AUSTIN ENERGY'S 2022 BASE RATE REVIEW	§ § §	**BEFORE THE CITY OF AUSTIN** **IMPARTIAL HEARING EXAMINER**

AUSTIN ENERGY'S RESPONSE TO TEXAS INDUSTRIAL ENERGY CONSUMERS' FOURTH REQUEST FOR INFORMATION

Austin Energy files this Response to Texas Industrial Energy Consumers' ("TIEC") Fourth Request for Information ("RFI") submitted on May 27, 2022. Pursuant to the 2022 Austin Energy Base Rate Review Procedural Guidelines § F(2)(f)(1), this Response is timely filed.

Respectfully submitted,

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ATTORNEYS FOR THE CITY OF AUSTIN D/B/A AUSTIN ENERGY

TIEC 4-1: Provide a list of distribution substations included in the plant investment in FERC Account Nos. 361 and 362 as shown in Schedule B-1.

ANSWER: See Attachment TIEC 4-1 for an inventory of Austin Energy's substations at transmission and distribution voltages. The costs of the transmission substations shown in the attachment are not included in FERC account nos. 361 and 362.

Attachment TIEC 4-1

Prepared by: BTM

Sponsored by: Thomas Pierpoint

61 DISTRIBUTION SUBSTATIONS									
#	*Name*	*Code*	*Voltage*		*#*	*Name*	*Code*	*Voltage*	
1	Angus Valley	AG	138	--	44	Pedernales	PE	138	69
2	Austin Dam	AD	138	--	45	Riverplace	RP	138	--
3	Balcones	BAL	138	--	46	Salem Walk	SW	138	--
4	Barton	BA	138	--	47	Sand Hill	SH	138	--
5	Bee Creek	BC	138	--	48	Seaholm Plant	SP	138	--
6	Bergstrom	BE	138	--	49	Slaughter Lane	SL	138	--
7	Brackenridge	BR	69	--	50	Sprinkle	SK	138	--
8	Brodie Lane	BL	138	--	51	Steck	ST	138	--
9	Bullick Hollow	BW	138	--	52	Stoney Ridge	SR	138	--
10	Burleson	BU	138	--	53	Summit	SU	138	--
11	Cameron	CM	138	--	54	Techridge	TR	138	--
12	Cardinal Lane	CL	138	--	55	Trading Post	TP	138	--
13	Carson Creek	CC	138	--	56	Vega	VE	138	--
14	Central Austin	CA	69	--	57	Walnut Creek	WC	138	--
15	Commons Ford	CF	138	--	58	Warren	WA	138	--
16	Daffin Gin	DG	138	--	59	Wells Branch	WB	138	--
17	Dessau	DE	138	--	60	Wheless Lane	WL	138	--
18	Dunlap	DL	345	138	61	Williamson	WI	138	--
19	Ed Bluestein	EB	138	--	*PROPOSED*				
20	Elroy	ER	138	--		*Bluff Springs (2022)*	BF	138	--
21	Fiesta	FI	69	--		*Cistern (2022)*	CIS	345	--
22	Fiskville	FV	138	--		*East Village (2022)*	EV	138	--
23	Grove	GR	138	--		*Rainey Street (2023)*	RS	138	--
24	Hamilton	HM	138	--		*Kramer (2024)*	KR	138	--
25	Harris	HA	69	--		*Southeast (2024)*	SE	138	--
26	Hi-Cross	HC	138	--		*Riverside (2026)*		138	--
27	Hidden Valley	HV	138	--	*15 TRANSMISSION SUBSTATIONS*				
28	Howard Lane	HL	138	--	*#*	*Name*	*Code*	*Voltage*	
29	Jett	JE	138	--	1	Advanced Micro Devices	AMD	138	--
30	Jollyville	JV	138	--	2	Ashton Woods	AW	138	--
31	Justin Lane	JL	69	--	3	Austrop	AU	345	138
32	Kingsbery	KB	138	69	4	Decker Plant	DP	138	--
33	Koenig Lane	KL	69	--	5	Fayette Power Plant	FPP	345	--
34	Lakeshore	LS	138	--	6	Garfield	GF	345	138
35	Lakeway	LW	138	--	7	Holly Switchyard	HP	69	--
36	Magnesium Plant	MP	138	--	8	Holman	HO	345	--
37	McNeil	MC	138	69	9	Lost Pines	LP	345	--
38	Met Center	MT	138	--	10	Lytton Springs	LY	345	138
39	Mueller	MU	138	--	11	Onion Creek	OC	138	--
40	Northland	NL	138	69	12	Pilot Knob	PK	138	--
41	Northwest	NW	138	--	13	South Texas Project	STP	345	--
42	Oak Hill	OH	138	--	14	Webber Solar	WS	138	--
43	Patton Lane	PL	138	--	15	Winchester	WH	345	--

T&D Planning Oct 2021 *Hillje not an AE Asset* *E Cervantes*

TIEC 4-2: For each distribution substation listed in TIEC 4-1, provide a schedule showing the following information at the end of the most recent fiscal or calendar year:

a. Total plant in service.

b. Accumulated depreciation reserve.

ANSWER: Please see Attachment TIEC 4-2 for the requested information at the end of Fiscal Year 2021.

Attachment TIEC 4-2

Prepared by: MG

Sponsored by: Monica Gonzalez

Attachment TIEC 4-2

(provided in Native Excel Format)

TIEC 4-3: Provide a copy of all credit rating reports for Austin Energy or the City of Austin for the past four years.

ANSWER: See attachments.

Attachment TIEC 4-3A: SP Global 9 2020
Attachment TIEC 4-3B: Moodys 5 2019
Attachment TIEC 4-3C: Moodys 10 2020
Attachment TIEC 4-3D: Fitch 10 2020
Attachment TIEC 4-3E: Fitch 7 2019
Attachment TIEC 4-3F: Fitch 5 2019
Attachment TIEC 4-3G: Moodys 5 2019
Attachment TIEC 4-3H: Moodys 7 2019
Attachment TIEC 4-3I: SP Global 5 2019
Attachment TIEC 4-3J: SP Global 7 2019

Prepared by: MG

Sponsored by: Monica Gonzalez

S&P Global
Ratings

RatingsDirect®

Austin, Texas; Retail Electric

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Austin, Texas; Retail Electric

Credit Profile		
US$227.055 mil elec util sys rev rfdg and imp bnds ser 2020A due 11/15/2050		
Long Term Rating	AA/Stable	New
US$55.39 mil elec util sys rev rfdg and imp bnds ser 2020B due 11/15/2050		
Long Term Rating	AA/Stable	New
Austin elec		
Long Term Rating	AA/Stable	Affirmed

Rating Action

S&P Global Ratings assigned its 'AA' long-term rating to Austin, Texas' parity electric utility system series 2020A revenue refunding and improvement bonds and series 2020B taxable revenue refunding bonds. At the same time, S&P Global Ratings affirmed its 'AA' underlying rating (SPUR) on the city's parity electric system (d/b/a Austin Energy) revenue debt. The outlook is stable.

