>\$1,603.1</b>	<b>\$1,611.3</b>	<b>\$1,624.3</b>
Excess (Deficiency)	(19.4)	(61.7)	-	0.1	1.7	1.4	0.5
Ending Balance	\$241.7	\$242.1	\$242.2	\$242.3	\$244.0	\$245.5	\$246.0
FTEs	1,823	1,823	1,823	1,833	1,843	1,853	1,863



# Austin Energy Forecast CIP Summary

(in millions \$)

	Budget FY 2022	Forecast FY 2023	Forecast FY 2024	Forecast FY 2025	Forecast FY 2026	Forecast FY 2027	Total 2023-2027
Distribution	\$123.6	\$113.3	\$96.9	\$101.8	\$101.0	\$101.0	\$514.0
Distribution Substation	23.1	10.5	33.9	11.0	9.0	9.0	73.4
Transmission	56.6	39.8	59.9	36.9	36.3	36.3	209.2
Electric Service Delivery	\$203.3	\$163.6	\$190.7	\$149.7	\$146.3	\$146.3	\$796.6
Power Production	\$24.4	\$24.0	\$18.3	\$8.5	\$10.7	\$10.9	\$72.4
Joint Projects	12.9	11.9	11.0	11.8	12.8	8.8	56.3
District Cooling	40.6	8.4	0.7	0.3	0.2	0.2	9.8
General	38.7	28.7	8.2	7.5	6.7	6.7	57.8
<b>Total</b>	<b>\$319.9</b>	<b>\$236.6</b>	<b>\$228.9</b>	<b>\$177.8</b>	<b>\$176.7</b>	<b>\$172.9</b>	<b>\$992.9</b>



# Forecasted Key Financial Metrics Summary

	Minimum or Target	Forecast FY 2022	Forecast FY 2023	Forecast FY 2024	Forecast FY 2025	Forecast FY 2026	Forecast FY 2027
Operating Margin	10%	12%	14%	15%	14%	13%	13%
Net Income (Millions of \$)	> \$0	(\$19.2)	(\$11.7)	\$5.0	(\$13.2)	(\$30.4)	(\$34.2)
Quick Ratio	> 1.5	2.2	2.1	2.3	2.4	2.6	2.7
Days Cash on Hand	150 Days	184 Days	178 Days	193 Days	212 Days	228 Days	240 Days
Debt Service Coverage	> 2.0	2.0	2.3	2.1	2.2	2.2	2.0
Debt to Capital	< 50%	56%	55%	55%	55%	55%	55%



