

Austin Energy Quarterly Financial Report

2nd Quarter YTD March 2022

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Austin Energy Director of Finance



June 7, 2022

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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 Annual Comprehensive Financial Reports for the City of Austin, which was published on March 14, 2022:

http://finance.austintexas.gov/web/controller/annual_comprehensive_financial_report/annual_comprehensive_financial_report_2021.pdf



Agenda

QUARTERLY Financial Report



Executive Summary



Financial Policy Compliance



Financial Performance Measures



Actual to Budget Analysis



Financial Statements



Market and Industry Analyses

Austin Energy Quarterly Financial Report

Executive Summary



Executive Summary



Generally compliant with all financial policies. Contingency and Capital Reserve balances below minimums but total cash above minimum of \$480m.



Austin Energy is meeting our target AA S&P bond rating.



\$ 707

Million
Operating Revenue

Operating revenue at March is 6% over budget primarily due to an increase in power supply revenue.



\$(786)

Million
Expenses w/transfers

Operating expenses including transfers are 7% over budget primarily due to higher power supply and power production expenses.



Working Capital decreased \$226M primarily due to funding CIP, decreased margins and the Power Supply adjustment rate reduction due to Winter Storm Uri.



Austin Energy's 'AA' credit rating is among the highest in the industry. The financial and operational health of the utility impacts future credit evaluations.



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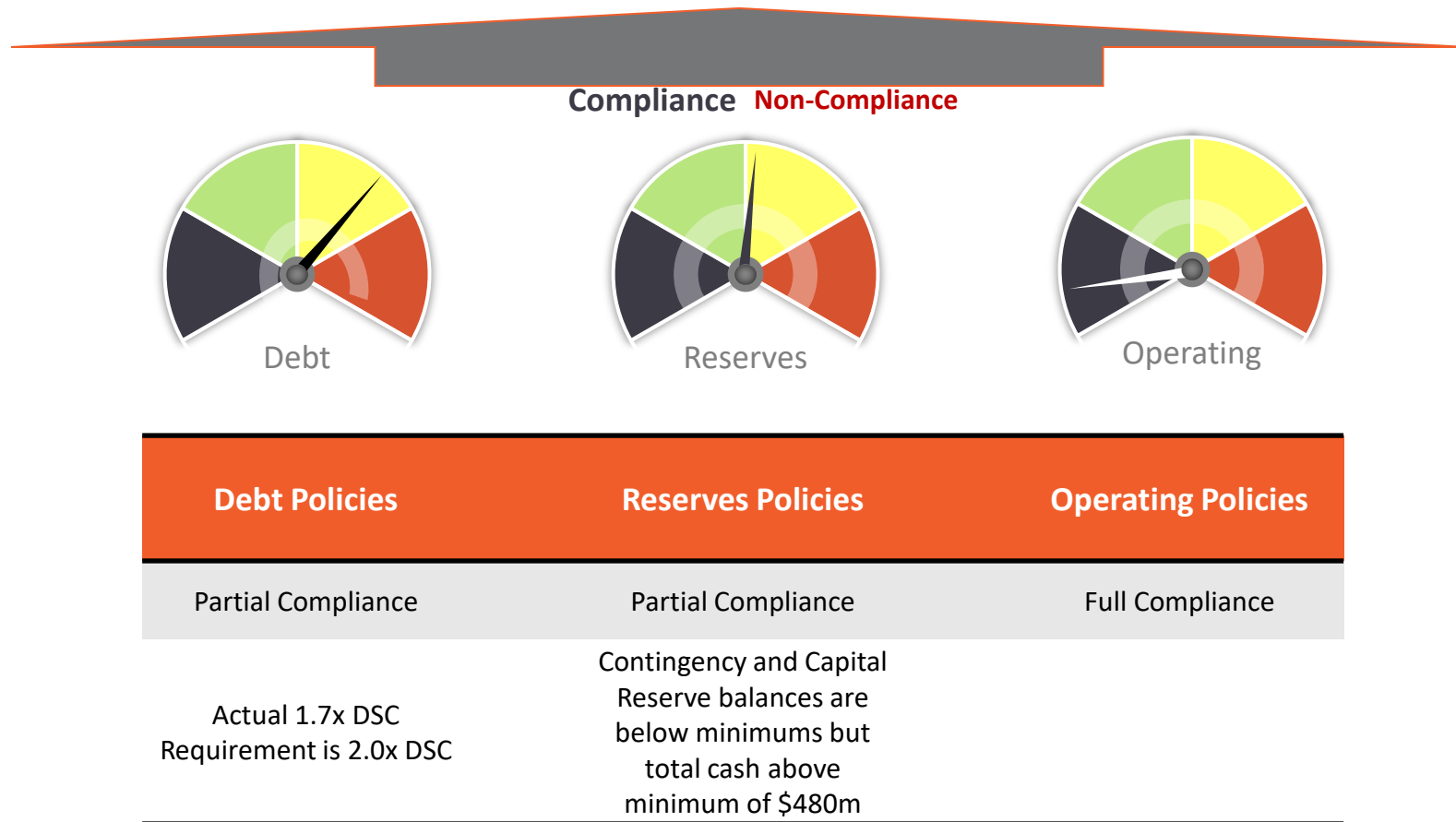
http://finance.austintexas.gov/web/controller/annual_comprehensive_financial_report/annual_comprehensive_financial_report_2021.pdf

Austin Energy Quarterly Financial Report

Financial Policy Compliance



Financial policies are memorialized and adopted by ordinance each year during the budgeting process



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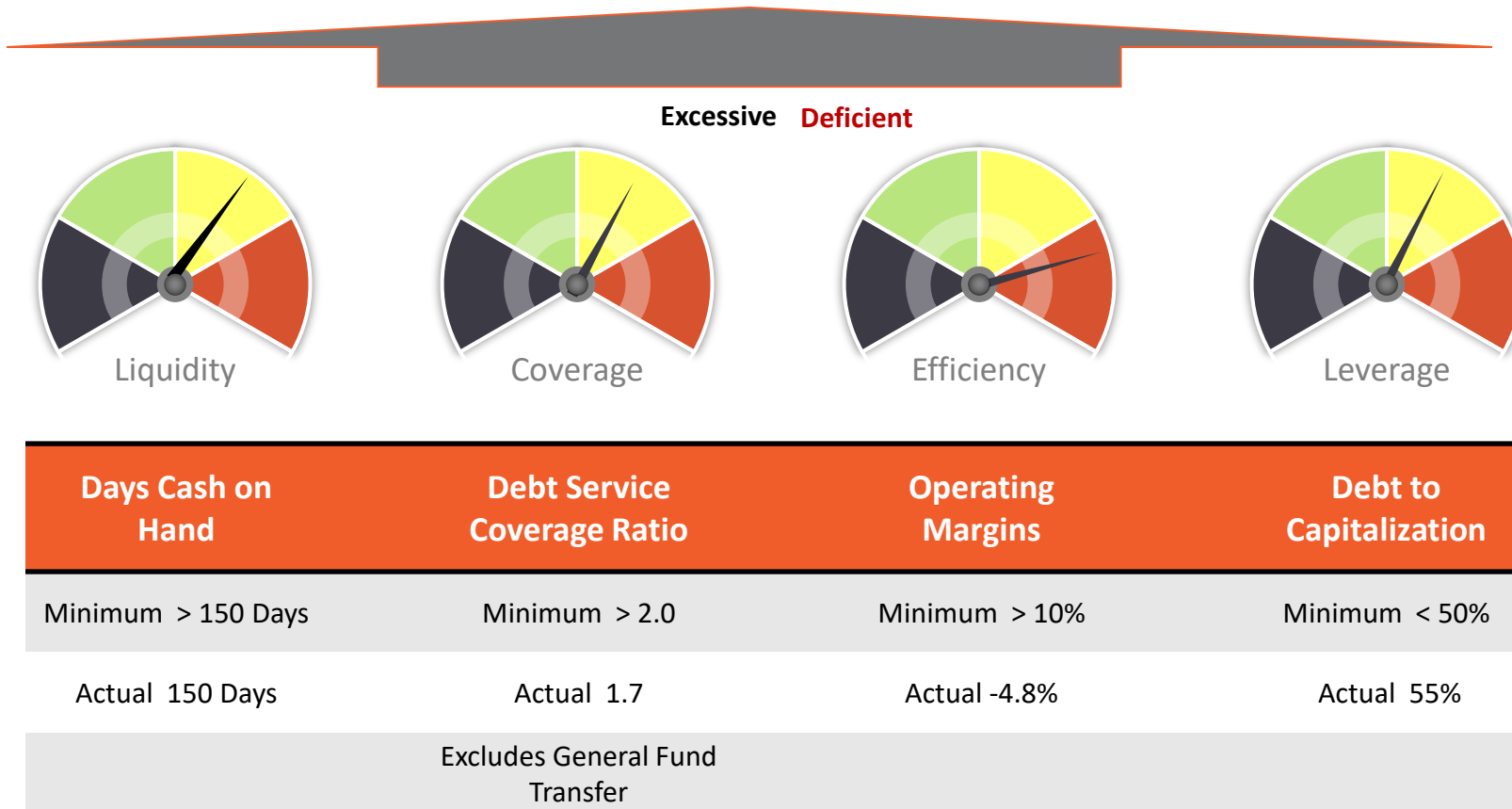
Financial Performance Measures