A pledge of the electric system's net revenues secures the system's series 2020A and 2020B revenue bonds. These bonds are subordinate to prior subordinate-lien combined utility system bonds (which water, sewer, and electric system revenues secure). The prior subordinate-lien bonds are closed to new issuance. As of Sept. 30, 2020, $78 million in prior subordinate-lien bonds were outstanding and all prior first-lien obligations were retired. The city will issue all future electric system debt under the parity electric utility obligations lien.

Officials plan to use series 2020A and 2020B bond proceeds to refund outstanding series 2010A bonds for interest cost savings, refund outstanding commercial paper (CP) obligations, and fund a new administrative building. The electric system (d/b/a Austin Energy) had $2 billion in total debt outstanding as of Sept. 30, 2019.

Credit overview

Austin Energy operates a vertically integrated utility that serves 496,250 customers within the city limits and portions of Travis and Williamson counties, with a fuel supply consisting of a diverse mix of coal, nuclear, and natural gas, and a growing renewable energy portfolio. The utility plans to transition away from coal as a fuel resource over the next four years and will continue to add wind and solar capacity as it works to be 65% renewable by 2027.

Austin Energy's customer growth of 10% over the past five years has supported maintaining robust financial metrics and limited the need for rate increases. However, the utility's additional debt needs over the next five years to fund 50% of its $1 billion CIP will increase annual debt service requirements and will likely require revenue enhancements to maintain strong coverage levels. The Austin electric system's service area within city limits accounts for about 85% of energy sales. The city remains a nonopt-in provider, thus securing its customer base.

Residential revenue accounts for roughly one-third of electric revenue and the system lacks customer concentration, which has tempered its exposure to declining loads from the dampening effects of the coronavirus pandemic (COVID-19). The pandemic has not had a material effect on its finances as evidenced by a 0.5% decline in electric sales from March through August 2020, offset by a warmer summer increasing demand. Management implemented a $35 million electric bill relief program directed at temporarily reducing regulatory charges for residential and commercial customers through Nov. 1, 2020.

The rating further reflects our opinion of the electric system's very strong enterprise and financial risk profiles.

The enterprise risk profile reflects our view of the system's:

- Extremely strong service area economic fundamentals, reflecting a 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;
- Extremely strong industry risk relative to other industries and sectors;
- Adequate market position, although its 2018 weighted average electric system rate is 6.5% above the state average, we believe the system's discretionary power supply adjustment (PSA) mechanism, which is reviewed monthly and recovers costs over a 12-month period, has supported its strong coverage metrics; and
- Very strong operational and management assessment, as evidenced by a diversified generation resource mix of coal, gas, and efficient nuclear for base load; its expanding renewable portfolio that accounted for 38% of energy in fiscal 2019; and its robust financial management policies and practices, including various financial metric targets and annually updating its five-year financial projections and capital improvement plan (CIP).

The financial risk profile reflects our view of the system's:

- Strong coverage metrics, reflecting our view of the issuer's historically robust fixed-charge coverage and its projected fixed-charge coverage (including additional debt and possible rate adjustments) that we expect will range between 1.3x and almost 1.2x over the next five years;
- Extremely strong liquidity and reserves, with 253 days of total available liquidity on hand in fiscal 2019, including available contingency, power supply stabilization, and capital reserves and undrawn taxable CP; and,
- Very strong debt and liabilities profile, reflecting our forward-looking view of the system's debt burden, including additional debt that we believe will keep its debt-to-capitalization ratio above 50%.

The stable outlook reflects our expectation that Austin's deep and steadily growing customer base, diverse generation resource mix, and rate-setting and financial policies will enable the system to achieve strong fixed-charge coverage levels. Management plans to adjust rates as necessary to maintain strong financial metrics as the utility adds debt to fund about 50% of its CIP over the next five years.

Environmental, social, and governance factors

Based on the utility's diversified fuel mix with coal accounting for about 25% of energy sales in fiscal 2019 and efforts to decarbonize its generation fleet (with plans to cease operations for its share the Fayette Power Project by year-end 2022), we believe Austin Energy's environmental factors are in line with those of other rated public power utilities but could still present cost pressures with regard to emissions regulations. In addition, we consider the utility's social factors (including health and safety issues related to COVID-19) and governance factors to be in line with those of other rated utilities. Although management has observed the suspension of disconnects and no-late fees has increased its accounts receivables to 12% of billed revenue and above its 8% target, total revenues are above budget and the pandemic has not materially affected its fiscal 2020 unaudited financials. In addition, the board's governance has demonstrated credit-supportive rate-setting practices that have produced robust financial metrics.

Stable Outlook

Downside scenario

Based on our view of management's financial forecast, we expect coverage to dip temporary below 1.2x over the next two years, but we anticipate lower projected plant operating costs in fiscal 2023 and future revenue enhancements will return fixed-cost coverage to strong levels. If fixed-cost coverage declines materially below our expectations over the outlook's two-year time horizon due to regulatory challenges, the absence of a proportionate rate response to additional debt service requirements, or larger-than-anticipated debt needs, the ratings or outlook could face stress.

Upside scenario

Given the system's additional debt needs, ambitious plans to increasingly migrate to renewable generation, the presence of uneconomical biomass resources that represent a disproportionate amount of the debt portfolio, and projected fixed-charge levels, we view upward rating potential to be limited.

Credit Opinion

Enterprise Risk

Economic fundamentals: Extremely strong

Even during the COVID-related recession, the Austin MSA has remained one of the most economically resilient in the state. As of August 2020, the unemployment rate had already returned to 5.5% and was markedly better than the state's and nation's. The State of Texas indicated that initial fiscal 2020 results, while unfavorable versus budget, were not as bad as feared, lessening the likelihood of deep and long-lasting job cuts. The University of Texas campus did open in August 2020 for on-campus instruction and will remain open until Thanksgiving. The school--the largest of a number of four- and two-year campuses in the MSA--offered traditional, hybrid, and online options to students, although the administration estimates that as many as 75% of students have opted for online learning.

We consider Austin's economy very strong. The city, with a population estimated at 980,900, is in Hays, Travis, and Williamson counties in the Austin-Round Rock MSA, which we consider broad and diverse. The retail, technology, and health care sectors also contribute to the Austin MSA's diversity, and have fueled growth in population and property valuations. We consider city income levels average with median household effective buying income equal to 116% of the nation in 2019.