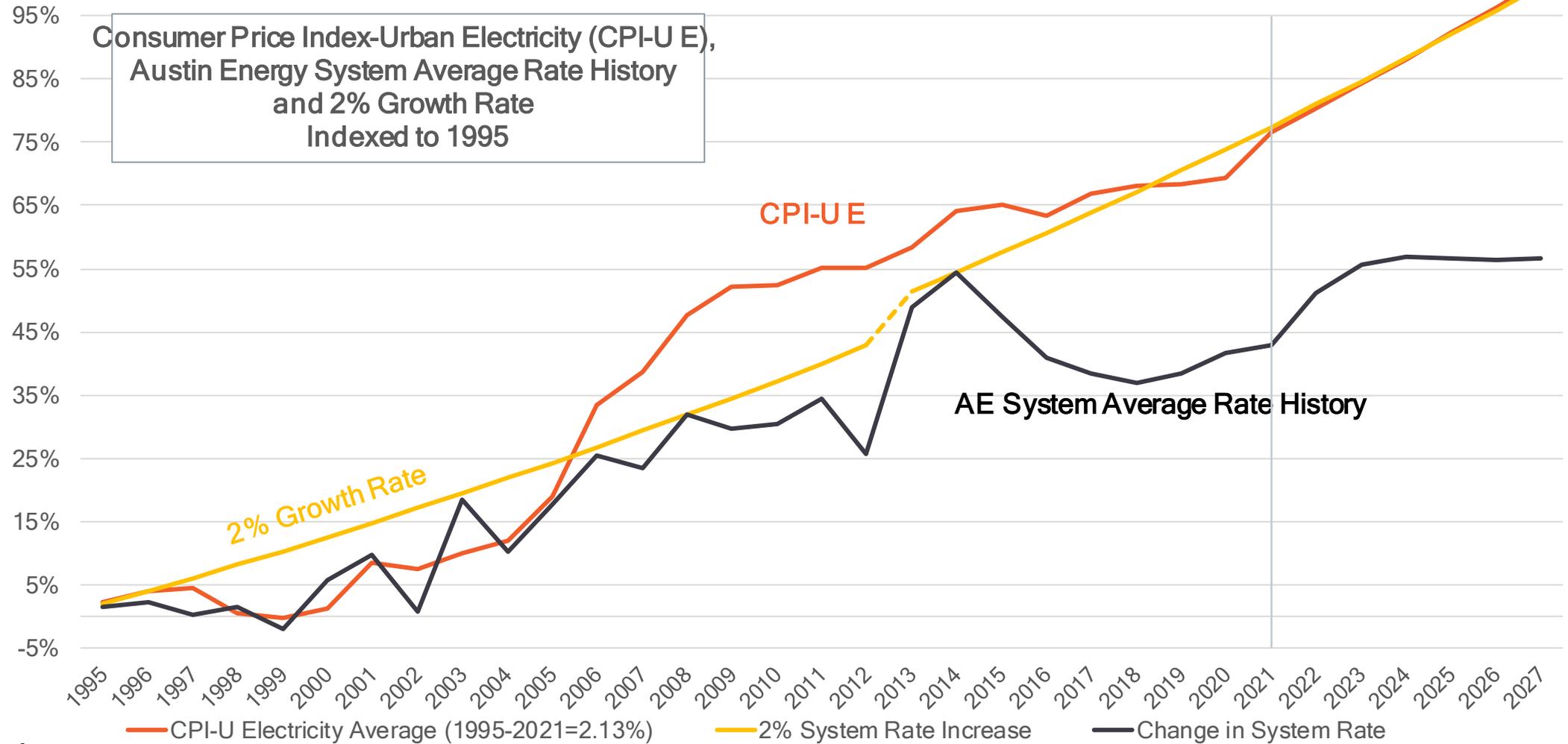
# FY22 Retail Revenue Summary

	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% (2)	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 2021, Decreased 7%	29%
Regulatory Charge	Recovers ERCOT transmission and related administrative charges/credits and NERC/TRE regulatory fees	Yes	Actual Expenses	Annually during Budget	Nov 2021, Increased 20%	12%
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%	2%
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%