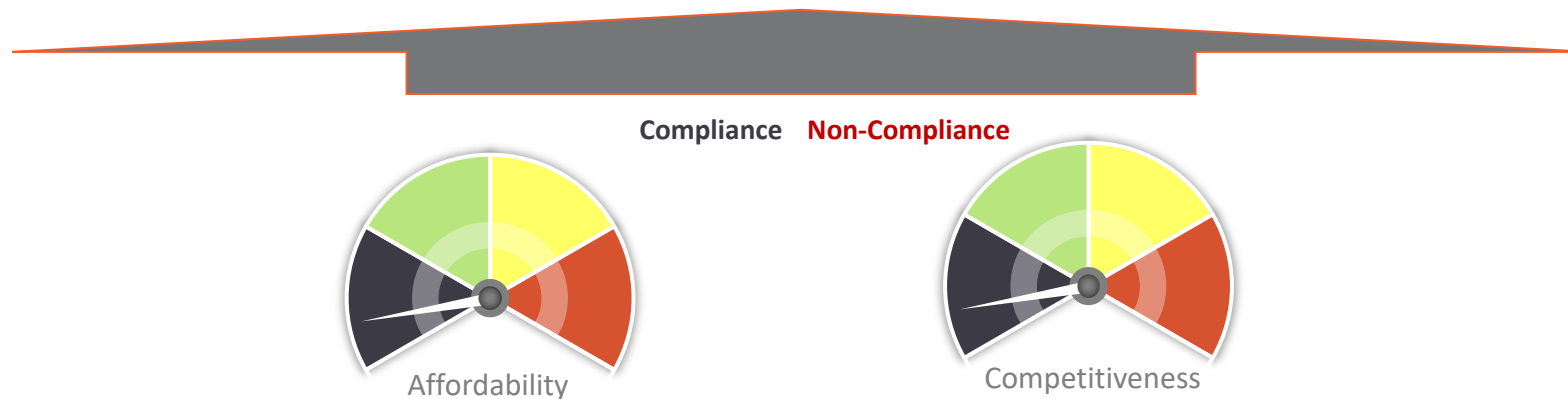
AA

Standard & Poor's Global Ratings

Achieved November 2016



Austin Energy's Affordability Goal has Two Metrics



Affordability Metric	Competitiveness Metric
Full Compliance Since 2013	Full Compliance Since 2019
Maintain system average rates at or below 2% annual compound growth rate that began October 2012.	Maintain an average annual system rate in the lower 50% of all Texas utilities serving residential, commercial and industrial customers as measured by published data from the Energy Information Administration (EIA) Form 861.



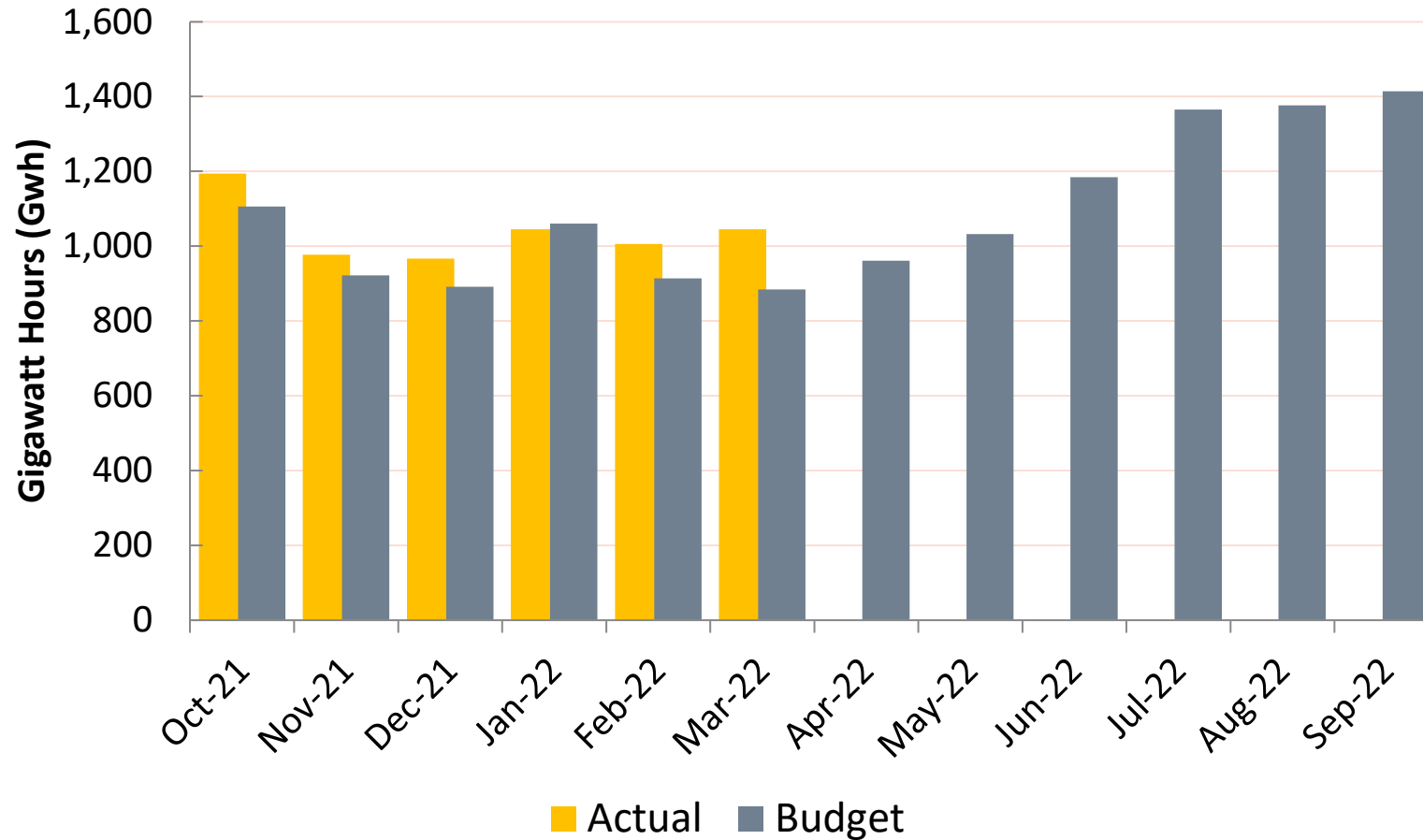
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Actual to Budget Analysis