The system's growing and diverse customer base (496,260 customers in fiscal 2019) benefits from Austin's deep employment base. Total revenue has been stable while customer growth and total sales have annually increased a combined 10% and 6%, respectively, over the past five years. The revenue stream was not concentrated among any of its principal customers. The system's 10 leading customers (including four government entities) accounted for just 17% of total revenue in fiscal 2019, with the leading customer accounting for just 5%.

Market position – Adequate

We consider the system's retail rates to be above average but the system's PSA mechanism, which is reviewed monthly, provides timely recovery of costs. Based on the U.S. Energy Information Administration's latest available data from 2018, the system's weighted average system rate competitiveness (based on relative customer classes' revenue contributions) was 106.5% of the state average. While the PSA mechanism is discretionary, it is adjusted annually or can be adjusted if the system is 10% under or over-recovered.

Due to lower annual debt service requirements, the city council approved a rate settlement agreement that lowered base rates 6.6% in January 2017 and provided the system with some flexibility to increase rates in the future. The city has indicated it expects to produce a cost-of-service study at least once every five years. It last raised base rates in October 2012 and due to increasing debt service requirements, officials will likely consider a base-rate increase in the near-term.

Operational management assessment – Very strong

We consider the system's power supply and operational assets to be diverse with 18 baseload and intermediate generating units providing the system flexibility. Austin Energy meets energy requirements with a diverse mixture of coal, natural gas, and nuclear power plants, and a growing portfolio of renewable energy resources, primarily wind. The system has plans to retire its coal-fired Fayette Power Project by year-end 2022. Of the city's baseload power, 570 MW comes from the Fayette coal plant, in which Austin and the Lower Colorado River Authority each have a 50% interest in two of the plant's three units. Management expects that added renewable energy resources and increased energy efficiency and demand-side management will enable Austin to divest itself of the Fayette plant, which contributes 75% of the utility's carbon emissions.

Total owned capacity is 2,585 MW, and renewable power purchase agreements add 2,071 MW. The South Texas Project's units 1 and 2 provide Austin with 400 MW of nuclear capacity. This plant is one of the most cost-efficient, highest-output nuclear facilities in the U.S. The licenses for those units were extended by the Nuclear Regulatory Commission for another 20 years. Both the coal and gas-fired facilities have fuel supply contracts designed to minimize market exposure in the near term, although Austin Energy has the ability to implement power supply adjustments that pass through costs to the retail customer.

The system also has among the largest (in terms of capacity) renewable energy portfolios in the country. Austin Energy's renewable energy target has increased to 65% by 2027. The system's carbon reduction goals call for 86% of its electricity generation to be carbon-free by year-end 2025, and all generation resources be carbon-free by 2035. Austin Energy's renewable portfolio represented about 38% of energy in fiscal 2019, up from 23% in fiscal 2015, and officials expect this will continue to rise as it layers in wind and solar capacity.

We consider the system's financial management policies and practices credit supportive, including formal policies regarding transfers, PSAs, financial metric targets, and annually updating its five-year financial projections and CIP.

Financial Risk

Coverage metrics – Strong

Our assessment of coverage reflects the system's historical robust fixed-charge coverage (exceeding 1.5x since fiscal 2016) and our forward-looking view of coverage metrics as annual debt service requirements increase, resulting in coverage metrics declining to an estimated 1.3x in fiscal 2020. For fiscal 2020, a decline in commercial customer sales due to the pandemic was offset by increased residential sales and continued customer growth, which increased total electric sales by 1%. Due to a projected increase in maintenance and debt service requirements costs, we expect fixed-cost coverage to weaken to just below 1.2x in fiscal years 2021 and 2022 before improving to 1.2x and 1.3x in fiscal years 2023 and 2024 following lower plant maintenance costs and possible revenue enhancements.

S&P Global Ratings' imputed fixed-charge coverage calculation is our internally adjusted coverage metric that imputes certain costs borne by power suppliers. Fixed-charge coverage treats capacity payments to power suppliers as debt service rather than as operating expenses because we view these payments as funding the suppliers' recovery of capital investments in generation assets. Our fixed-charge coverage ratio provides comparability among utilities that own generation resources and those that outsource the power supply function.

Management's five-year projection, which assumes annual customer growth of 1.5%, possible future rate adjustments, and debt financing 50% of its CIP, reflects the maintenance of strong financial performance despite the temporary dip in coverage. In addition, policy limits transfers to the general fund to 12% of nonfuel and nondistrict cooling revenue, with a floor of $105 million. For 2019, the amount of the transfer was $118 million, although management forecasts that the transfer will steadily increase to $122 million by 2025.

Liquidity and reserves – Extremely strong

We consider the system's increased total available liquidity position to be extremely strong, including designated contingency, power supply stabilization, and capital reserves, and undrawn taxable CP.

The system maintained $800 million in total available liquidity at the end of fiscal 2019, or an extremely strong 253 days' cash. Financial projections indicate maintaining at least 217 days in total liquidity (excluding CP) through fiscal 2025, while cash-funding about 50% of its capital program. For fiscal 2019, we consider the system's access to $64 million in available taxable CP to be available liquidity. The city's tax-exempt and taxable CP programs for the combined utility systems (which water, sewer, and electric system revenues secure) total $400 million and $100 million, respectively.

Debt and liabilities – Very strong

Our forward-looking view of the system's debt burden considers management's plans to debt finance about 50% of its $1 billion CIP over the next five years. Based on the issuer's financial projections, we believe the system's 51% debt-to-capitalization rate in fiscal 2019 will increase in fiscal 2023 to 55% through fiscal 2023, which we consider very strong for a vertically integrated utility. It had $2.0 billion in long-term debt in fiscal 2019, including prior-lien combined system utility debt that the electric system supports.

The combined systems' $400 million tax-exempt commercial paper (CP) program will be used as interim funding for identified and approved projects for the city-owned electric system (d/b/a Austin Energy, and Austin Water Utility [AWU; AA/Stable]). Prior to 2002, the utilities operated as a single entity, with debt secured by the net revenues of the electric, water, and sewer systems. Since then, Austin Energy and AWU have issued separate-lien debt, secured by electric-only and water and sewer-only net revenues, respectively, but subordinate to any remaining combined utility prior-lien debt.

Related Research

- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020

Ratings Detail (As Of October 15, 2020)		
Austin elec util sys rev rfdg bnds ser 2019B due 11/15/2049		
Long Term Rating	AA/Stable	Affirmed
Austin elec util sys rev rfdg & imp bnds		
Long Term Rating	AA/Stable	Affirmed
Austin elec (AGM)		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
Austin elec (ASSURED GTY)		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
Austin elec (BHAC)		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
Austin elec (BHAC) (SEC MKT)		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
Austin RETELEC		
Long Term Rating	AA/Stable	Affirmed

Many issues are enhanced by bond insurance.