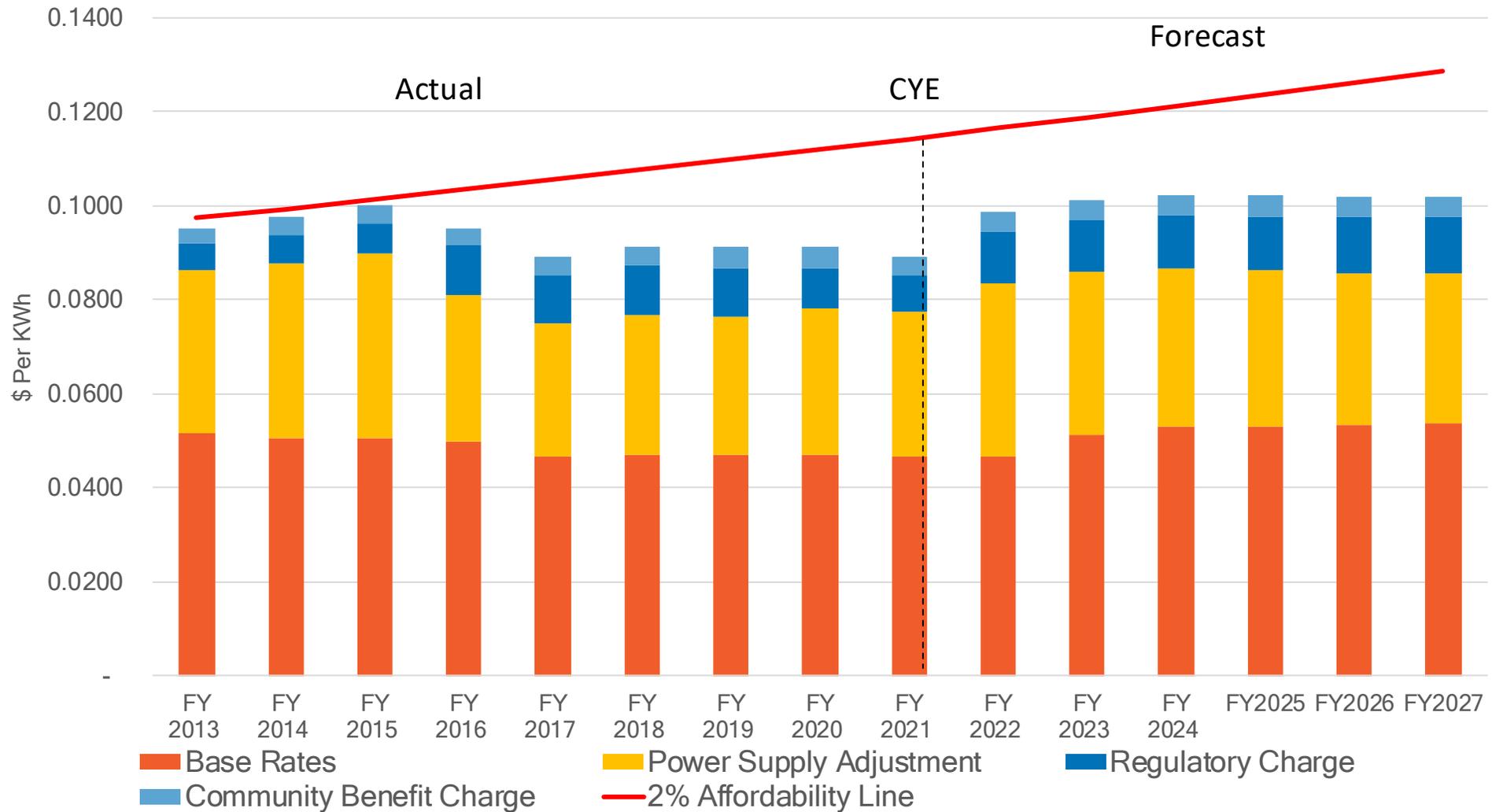


(1) City of Austin Residential Non-CAP Customer using 860 KWh (2019 Typical Monthly Consumption); does not add to 100% due to rounding. (2) System-wide decrease of 6.7%.