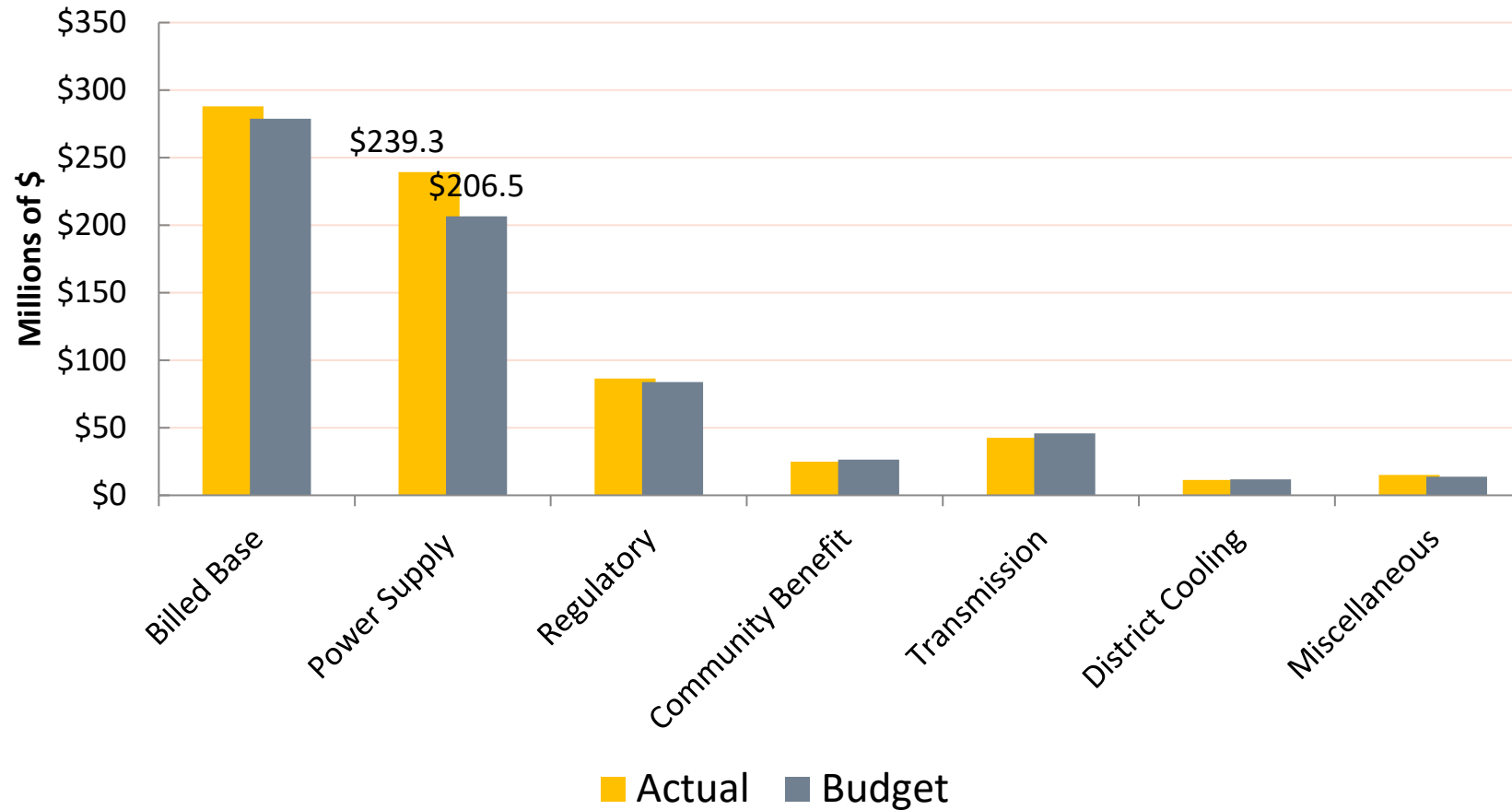
Actual to Budget Analysis

Actual to Budget Retail Energy Sales



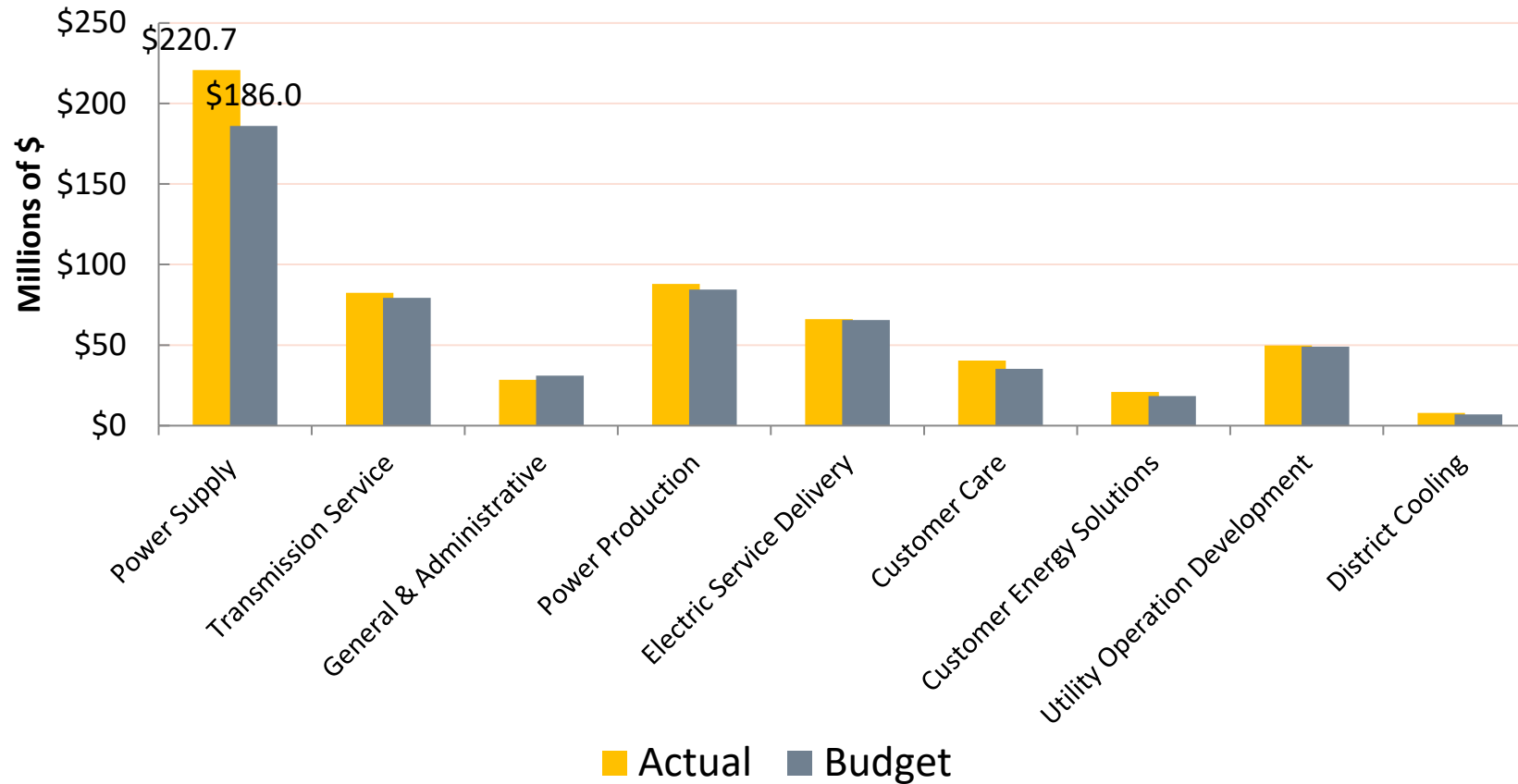
Actual to Budget Analysis

Budget Based Operating Revenues Fiscal Year Through March 31, 2022



Actual to Budget Analysis

Budget Based Operating Expenses Fiscal Year Through March 31, 2022



Actual to Budget Analysis

Budget Based Fund Summary

Fiscal Year Through March 31, 2022

Variance to Budget

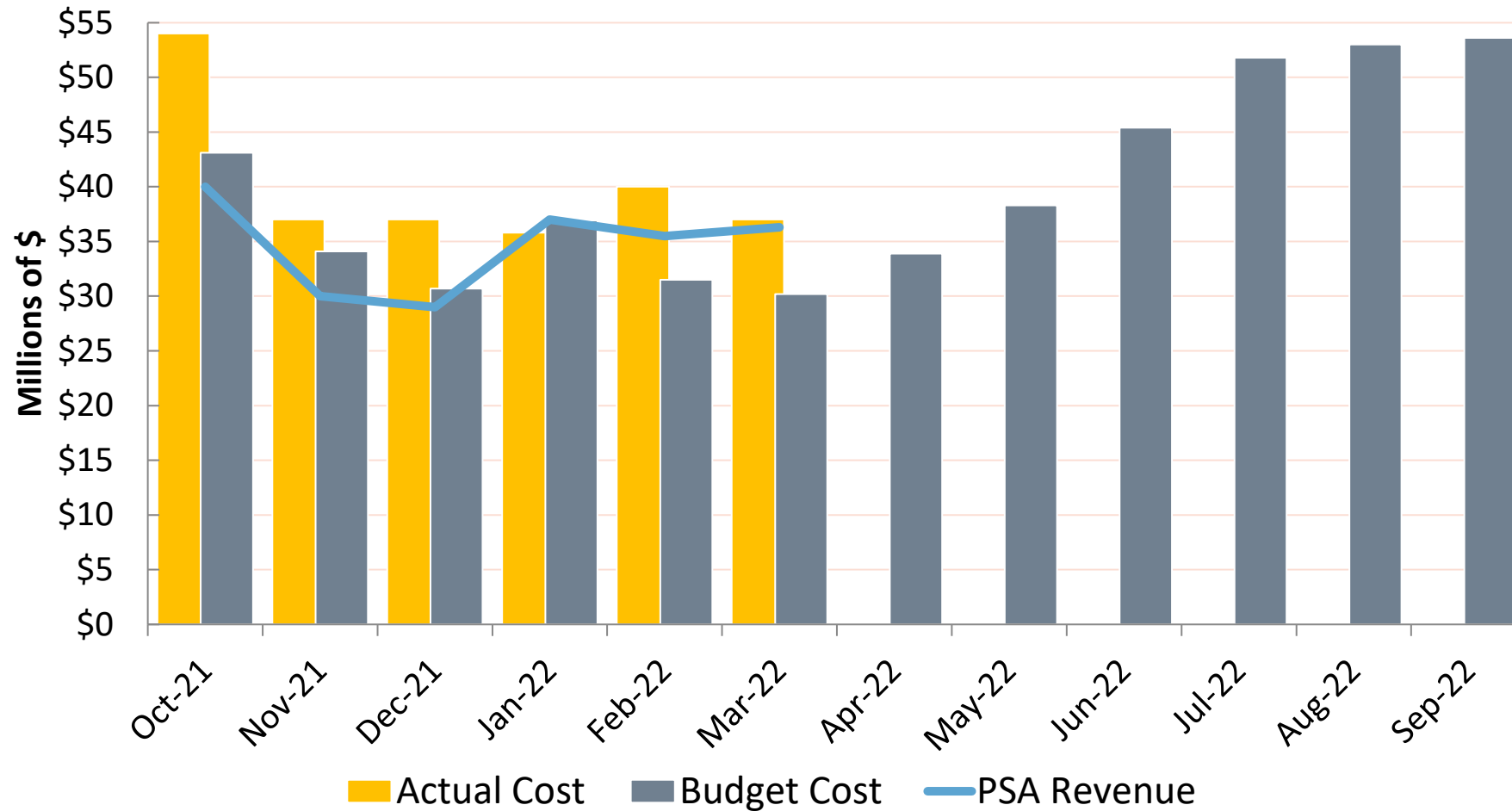
Favorable (Unfavorable)

Millions of \$	Actual	Budget	Amount	%
Operating Revenues	\$707	\$667	\$40	6%
Operating Expenses	604	556	(48)	(9%)
Operating Income (Loss)	\$103	\$111	(\$8)	(7%)
Interest Revenue	1	2	(1)	(57%)
Debt Service	(68)	(67)	(1)	(1%)
Income (Loss) Before Transfers	\$36	\$46	(\$10)	(21%)
Administrative Support	(14)	(14)	0	0%
General Fund	(57)	(57)	0	0%
Economic Development	(5)	(5)	0	0%
CTM Fund	(6)	(6)	0	0%
Voluntary Utility Assistance Fund	(1)	(1)	0	0%
Other City Transfers	(1)	(1)	0	0%
Internal Transfers / CIP	(31)	(31)	(0)	(0%)
Excess (Deficiency) of Revenues	(\$79)	(\$69)	(\$10)	(14%)