MOODY'S INVESTORS SERVICE

CREDIT OPINION
16 May 2019

Rate this Research

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Austin (City of) TX Electric Enterprise

Update following rating affirmation

Summary

The Austin (City of) TX Electric Enterprise (Austin Energy; Aa3 stable) credit profile considers the prudent decision by management to acquire the Nacogdoches Biomass Facility, which had been in standby mode due to uneconomic cost to run in a low natural gas price environment, and minimize the customer rate impact and cost pressures from escalating contract payments.

Austin Energy's credit profile benefits from a diverse fuel mix with increasing renewable supply, a top performing service area economy, and sound financial metrics including debt service coverage ratios (DSCRs) and liquidity averaging around 2.8x and 300 adjusted days liquidity on hand, respectively, although we expect coverage to narrow going forward. These strengths are bolstered by access to the City of Austin's (Aaa) investment pool as a source of liquidity in a worst case scenario. The utility's above average general fund transfer requirement is a constraining factor for the credit.

Credit strengths

» Vibrant and diverse economy with growth in high wage sectors

» Strong current and forecasted DSCRs and liquidity metrics

» Municipally owned utility benefitting from unregulated rate setting

» Strong financial and debt policies to maintain coverage above 2.0x, liquidity above 150 days cash on hand and a targeted debt ratio of 50%, although they will exceed this target with the new debt for the biomass acquisition

» Diverse generation mix that includes nuclear, coal, natural gas and renewables as well as an array of energy efficiency measures such as demand response and district cooling projects

Credit challenges

» Debt financing of biomass plant acquisition, while it avoids higher contractual costs, results in higher leverage and locks in fixed debt cost for a currently uneconomic facility ultimately leading to more compressed DSCRs

» Maintaining competitive rates and solid financial performance while executing a power supply strategy that focuses on renewable energy, efficiency programs and reducing carbon emissions

» Political involvement in power resource decisions and rate setting

» Above average level of transfers to the city's general fund

» Long-term nuclear decommissioning obligation for its 16% ownership interest in the 2,500 MW South Texas Project

Rating outlook

The stable outlook reflects our expectation that Austin Energy will continue to effectively implement its operating and financial strategies, allowing the utility to achieve its targeted goals and support its strong credit quality going forward.

Factors that could lead to an upgrade

» Successful implementation of the power supply strategy, including integration of biomass facility, while maintaining competitiveness and avoiding any significant increase in the currently sound debt ratio or weakening of debt service coverage metrics

Factors that could lead to a downgrade

» Failure to implement needed rate increases in a timely manner or political intervention resulting in deterioration of key financial metrics

» Adjusted DSCR falls below 1.8x or adjusted days liquidity on hand of less than 150 days for an extended period

» More aggressive demands for transfers to the city's general fund

Key indicators

Exhibit 1
Austin Energy's stable trend of financial metrics

AUSTIN (CITY OF) TX ELECTRIC ENTERPRISE	2014	2015	2016	2017	2018
Total Sales (mWh)	12,599,686	12,690,278	12,880,828	13,010,291	13,418,009
Debt Outstanding ($'000)	1,361,522	1,350,340	1,340,740	1,350,741	1,382,100
Debt Ratio (%)	42.9	40.5	39.3	39.4	39.6
Adjusted Days Liquidity on Hand (incl. Bank Lines)(days)	129	238	270	329	300
Adjusted Debt Service Coverage (x) (Post Transfers/PILOTs - All Debt)	1.62	2.56	2.52	2.67	3.31

Source: Moody's Investors Service

Profile

Austin Energy is a city-owned electric utility that provides electric generation and distribution services to over 480,000 customers of the City of Austin and surrounding areas in Travis (Aaa; stable) and Williamson (Aa1; stable) counties. Although the utility's service territory is roughly geographically split 50/50 between in city and out of city, the largest majority of its sales are in-city.

Detailed credit considerations

Revenue generating base: Dynamic and growing service territory economy; progressing toward carbon transition goals while maintaining competitive rates

The Austin-Round Rock metro area economy will continue to be a strong outperformer over the near-term, and underlying demographic trends and highly educated workforce will support longer term growth. Moreover, Austin's status as the state capital and the institutional presence of the University of Texas at Austin flagship campus provide stability. A good portion of the current and near term growth is accruing to high-wage/high-tech sectors. Like other Texas metros, Austin is a focal point for corporate relocations and population growth. In December 2018, Apple announced that it will build a $1 billion campus which, according to Moody's Economy.com, has the potential to make Apple the biggest private employer and displace Dell as the biggest high-tech employer.

Austin Energy's residential retail rates remain competitive. Average price in 2017 was about 2.9% below the statewide average. The total price, including other rate classes, was somewhat less competitive at 9.1% above the state average. Austin Energy's cost structure incorporates above average transfers to the city's general fund. These transfers are defined by policy and are not to exceed 12% of the three-year average operating revenues less power supply costs and district cooling revenue. Retail rates are set by city council and fuel and purchased power costs are passed through on a monthly basis through an administrative annually adjusted Power Supply Adjustment (PSA) charge. The remaining share of the electric bill consists of an annually adjusted regulatory charge for transmission costs and regulatory fees and community benefit charges for cost of street and park lighting, energy efficiency services, and customer assistance program. Maintaining affordable rates is a component of Austin Energy's clean energy goals. Management targets rates at or below a 2% compound annual growth rate (CAGR) and rates in the lower 50% of all Texas utilities serving residential, commercial and industrial customers. Management expects the next base rate increase will be 5% in fiscal 2023.

Power Supply and Biomass Acquisition

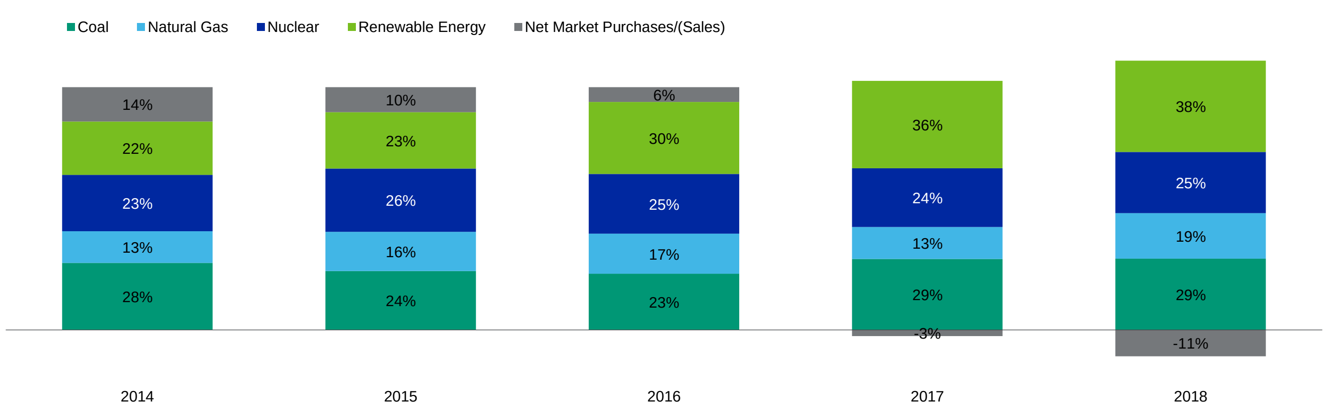
Austin Energy has a diverse power supply portfolio. The utility has 2,470.6 MW of owned generation consisting of coal, natural gas and nuclear sources and an additional 2,373.9 MW of contracted purchased power as of May 2019 consisting entirely of renewables, some of which includes contracts for energy purchases in future years. The renewable assets are located throughout the state, providing geographic diversity that helps hedge intermittency issues. Purchased power also includes the Nacogdoches Biomass Facility which Austin Energy is acquiring using proceeds from the Series 2019A revenue bonds.