# Austin Energy System Average Rate History

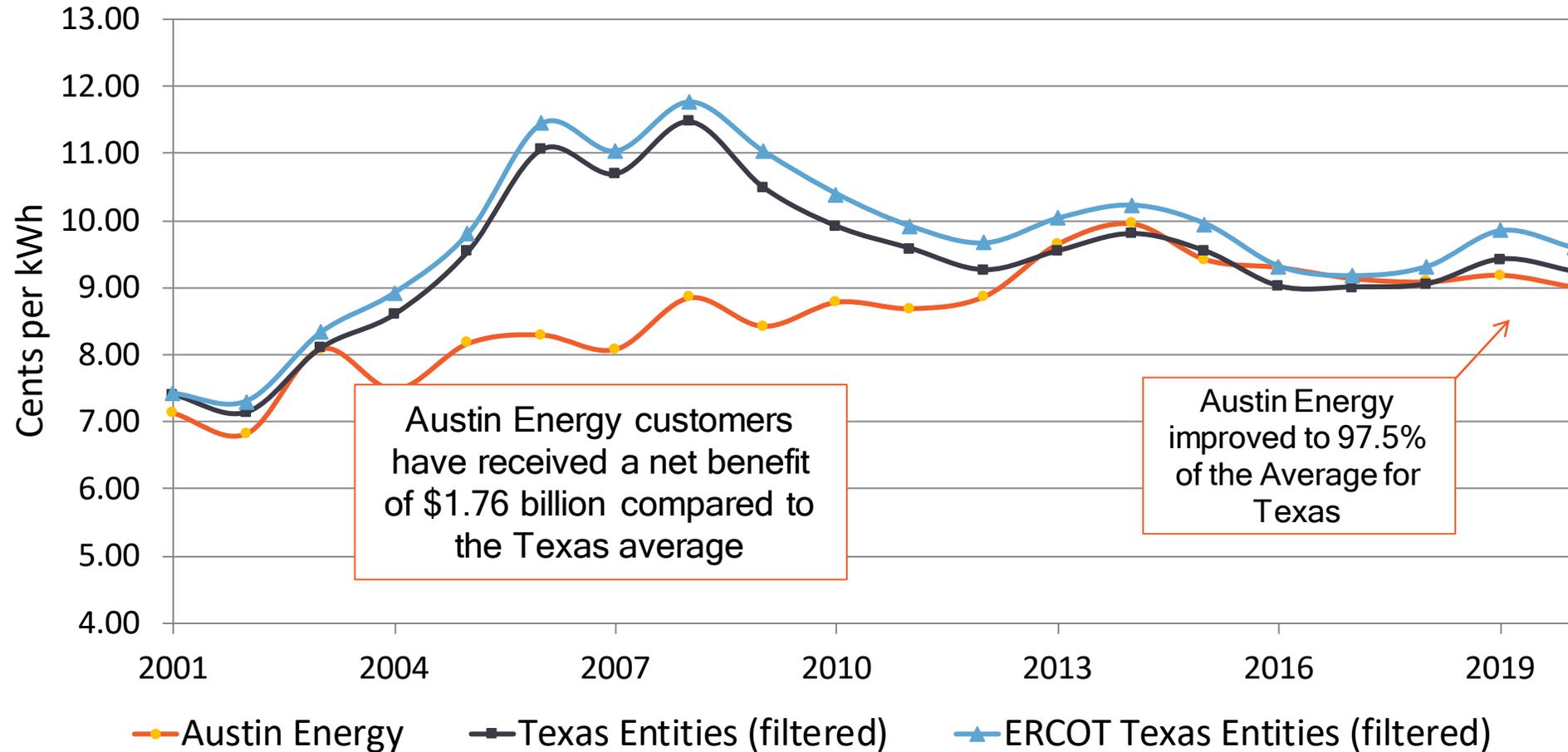


# Affordability Goal: Affordability Metric



# Affordability Goal: Competitiveness Metric

## System Average Annual Rates by Calendar Year

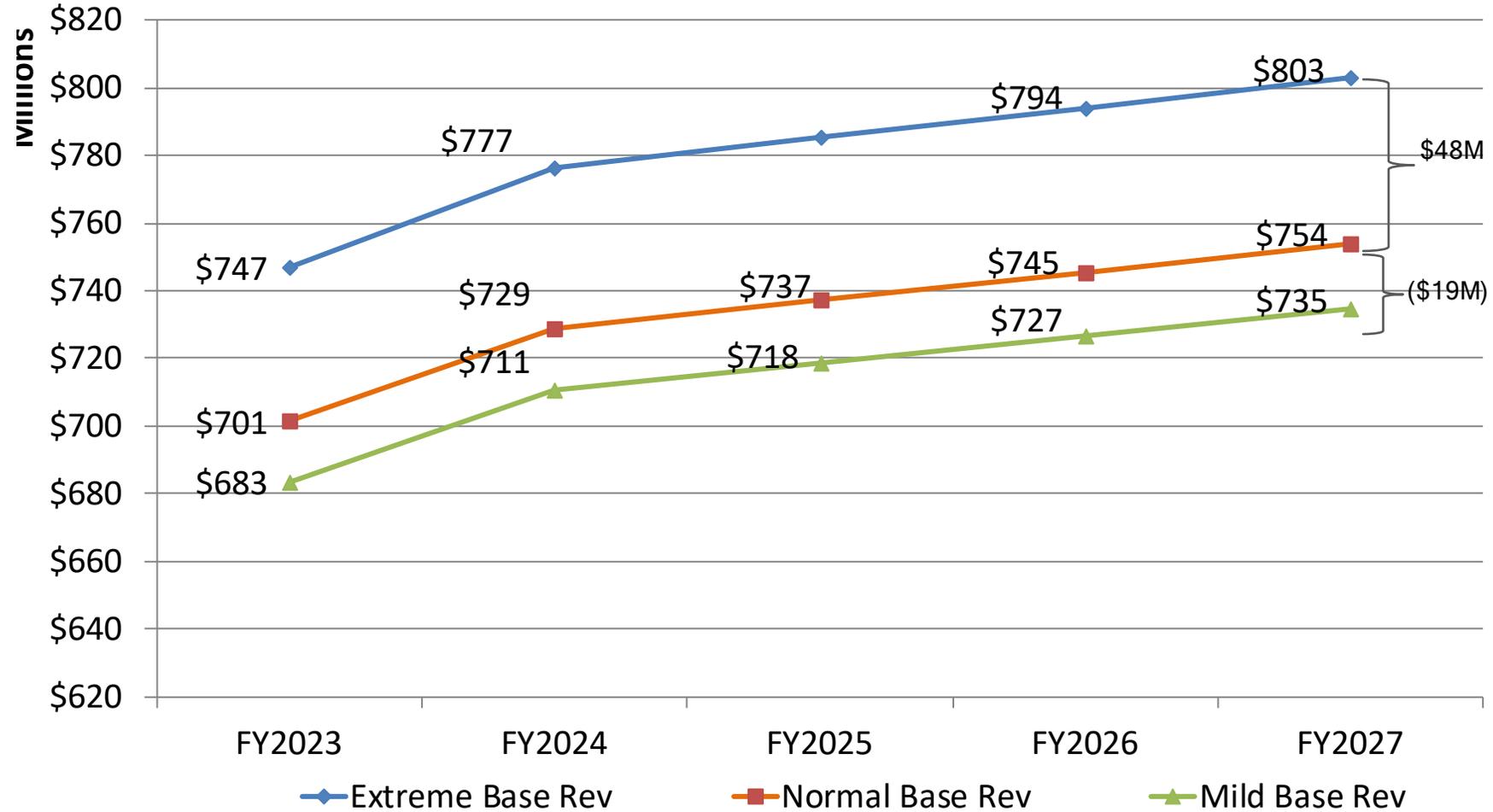


Source: U.S. Energy Information Administration Form 861



# Weather Impacts Base Revenue

Average ~\$67 Million Variance Over the Forecast



# Austin Energy FY 2023 Forecast Summary

## Challenges & Opportunities

- Flat energy sales with strong customer growth
- Current rate design coupled with declining average consumption threatens cost recovery
- Austin Energy requires an increase in base revenue in 2023 to improve its financial position
- Increasing debt service due to expanded CIP Plan to meet customer growth
- Cash position strengthens in 2024 due to revenue increase
- Restricted cash reserves increasing
- Forecasted rates remain well below the 2% Affordability Metric; the Competitiveness Metric shows Austin Energy's system average rate in 2020 is 2.5% below the average for Texas



# Austin Energy Fiscal Year 2023 Forecast and Budget Planning

## Budget Planning



# Austin Energy FY 2023 Budget Planning

- Austin Energy's \$1.5B operating budget comprises 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 revenues with assumed cost escalators limit new initiatives without trade-offs
- Power supply costs and the Power Supply Adjustment tariff structure present the greatest volatility in the budget
- Capital spending focuses on meeting continued customer growth, and spending is increasing on substations, district cooling projects, and warehouse space
- The FY 2023 budget will look similar to the FY 2022 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 <sup>(1)</sup>