Actual to Budget Analysis

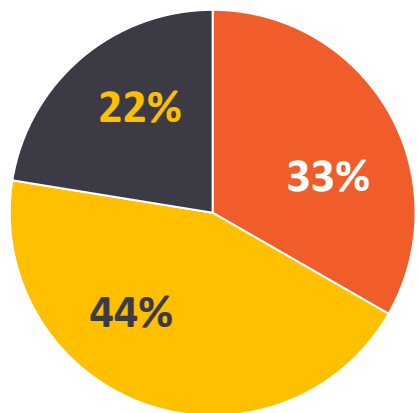
Power Supply Adjustment Analysis



Capital Improvement Plan Summary

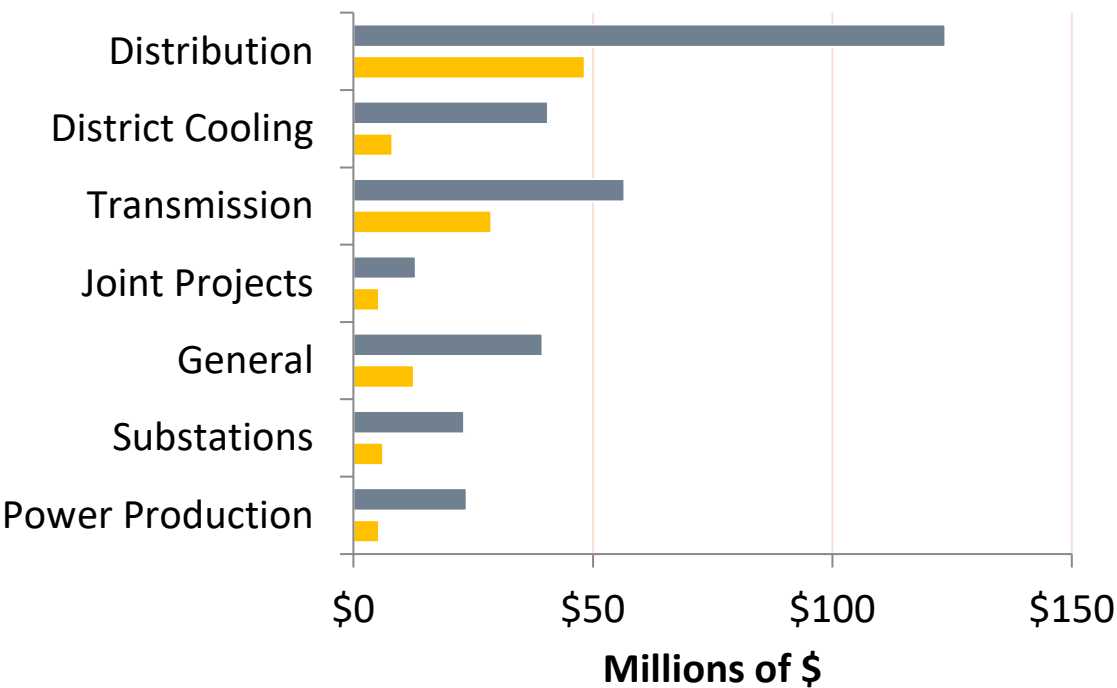
Fiscal Year Through March 31, 2022

Type of Financing



- Cash
- Debt
- Contributions in Aid of Construction

Type of Project
36% of Spend Plan



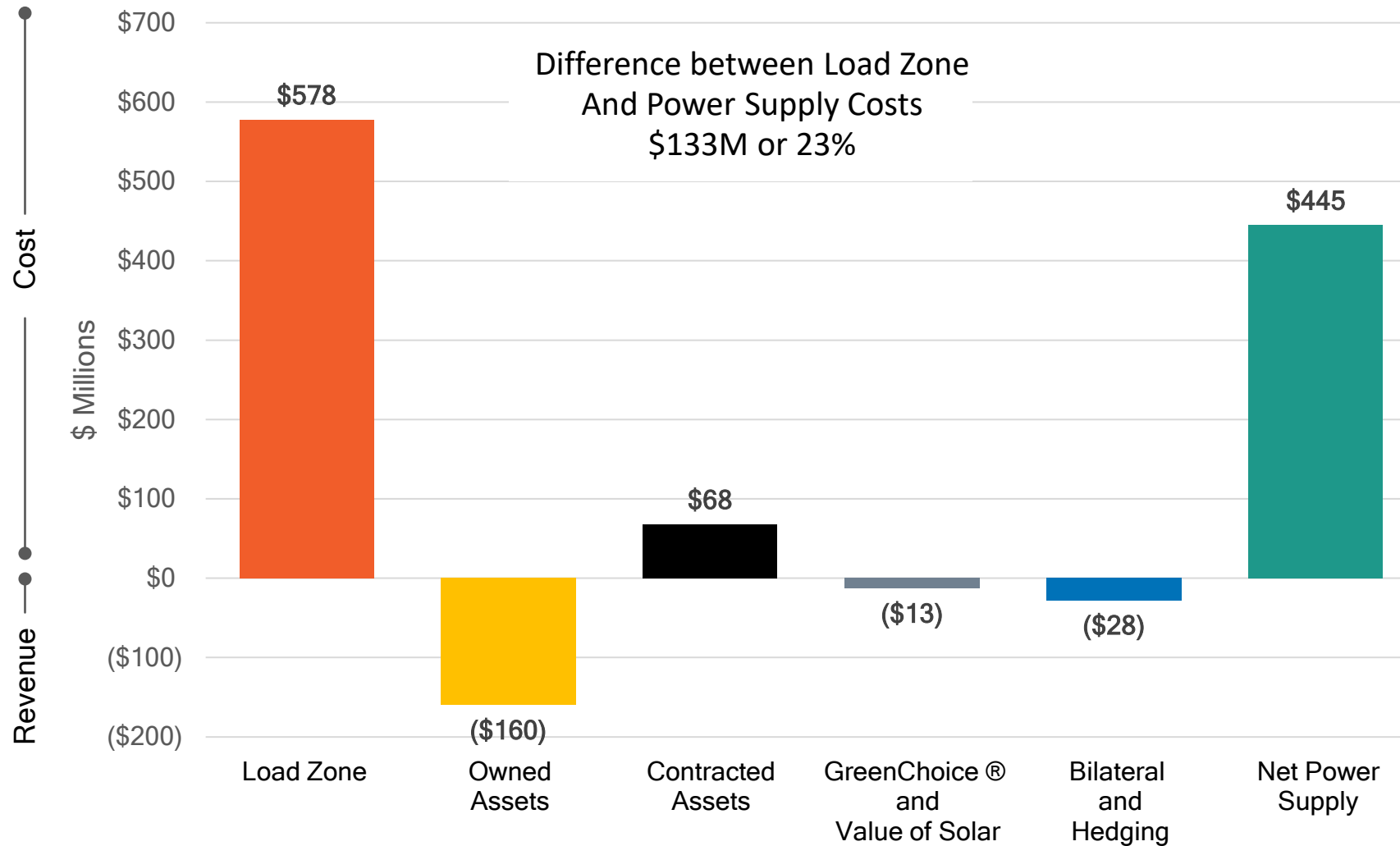
FY 2022 Spend Plan Year-to-Date



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Power Supply Adjustment Cost Components