We expect the $460 million acquisition of the Nacogdoches Biomass Facility and exit from the contract with Southern Power will generate savings for Austin Energy. Debt service requirements are less than capacity and energy payments and do not extend beyond the final contracted payment in fiscal 2032. Austin Energy entered into the $2.3 billion contract with Southern power in 2008, and the facility opened in 2012 as natural gas prices started to decline. The plant has been idle most days since it became operational. Management estimates that the acquisition will result in $274 million of avoided contractual costs. The transaction is expected to close June 2019.

Other Austin Energy-owned generation assets include the Fayette Power Project (coal), Decker Creek Power Station (gas), Sand Hill Energy Center (gas), Mueller Energy Center (gas), and the South Texas Nuclear Project (STP; nuclear). Austin Energy is a 50% owner in the Fayette Power Project Units 1 (285 MW nameplate rating) and 2 (285 MW), co-owned with the Lower Colorado River Authority.

Austin Energy's exit from Fayette by 2023 is key to meeting the city's carbon dioxide reduction goal and 65% renewable energy target by 2027. Management plans to use cash to defease debt associated with the plant. Austin energy also plans to cease operations at Decker Creek and initiate retirement. Unit 1 is slated to cease operations in 2020 and Unit 2 in 2021 assuming ERCOT approval.

Exhibit 2
Fuel supply is diverse with an increasing portfolio of renewables



Source: City of Austin, TX

Financial operations and position: Currently strong DSCRs will decline over near term

We expect that the average adjusted post-general fund transfer DSCRs will decline to 2.0x over the next couple of years, and then potentially fall below 1.8x, based on higher debt service requirements associated with current and near term debt issuance. DSCRs improved significantly over the last few years and reached a very strong 3.31x in fiscal 2018.

Management estimates that the timing of the acquisition of Nacogdoches ahead of exiting Fayette and Decker Creek will have a neutral effect on base rates by fiscal 2024 because exiting from the coal and gas plants will reduce operating costs and will offset the addition of debt service from the biomass plant. At the same time, management estimates a net increase to power supply costs recovered through the PSA.

The utility has a risk management program to mitigate financial and market risk associated with the purchase of natural gas and energy. This includes natural gas and congestion revenue rights derivatives. In addition, the utility targets a coal inventory between 40-70 days to protect against disruptions. For the South Texas Nuclear Project, long-term supply contracts are in place to mitigate volatility in uranium prices and challenges with respect to security of supply. Wind and solar resources are spread throughout the state to benefit from differing regional weather patterns.

LIQUIDITY

Adjusted days liquidity on hand, including unused capacity on the commercial paper (CP) program, was 300 days in fiscal 2018 and also averaged about 300 days over the last three years. The CP program is available to the water and wastewater utility as well. Without the unused CP, days cash on hand was 226 in fiscal 2018. We expect unrestricted and discretionary reserves to grow over the near term and remain stable between 250-300 days as the utility uses internally generated cash flows to fund capital projects as well as the planned (fiscal 2023) defeasance of debt related to the installation of scrubbers at the Fayette Power Project.

Austin Energy's board and management maintain financial policies that include various practices to achieve financial integrity while allowing for flexibility. Austin Energy has specific reserve funds including working capital, contingency reserve, power supply stabilization reserve and capital reserve.

Austin energy also maintains nuclear and non-nuclear decommissioning reserves. The city established an external nuclear decommissioning trust for STP that had a market value of $221 million as of fiscal 2018. Funding for the non-nuclear plant decommissioning fund is based on amounts determined in decommissioning studies with funding set aside over a minimum of four years prior to expected plant closure. The city currently has about $22 million in the non-nuclear fund and plans to set aside $8 million per year for future decommissioning costs.

Debt and other liabilities: Biomass acquisition raises leverage profile

Post-sale, Austin Energy will have about $1.5 billion of electric revenue bonds outstanding. Austin Energy and Austin Water Utility (Aa2 stable), together referred to as the combined utility system, have about $91 million of prior subordinate lien obligations outstanding (separately rated Aa2 stable) that are secured jointly and severally by net revenues of the two systems. The combined utility previously had prior first lien obligations that were fully discharged in May 2019. The prior first and prior subordinate liens are closed, and all future revenue bonds issued by either enterprise will have separate liens for each system.

The combined utility has a tax-exempt and a taxable commercial paper (CP) program in amounts not to exceed $400 million and $75 million, respectively. The current CP balance is $331 million for the combined utility system, $266 million of which applies to Austin Energy. The CP obligations are also secured by a joint and several pledge of net revenues of the combined utility. Austin Energy plans to issue about $305 million of long-term debt in July 2019 to take out CP and fund a chiller project.

As of fiscal 2018 (ending September 30), Austin Energy had $1.4 billion of long term debt outstanding, $1.2 billion of which is revenue bonds. The balance consists of Austin Energy's $213 million share of CP and nominal capital lease and general obligation bond balances. This represents a good debt ratio of 39.6%. We expect the debt ratio will grow closer to, and eventually exceed, 50% based on Austin Energy's current capital improvement program totaling $1.6 billion, $957 million of which is debt funded. A large portion relates to the biomass acquisition.

DEBT STRUCTURE

Austin Energy's debt is fixed rate.

DEBT-RELATED DERIVATIVES
None.

PENSIONS AND OPEB
Austin Energy participates in the Austin Employees' Retirement and Pension Fund, a single employer defined benefit pension plan. Austin Energy had a reported net pension liability of $240 million. Moody's calculates the Adjusted Net Pension Liability (ANPL) of Austin Energy at $691 million. The total adjusted debt ratio, including ANPL, was 60.5% in fiscal 2018.