- 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 the approved budget

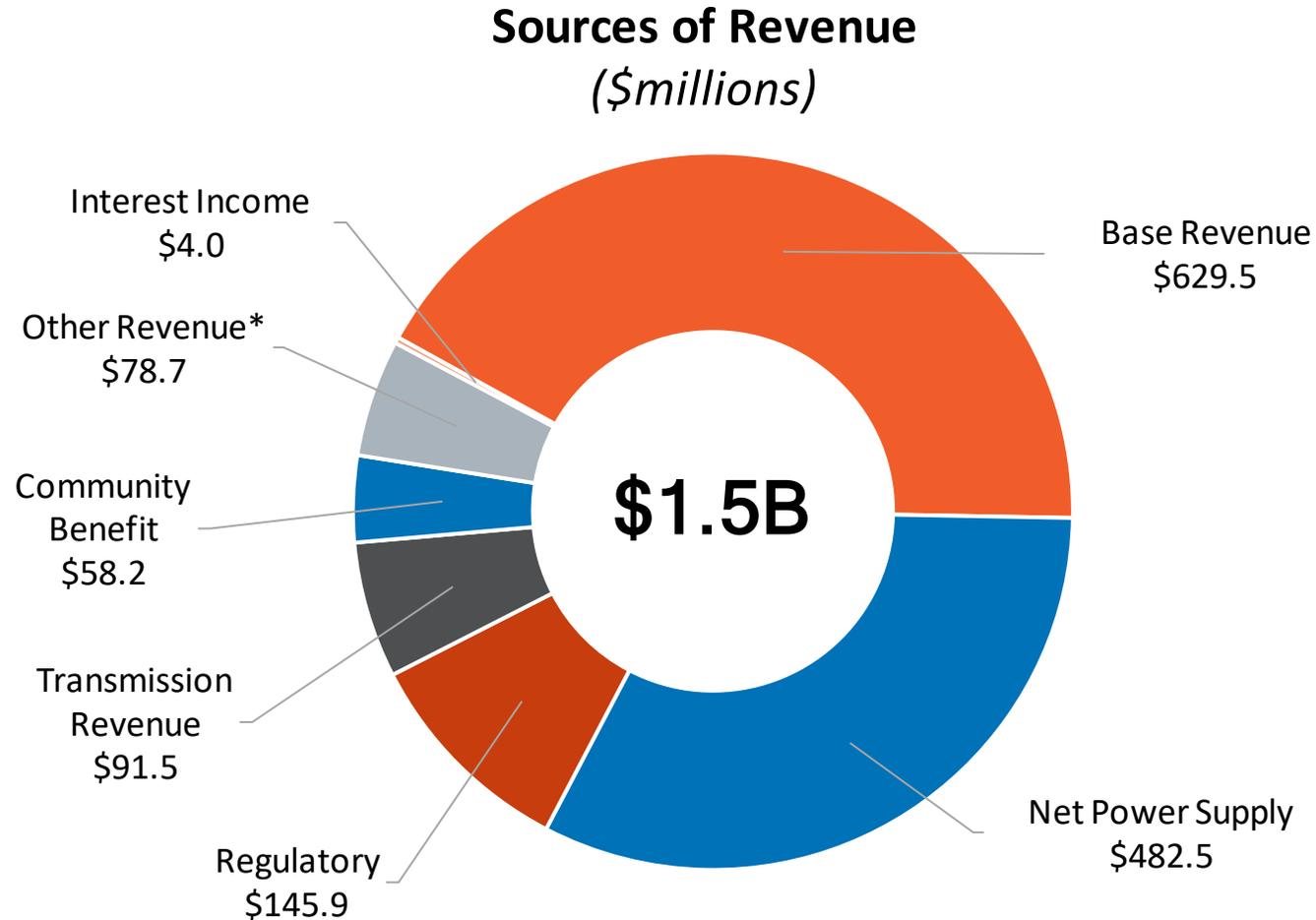
## GAAP Financial Statements <sup>(2)</sup>

- Reports the Statement of Revenues, Expenses and Fund Net Position, Statement of Net Position, and Statement of Cash Flows (Annual Comprehensive 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 are 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 bondholders, and vendors to gauge financial health and integrity