Twelve Months Ending March 2022



Austin Energy Quarterly Financial Report

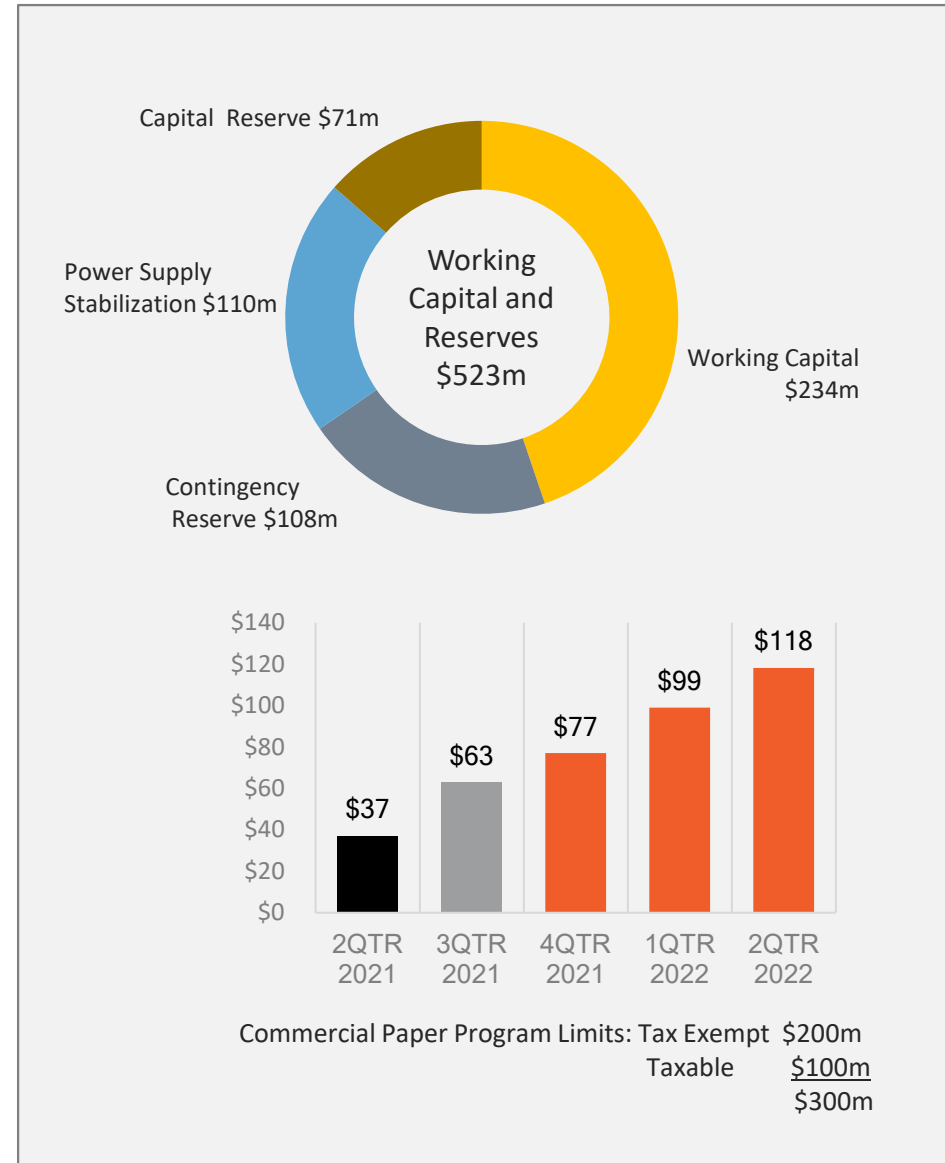
Financial Statements



Balance Sheet Snapshot

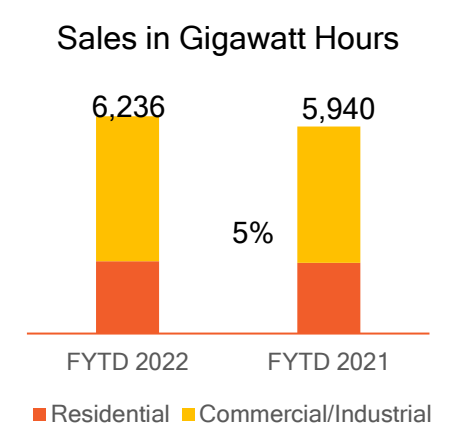
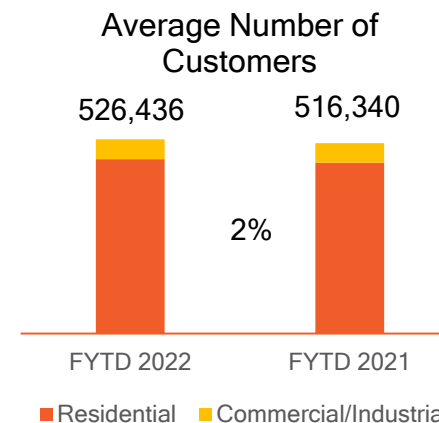
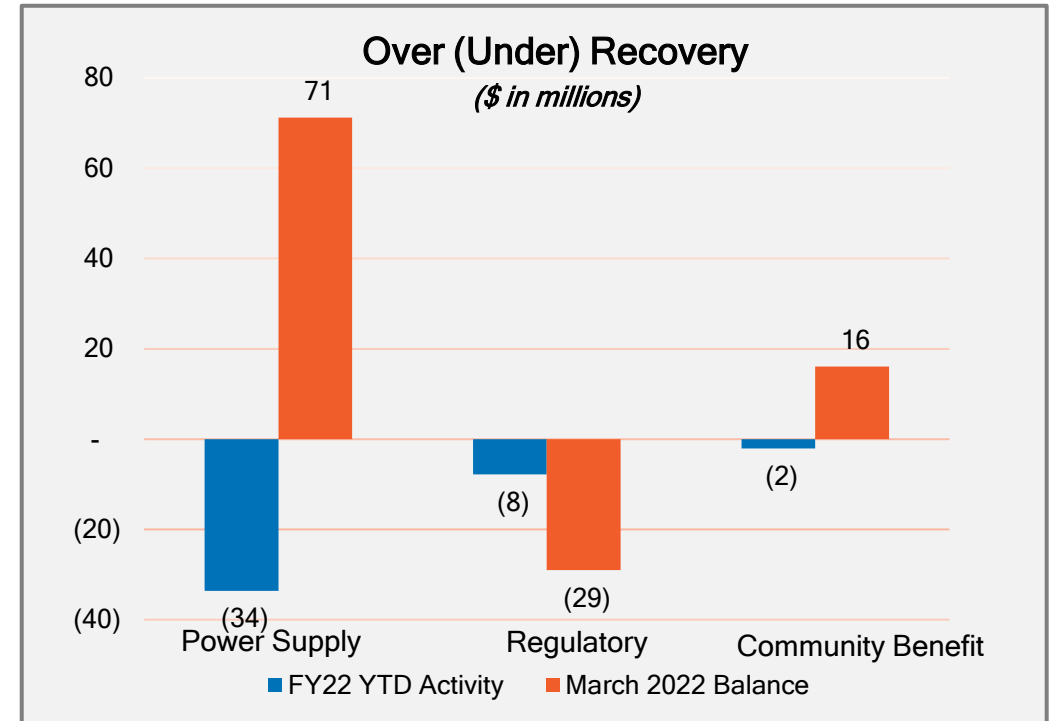
Comparative Statement of Net Position

\$ in Millions	3/31/2022	3/31/2021
Cash	\$234	\$461
Other Current Assets	299	273
Operating Reserves	289	288
Nuclear Decommissioning Reserve	242	239
Other Restricted Assets	265	277
Capital Assets	3,012	2,922
Other LT Assets & Deferred Outflows	1,672	1,501
Total Assets and Deferred Outflows	6,013	5,961
Other Current Liabilities	217	158
Revenue Bonds	2,007	2,104
Commercial Paper	118	37
Other LT Liabilities & Deferred Inflows	1,905	1,835
Retained Earnings	1,766	1,827
Total Liabilities, Deferred Inflows, and Fund Equity	6,013	5,961



Income Statement Summary

Income Statement		
\$ in Millions	12 Months Ending	
	3/31/2022	3/31/2021
Operating Revenues	\$972	\$947
Power Supply Revenues	508	296
Power Supply Expenses	454	244
Non-Power Supply Expenses	815	764
Depreciation Expense	283	284
Operating Income/(Loss)	(\$72)	(\$49)
Other Revenue (Expense)	\$125	\$117
General Fund Transfer	(114)	(113)
Net Income/(Loss)	(\$61)	(\$45)
Debt Service Coverage	1.7	2.1
Debt Capital Ratio	55%	54%