Management and Governance
The City of Austin has a council-manager form of government. Under this form of government, the mayor and ten council members are all elected by districts for three-year staggered terms. The city council has the original jurisdiction over Austin Energy's retail electric rates.

Rating methodology and scorecard factors
The principal methodology used in this rating was US Public Power Electric Utilities With Generation Ownership Exposure published in November 2017. Austin Energy's grid indicated outcome under the below depicted grid is Aa3, which is in line with the Aa3 rating of its electric utility system revenue bonds. The -0.5 notch adjustment reflects the springing debt service reserve requirement for the electric system revenue bonds. Under the bond ordinance, the electric system has no debt service reserve requirement when debt service coverage exceeds 1.50x. A springing reserve is required to be funded in 10% increments (up to 50% of maximum annual debt service) for every 10 basis points drop below 1.50x debt service coverage. Based on the current debt service coverage level for parity electric utility system obligations as calculated under the bond ordinance, Austin Energy is not required to fund a debt service reserve for electric utility system revenue bonds.

The grid is a reference tool that can be used to approximate credit profiles in the U.S. Public Power Electric Utility Industry in most cases. However, the grid is a summary that does not include every rating consideration. Please see U.S. Public Power Eletric Utilities with Generation Ownership Exposure Rating Methodology for more information about the limitations inherent to grids.

Exhibit 3
US Public Power Electric Utilities with Generation Ownership Exposure Rating Methodology Factors

Factor	Subfactor	Score	Metric
1. Cost Recovery Framework Within Service Territory		Aaa	
2. Wllingness and Ability to Recover Costs with Sound Financial Metrics		A	
3. Generation and Power Procurement Risk Exposure		Aa	
4. Competitiveness	Rate Competitiveness	Baa	
5. Financial Strength and Liquidity	a) Adjusted days liquidity on hand (3-year avg) (days)	Aaa	300
	b) Debt ratio (3-year avg) (%)	Aa	39.43%
	c) Adjusted Debt Service Coverage or Fixed Obligation Charge Coverage (3-year avg) (x)	Aaa	2.83x
Preliminary Grid Indicated rating from Grid factors 1-5		**Aa2**	
		Notch	
6. Operational Considerations		0.0	
7. Debt Structure and Reserves		-0.5	
8. Revenue Stability and Diversity		0.0	
Grid Indicated Outcome:		**Aa3**	

Source: Moody's Investors Service

REPORT NUMBER 1172798

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Japan	81-3-5408-4100
EMEA	44-20-7772-5454

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CREDIT OPINION
20 October 2020

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Austin (City of) TX Electric Enterprise

Update to credit analysis

Summary

The Austin (City of) TX Electric Enterprise (Austin Energy; Aa3 stable) credit profile reflects a service territory with a vibrant and diverse economy with growth in high wage sectors. Moreover, the economy is anchored by the presence of the University of Texas flagship campus and the city's position as the state's capital. Austin Energy benefits from autonomous electric rate setting authority and maintains competitive retail rates. The utility has a diverse fuel mix with increasing renewable supply and a goal to be carbon free by 2035. To that end, ceasing operations at the Decker and Fayette generating stations over the next couple of years will be key to Austin Energy's carbon transition. The reduced supply will be balanced by renewable resource additions and demand management including district cooling projects for major commercial customers and energy efficiency programs.

We expect write-offs for bad debt and electric bill relief programs enacted during the coronavirus pandemic will have a limited impact on Austin Energy's sound financial metrics. Debt service coverage ratios (DSCRs) and adjusted liquidity averaged 3.0x and over 300 days cash on hand, respectively, through fiscal 2019. The credit is constrained by increased leverage owing to the debt-financed acquisition of the Nacogdoches Biomass Facility in 2019. The facility had been in standby mode due to uneconomic cost to run in a low natural gas price environment, and the acquisition avoids cost pressures resulting from escalating payments under the original contract. The current five-year capital improvement plan totals about $1 billion, $467.9 million (45%) of which is debt funded. We expect the increased debt will result in coverage ratios averaging closer to 1.8x over the five-year capital planning period.

Credit strengths

» Vibrant and diverse economy with growth in high wage sectors

» Strong current and forecasted DSCRs and liquidity metrics

» Municipally owned utility benefitting from unregulated rate setting

» Strong financial and debt policies to maintain coverage above 2.0x, liquidity above 150 days cash on hand and a targeted debt ratio of 50%, although they slightly exceed this target with the recently issued debt for the biomass acquisition and near term issuance

» Diverse generation mix that includes nuclear, coal, natural gas and renewables as well as an array of energy efficiency measures such as demand response and district cooling projects

Credit challenges

» Debt financing of biomass plant acquisition, while a prudent action that avoids higher contractual costs, results in higher leverage and locks in fixed debt cost for a currently uneconomic facility ultimately leading to more compressed DSCRs

» Maintaining competitive rates and solid financial performance while executing a power supply strategy that focuses on renewable energy, efficiency programs and reducing carbon emissions

» Political involvement in power resource decisions and rate setting

» Above average level of transfers to the city's general fund

» Long-term nuclear decommissioning obligation for its 16% ownership interest in the 2,500 MW South Texas Project

Rating outlook

The stable outlook reflects our expectation that Austin Energy will continue to effectively implement its operating and financial strategies, allowing the utility to achieve its goals and support its strong credit quality going forward.

Factors that could lead to an upgrade

» Successful implementation of the generation supply strategy, including integration of biomass facility, while maintaining rate competitiveness

» Maintenance of strong debt service coverage metrics and a debt ratio below 40%

Factors that could lead to a downgrade

» Failure to implement needed rate increases in a timely manner or political intervention resulting in deterioration of key financial metrics

» Adjusted DSCR falls below 1.8x and adjusted days liquidity on hand of less than 150 days for an extended period

» More aggressive demands for transfers to the city's general fund

Key indicators

Austin Energy's currently strong debt service coverage will weaken with increased leverage
Debt service requirements start to increase beyond fiscal 2019 due to the debt financed acquisition of the Nacogdoches facility and future capital projects

	2015	2016	2017	2018	2019
Operating Revenue ($'000)	1,351,436	1,370,228	1,362,132	1,400,523	1,447,300
Debt Outstanding ($'000)	1,350,340	1,340,740	1,350,741	1,382,100	1,898,126
Unadjusted Debt Ratio (%)	40.5	39.3	39.4	39.6	48.1
Adjusted Debt Ratio (incl. Moody's ANPL) (%)	57.7	57.1	58.9	60.5	66.9
Adjusted Debt Service Coverage (x) (Post Transfers/PILOTs - All Debt)	2.56	2.52	2.67	3.31	3.17
Adjusted Days Liquidity on Hand (incl. Bank Lines)	238	270	329	300	327

Source: Moody's Investors Service; Austin Energy

Profile

Austin Energy is a city-owned electric utility that provides electric generation and distribution services to over 490,000 customers in the City of Austin (GO rated Aa1 stable) and surrounding areas in Travis (Aaa; stable) and Williamson (Aa1; stable) counties. Although the utility's service territory is roughly geographically split 50/50 between in city and out of city, the largest majority of its sales are in-city.