*(1) (2) Provided in separate handout*

# FY 2022 Sources of Revenue

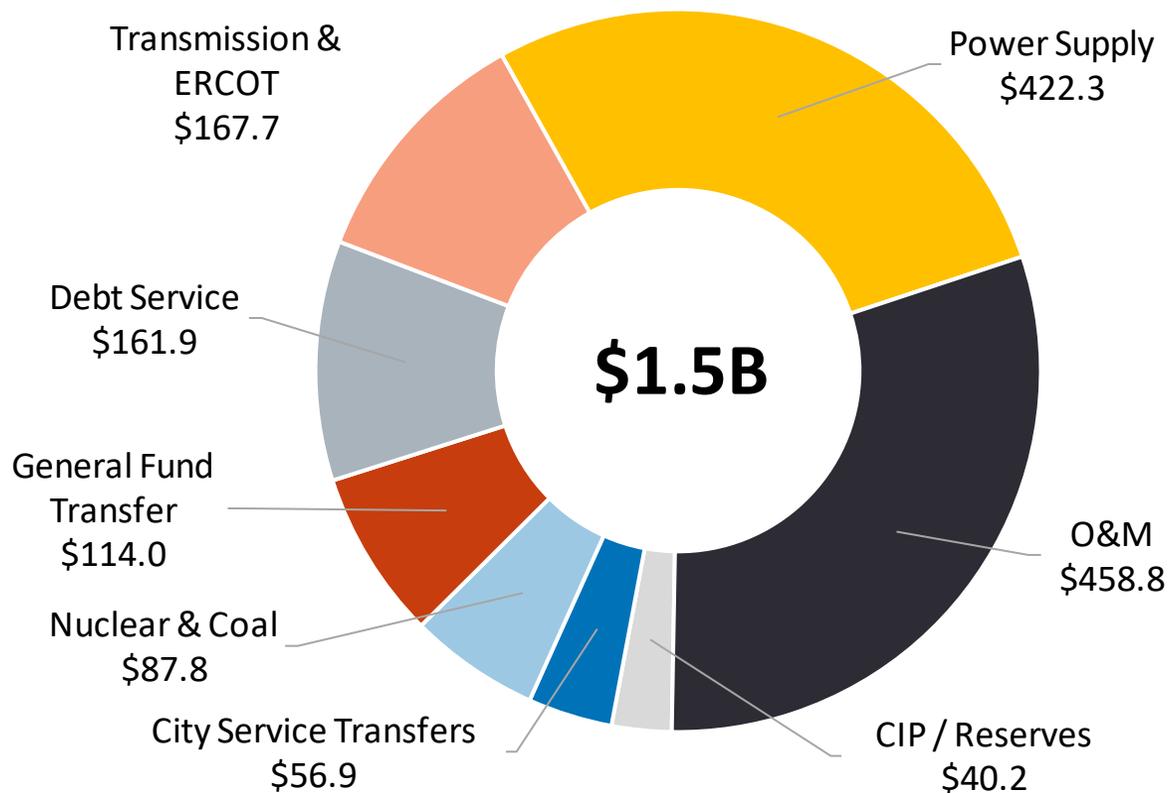


\*Other revenue includes District Cooling (chiller) \$34.3M, Congestion Revenue \$21.7M, infrastructure attachments \$6.7M, and miscellaneous and product revenue \$16.0M