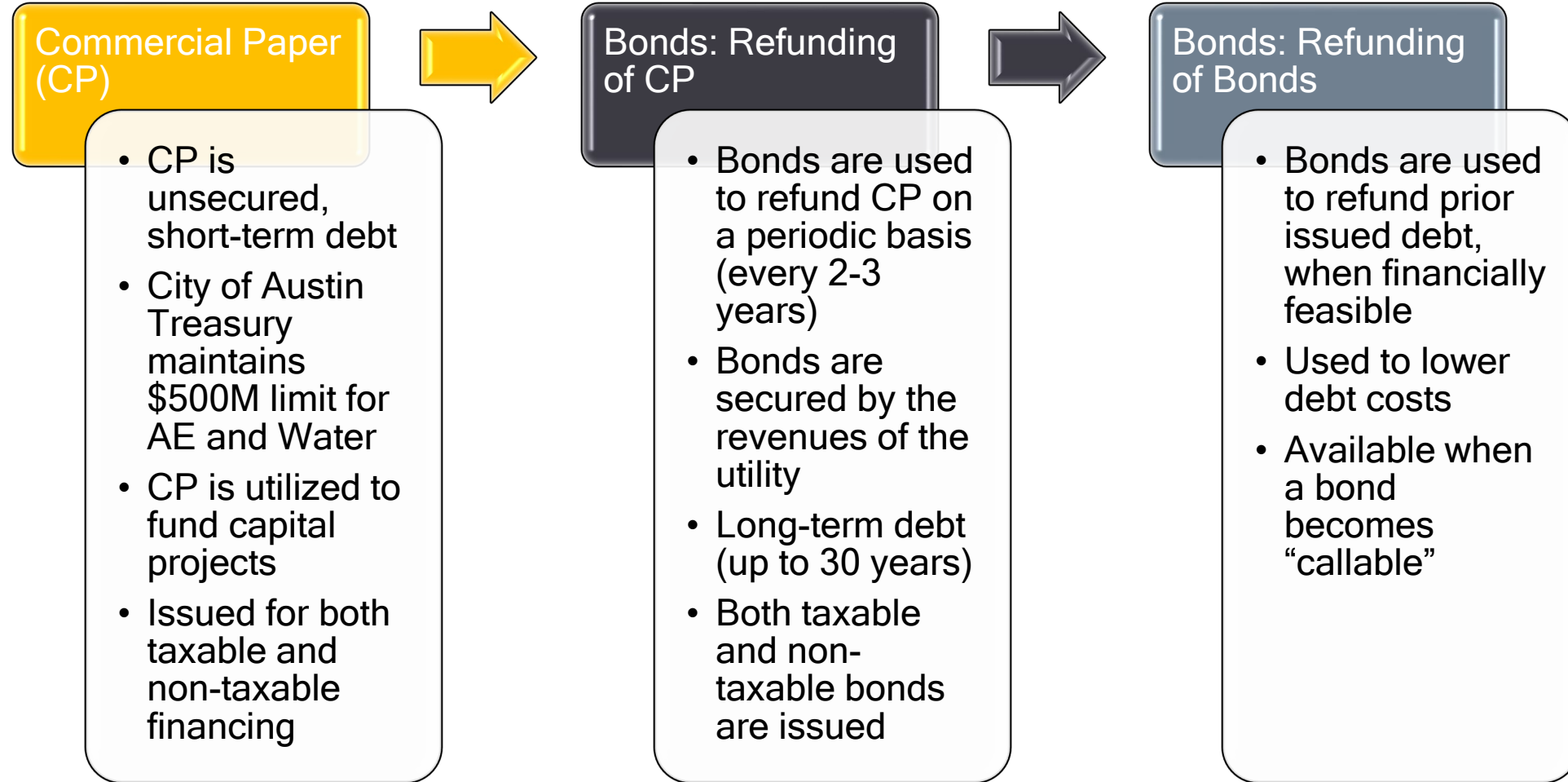


Austin Energy Quarterly Financial Report Market and Industry Analysis

Relationship between Austin Energy
Operations and its Credit Ratings



Capital Project Funding



Credit Rating Agencies

Austin Energy Engages Three Major Agencies



Credit Rating Agency	Rate Range		Austin Energy's Rating & Outlook
	Default/Highest Risk	Highest Credit Quality	
Fitch Inc.	D, C, CC, CCC, B, BB, <u>BBB</u> , A, <u>AA</u> , AAA + or - indicates strength or weakness in the assigned rating		AA / Negative
Moody's	B3, B2, B1, Ba3, Ba2, Ba1, <u>Baa3</u> , Baa2, Baa1, A3, A2, A1, <u>Aa3</u> , Aa2, Aa1, Aaa		Aa3 / Stable
Standard & Poor's	D, C, CC, CCC, B, BB, <u>BBB</u> , A, <u>AA</u> , AAA + or - indicates strength or weakness in the assigned rating		AA / Negative

High-Yield or "Junk" ————— Investment Grade



Standard and Poor's Credit Opinion

May 7, 2021

Credit Strengths

- Customer growth of 7.3% over the past three years has supported maintaining coverage metrics and limited the need for rate increases.
- Historically robust liquidity and reserves relative to normal weather conditions, including available contingency, power supply stabilization, and capital reserves and undrawn taxable commercial paper (CP).
- Favorable operational profile, including its diversified generation resource mix of coal, gas, and efficient nuclear for base load that proved to be resilient during the extreme winter weather event in February 2021.
- Growing residential customer base that is not concentrated in revenues from its principal customers and benefits from the Austin metropolitan statistical area's (MSA) deep employment base.

Credit Challenges

- Debt needs over the next five years to fund 50% of its \$1 billion capital improvement plan (CIP) will increase annual debt service requirements and will likely require revenue enhancements to maintain strong coverage levels.
- Current power supply plans to cease operations at Decker unit 2 in October 2021 and its share of the Fayette Power Project by year-end 2022, which introduces additional price risk in the ERCOT market by reducing the firming attributes of dispatchable resources while increasing reliance on intermittent resources.
- governance risk is heightened given that the environment in which Austin Energy operates increasingly requires stronger liquidity, proactive planning, hedging, and financial flexibility, which could be costly, versus most utilities in other regions where these risks are lower.



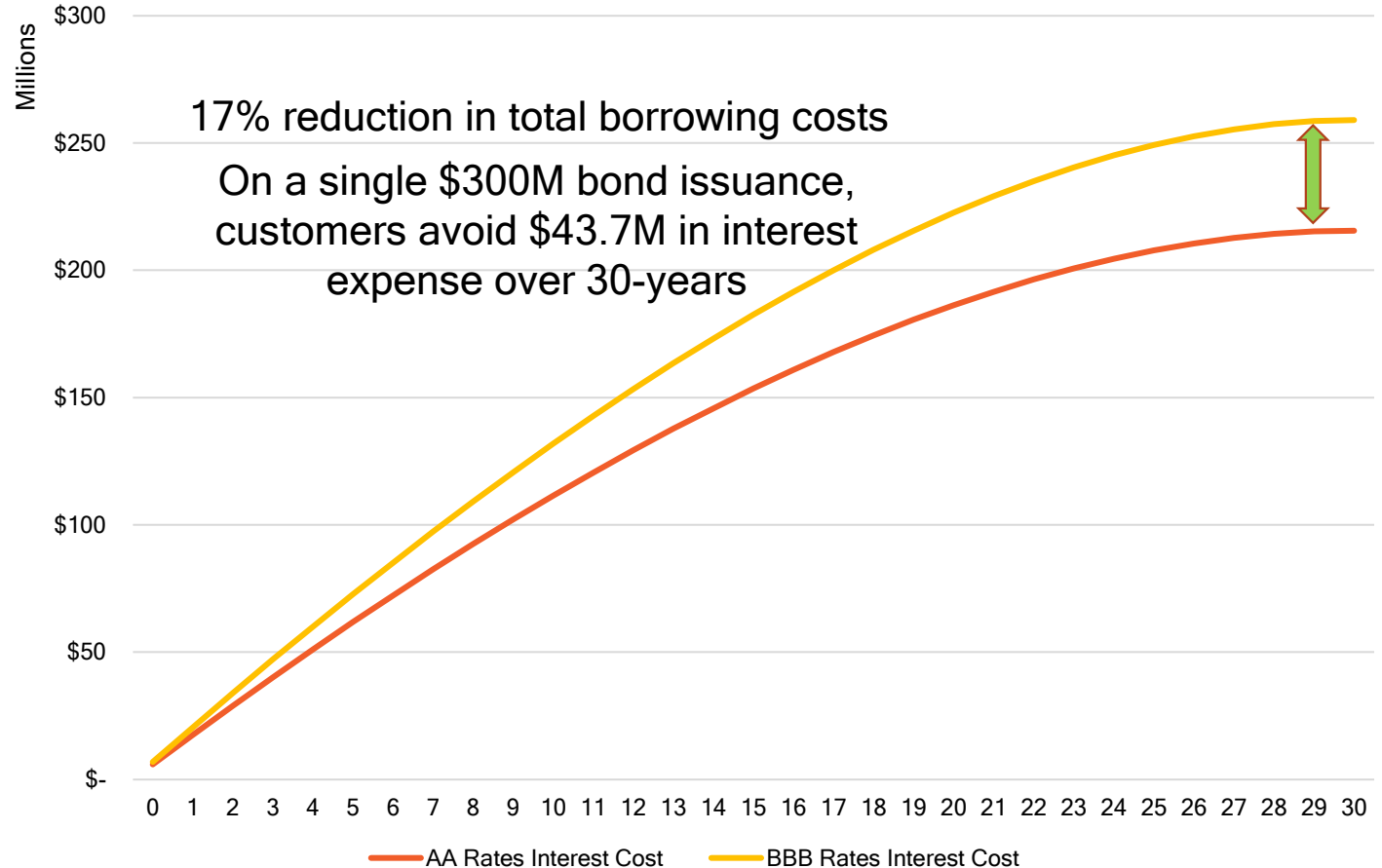
Impact of Credit Rating on Customers

AA Rating vs. BBB Rating

Credit Ratings are an Important Indicator of Management & Governance

Austin Energy's credit ratings are assigned by agencies based on their analysis of the credit risks associated with business and regulatory risks, financial risks, management and governance quality, and ability to service debt.