Detailed credit considerations

Revenue generating base: Dynamic and growing service territory economy; progressing toward carbon transition goals while maintaining competitive rates

During the coronavirus outbreak, hospitality and retail businesses have been hit hard especially with the cancellation of major events like South by Southwest. The high concentration of IT and other professionals with the ability to work from home has provided some economic cushion. Over the longer run, the Austin-Round Rock metro area economy will continue to be a strong outperformer with favorable underlying demographic trends and a highly educated work force. Austin's status as the state capital and the institutional presence of the University of Texas at Austin flagship campus provide stability. Like other Texas metros, Austin is a focal point for corporate relocations and population growth. Construction on Apple's $1 billion campus is currently underway. Tesla will be constructing a $1 billion factory in the region, although the chosen site is outside the Austin Energy service territory.

Energy sales in megawatt hours are forecasted to increase 0.3% on an annual basis over the utility's five-year planning period, which is more stable than the recent trend. Sales increased 6% over the last five years: 6% growth from residential customers and 7% each from commercial and industrial customers. Austin Energy is also working with Capital Metro on its plan to electrify its bus fleet, and a large scale charging facility is under construction. Despite strong population growth and development activity in the service territory, management forecasts a flatter growth rate primarily because new multi-family residential units are less energy intensive. Distributed generation and conservation are also suppressing energy demand growth. Austin Energy has an array of energy efficiency programs including its green building programs and other demand-side management programs like demand response, a voluntary program to shave demand during peak periods, and price incentives for charging electric vehicles during off-peak hours.

A portion of the capital plan is dedicated to district cooling projects. District cooling projects currently supply chilled water to 70 large customers who then benefit from a cost-effective form of energy storage. Water is frozen overnight when prices are low, which is then used to cool more than 19 million square feet of space. While revenues from district cooling provided less than 2% of total operating revenue in fiscal 2019, the EBITDA margin on the program was about 37%. The program represents both a stable revenue and a demand-side management opportunity for the utility.

Austin Energy's residential retail rates remain competitive. The average price in 2018 was about 4.3% below the statewide average. The total price, including other rate classes, was 7.2% above the state average. Retail rates are set by City Council and fuel and purchased power costs are passed through via the Power Supply Adjustment (PSA) charge. The PSA is an annual settlement of net power supply costs established in the budget process but may be adjusted during the year if there is an over- or under-recovery of 10%.

The remaining share of the electric bill consists of an annually adjusted regulatory charge for transmission costs and regulatory fees and a community benefit charge for cost of street and park lighting, energy efficiency services, and customer assistance program. Maintaining affordable rates is a component of Austin Energy's clean energy goals. Management targets rates at or below a 2% compound annual growth rate (CAGR) and rates in the lower 50% of all Texas utilities serving residential, commercial and industrial customers. Management expects a base rate increase in the next few years to account for the exit of Decker and Fayette as well as the incorporation of Nacogdoches into base rates. The base rate increase will be offset by a reduction in the PSA related to Nacogdoches.

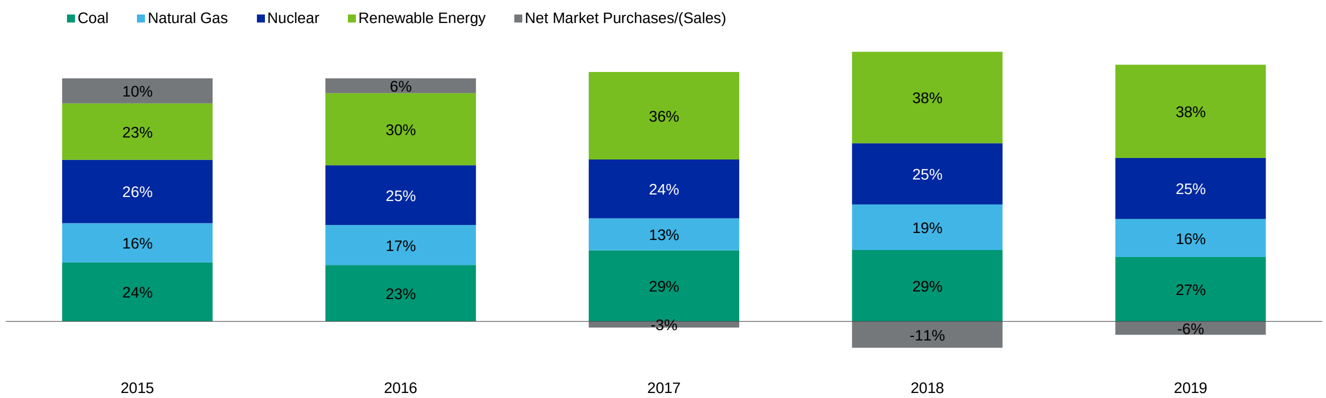
Carbon transition plan: 65% renewable energy supply by 2027 and carbon free by 2035

Austin Energy has a diverse power supply portfolio (see Exhibit 2). The utility has 2,585.6 MW of owned generation consisting of coal, natural gas and nuclear sources and an additional 2,071.1 MW of contracted purchased power consisting entirely of renewables as well as some small landfill gas.

Exhibit 2

Fuel supply is diverse with an increasing portfolio of renewables

Austin Energy will cease operations at coal and certain gas facilities and avoid adding new carbon resources



Source: Austin Energy

Management will continue to enter into contracts for renewable resources with tenors ranging from 10 to 25 years in order to reach its ultimate goal of 65% renewable energy supply by 2027. Austin Energy also has a target of 375 MW of local solar capacity by 2030. Overall, the strategy emphasizes least-cost and least-risk acquisition of renewables and electricity storage as available in the market. The cost of renewables has come down over time and, having been an early adopter of wind power purchase agreements in Texas, the utility's cost structure will benefit from the expiration of older, higher cost agreements. For the 12 months ending in July 2020, renewables represented 40.8% of consumption.

The increasing share of renewables will cause some financial margin volatility. A dramatic example would be a case where there is a major spike in ERCOT prices, like when extreme weather caused prices to reach the $9,000 per MWh cap on August 12, 2019, during a period where the wind is not blowing. Renewable assets are located throughout the state, providing geographic diversity that helps mitigate price risk and intermittency issues on a real-time basis. Wind projects are located in North Texas, including the panhandle, and in South Texas, including near the Gulf Coast. Solar projects are located in West and Central Texas. The utility also maintains a power supply stabilization reserve by policy. While it would help with price stability, at this point, utility scale battery storage remains cost prohibitive.