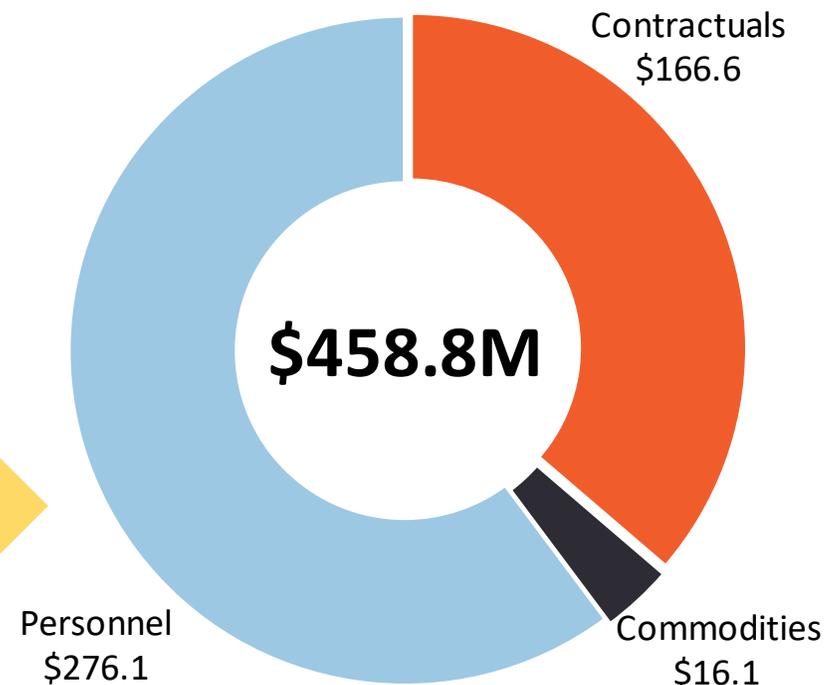


# FY 2022 Operating Requirements

## Operating Requirements (\$millions)



## O&M Breakout (\$millions)



# Non-Discretionary Requirements FY 2022

Austin Energy’s budget is mainly non-discretionary in nature; the Utility 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 2022 Budget
<b>Transmission &amp; ERCOT:</b> 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.	\$167.7M
<b>Debt Service:</b> Austin Energy has approximately \$1.9 Billion in commercial paper and bonds. This represents the principal and interest payment on that debt.	\$161.8M
<b>General Fund Transfer:</b> 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
<b>Joint Projects:</b> 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.	\$87.8M
<b>City Services:</b> 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.	\$46.5M
<b>Internal Transfers/Capital Spending/Reserves:</b> By policy, Austin Energy funds approximately 35-60% of capital projects with cash, and Austin Energy also funds and maintains certain Reserves with this cash. This represents the transfer of cash to those accounts.	\$40.2M
<b>Economic Development Fund Transfer:</b> 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.	\$ 9.4M
<b>Total Non-Discretionary Requirements</b>	<b>\$627.4M</b>



# Power Supply Cost FY 2022

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 2022 Budget
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.	(\$326.3M)
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.	\$373.5M
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 to protect the Utility from price spikes.	\$349.8M
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.	\$25.2M
<b>Net Power Supply Cost</b>	<b>\$422.3M</b>



# Operations & Maintenance FY 2022

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 can lead to increased capital costs.

Components of the Operations & Maintenance	Fiscal Year 2022 Budget
<p>Personnel: Austin Energy is authorized 1,897 employees and 112 temporary employees. An assumption is made that 8% of the positions will be vacant at any one time. This represents 92% of the cost of salaries, payroll taxes, benefits, and 100% of the cost of health insurance.</p>	\$276.1M
<p>Contractuals: Austin Energy requires support of contractors, consultants, and services to provide safe, efficient, and clean electricity and to support certain policy requirements, such as energy efficiency and demand reduction. (Discussed in more detail later)</p>	\$166.6M
<p>Commodities: Austin Energy requires software, tools, chemicals, safety equipment, replacement materials, and parts to operate and maintain the Utility. (Discussed in more detail later)</p>	\$16.1M
<p><b>Total Operations &amp; Maintenance Requirements</b></p>	<b>\$458.8M</b>



# Contractuals: Top-Ten Items FY 2022

Austin Energy’s Contractuals budget for 2022 is \$292.1M. It is offset with \$125.8M of interdepartmental reimbursements and refunds for a net total of \$166.6M. The top ten items within the Contractuals budget represent \$147.3M, or 50% of the entire Contractuals budget.

Top Ten Expenses in the Contractuals Category	Fiscal Year 2022 Budget
Maintenance - Computer Hardware/Software	\$33,872,765
Conservation and Solar Rebates	\$22,611,910
Line Clearance Services, Distribution & Transmission	\$20,000,000
Maintenance – General Plant Equipment	\$15,153,207
Information Technology Consulting Services	\$12,986,053
Information Technology Contract Employees	\$11,938,758
Temporary Contract Employees in Customer Care	\$9,402,984
Engineering Services	\$9,140,000
Liability Insurance Premiums on Assets	\$6,210,000
Security Services	\$6,000,000
<b>Total Value of Top Ten Items in Contractuals</b>	<b>\$147,315,677</b>



# Commodities: Top-Ten Items FY 2022

Austin Energy’s Commodities budget for 2022 is \$15.3 Million. The top ten items within the Commodities budget represent \$10.3 Million, or 67% of the entire Commodities budget.

Top Ten Expenses in the Commodity Category	Fiscal Year 2022 Budget
Inventory Purchase	\$1,575,000
Office Furnishings	\$1,479,735
Small Tools/Minor Equipment	\$1,374,041
Minor Computer Hardware	\$1,184,869
Chemicals	\$1,055,155
Safety Equipment	\$948,484
Software	\$858,044
Clothing/Clothing Material	\$840,797
Educational/Promotional Materials	\$506,892
Electrical Conductors – Hardware/Wire/Cable	\$452,862
<b>Total Value of Top Ten Items in Commodities</b>	<b>\$10,275,879</b>





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Community Focused.**