Austin Energy's current investment-grade ratings allow our customers to have lower bills. A rating downgrade would result in higher costs to borrow money and higher bills for our customers.



Direct Benefits of Credit Rating

Reduced Costs, Improved Liquidity, Lower Customer Bills

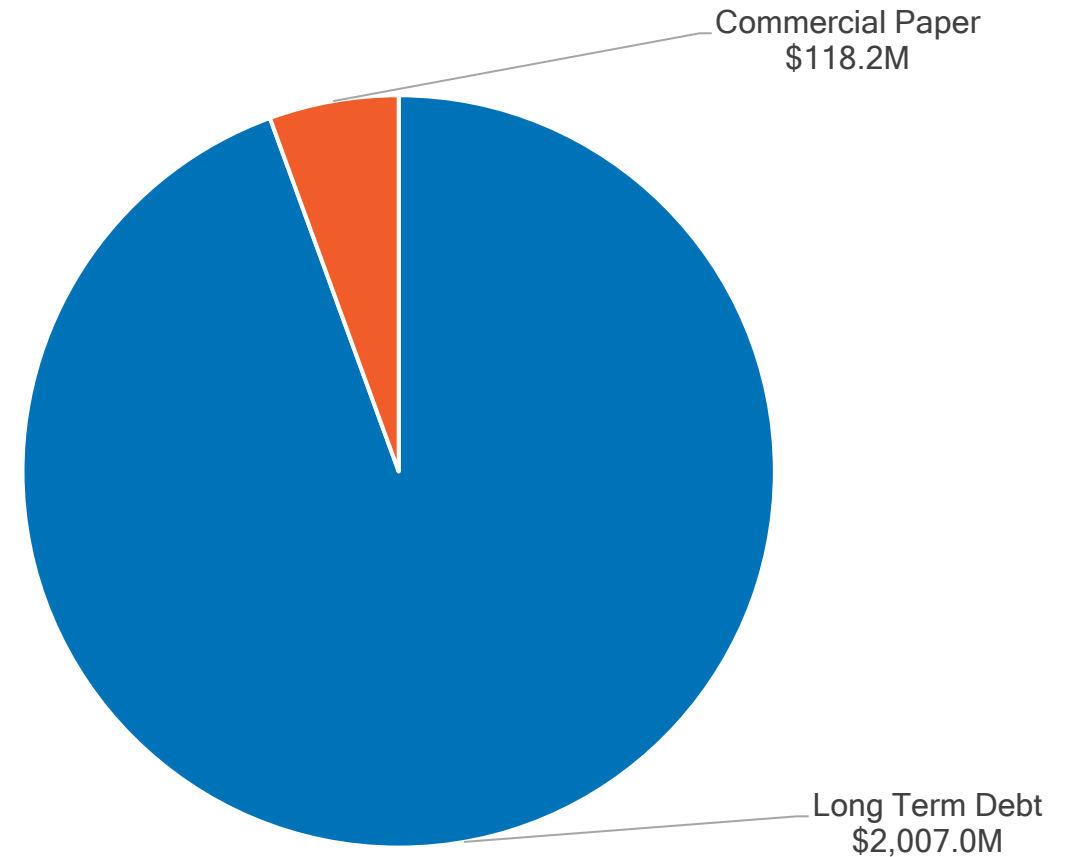
- Favorable credit rating results in less costly debt
- Easier access to markets
- Recruiting tool for personnel
- Improved terms & conditions with vendors
- Lower cash collateral requirements for energy trading



Current Debt Levels

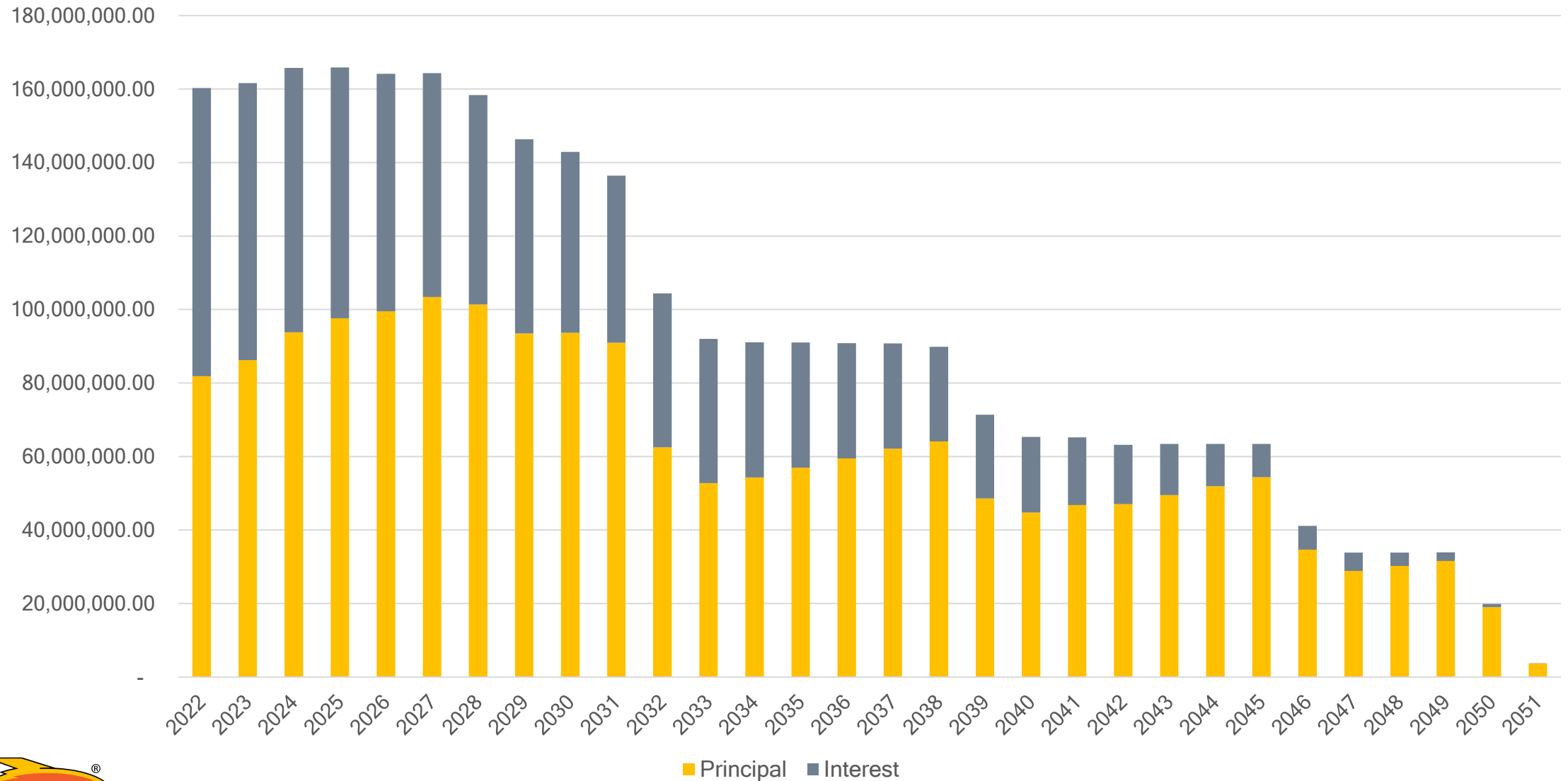
Outstanding Bonds and Commercial Paper

Austin Energy currently has \$2.007 billion of long-term debt* plus \$118 million in short-term Commercial Paper debt.



* Amount includes accrued interest, unamortized issuance cost, premium/discount.

Electric Utility System Revenue Bond Debt Service





**Customer Driven.
Community Focused.**



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