Austin Energy plans to cease operations in its share of the coal-fired Fayette Power Project (570 MW) by calendar year-end 2022 and Decker steam units 1 (321 MW) and 2 (405 MW) by Q4 2020 and 2021, respectively. Austin Energy is a 50% owner of units 1 and 2 at Fayette, co-owned with the Lower Colorado River Authority (LCRA, A2 stable). The third unit is 100% owned by LCRA. Austin Energy is working with LCRA on the planned exit from Fayette. Typically, when retiring generation, utilities must file a notice to ERCOT which then makes a determination about whether the asset is needed for grid stability. However, since there will still be generation at Fayette after Austin Energy's exit, management does not anticipate issues with ERCOT approval due to grid stability issues.

Austin Energy's new carbon price adder will reduce carbon emissions from its entire fossil fuel fleet. The program, Reduce Emissions Affordability for Climate Health (REACH), implemented in 2020, adds a cost of carbon to the dispatch price. In practice, the price will make it less economic to run the Fayette units, for example, during low margin periods where before the coal generation would produce higher carbon emissions for little economic benefit. The utility will still be able to dispatch Fayette when the prices are higher. Lost revenue from the reduced dispatch will be recovered through the PSA. Management estimates that REACH will reduce carbon emissions by 30% over the next couple of years until the exit from Fayette at the end of 2022.

Other Austin Energy-owned generation assets include Sand Hill Energy Center (gas), Mueller Energy Center (gas), and the South Texas Nuclear Project (STP; nuclear). The remaining natural gas generators are expected to remain in the fuel mix at least through 2027. STP is comprised of two units, with licenses expiring in 2047 and 2048, respectively.

The $460 million acquisition of the Nacogdoches Biomass Facility in 2019 and exit from the contract with Southern Power will generate savings for Austin Energy. Debt service requirements are less than capacity and energy payments, and do not extend beyond the final contracted payment in fiscal 2032. Austin Energy entered into the $2.3 billion contract with Southern power in 2008, and the facility opened in 2012 as natural gas prices started to decline. The plant has been idle most days since it became operational. The acquisition avoids an estimated $275 million of contractual costs.

Financial operations and position: Currently strong DSCRs will decline over near term

We expect that the rolling three-year average adjusted post-general fund transfer DSCRs will decline but remain above 2.0x through fiscal 2021, and then potentially fall below 1.8x until the next base rate increase. The declining DSCRs reflect higher debt service requirements associated with the 2019 Nacogdoches Biomass Facility acquisition as well as current and near term debt issuance. The three-year average adjusted DSCR was 3.05x in fiscal 2019.

The utility has seen an uptick in aged accounts receivables during the pandemic following the suspension of disconnects and late fees. Monthly accounts receivables greater than 30 days were 12.8% of billed revenue as of July 2020 compared with 8.5% for the same period last year. Austin Energy's $35 million electric bill relief program for its customers, representing just 2.5% of operating revenue, will not have a material impact on the system's financial performance. While energy sales from the start of the outbreak in March are down 0.5% through August, total sales are up 1% year-to-date. Overall fiscal 2020 performance remains in line with budget.

Austin Energy's cost structure incorporates above average transfers to the city's general fund. DSCRs calculated on a bond ordinance basis exclude transfers and are projected to remain above the City Council-established policy of 2.0x over the five-year forecast period. The transfers are also defined by policy and are not to exceed 12% of the three-year average operating revenues less power supply costs and district cooling revenue. While high compared with the rest of the sector, we note that over time, the city's general fund has become less reliant on utility fund transfers. In fiscal 2010, transfers from Austin Energy and the Austin Water utility represented 20.7% of general fund revenue. In the fiscal 2021 budget, transfers represent 14.7% of general fund revenue.

The utility has a risk management program to mitigate financial and market risk associated with the purchase of natural gas and energy. This includes natural gas and congestion revenue rights derivatives. In addition, the utility targets a coal inventory between 40-70 days to protect against disruptions. For the South Texas Nuclear Project, long-term supply contracts are in place to mitigate volatility in uranium prices and challenges with respect to security of supply. Wind and solar resources are spread throughout the state to benefit from differing regional weather patterns.

LIQUIDITY

Adjusted days liquidity on hand, including unused capacity on the commercial paper (CP) program, was 327 days in fiscal 2019 and also averaged about 319 days over the last three years. The CP program is available to the water and wastewater utility as well. Without the unused CP, days cash on hand was 213 in fiscal 2019. We expect unrestricted and discretionary reserves to grow over the near term and remain stable between 250-300 days.

Austin Energy's board and management maintain financial policies that include various practices to achieve financial integrity while allowing for flexibility. Austin Energy has specific reserve funds including working capital, contingency reserve, power supply stabilization reserve and capital reserve. By policy, the sum of these reserves must equal at least 150 days cash on hand.

Austin Energy also maintains nuclear and non-nuclear decommissioning reserves. An external irrevocable nuclear decommissioning trust was established for STP. The market value of the assets in the decommissioning trust totaled $232.2 million as of fiscal 2019 which is $23.3 million in excess of the estimated $208.9 million pro rata share of the decommissioning liability as determined by Nuclear Regulatory Commission regulatory requirements. The utility's share of the full asset retirement liability is, in 2018 dollars, $397 million. Austin Energy collected approximately $5 million for decommissioning expense in fiscal 2020. STP decommissioning may begin as early as 2047. Funding for the non-nuclear plant decommissioning fund is based on amounts determined in decommissioning studies with funding set aside over a minimum of four years prior to expected plant closure.

Debt and other liabilities: Biomass acquisition raises leverage profile

Post-sale, Austin Energy will have about $1.9 billion of electric revenue bonds outstanding. The Series 2020A and 2020B bonds, with a combined par amount of $282 million, are being issued to refund $110 million of tax-exempt and $55 million of taxable commercial paper, respectively. Proceeds will also be used to refund the Series 2010A bonds ($90.1 million currently outstanding). The new money portion of the 2020A bonds will fund the construction and acquisition of Austin Energy's new headquarters.

Austin Energy and Austin Water Utility (Aa2 stable), together referred to as the combined utility system, have $78.5 million of prior subordinate lien obligations outstanding (separately rated Aa2 stable) that are secured jointly and severally by net revenues of the two systems. The combined utility previously had prior first lien obligations that were fully discharged in May 2019. The prior first and prior subordinate liens are closed, and all future revenue bonds issued by either enterprise will have separate liens for each system. Net revenues of the combined utility also currently support $6.8 million of bonds that are secured by city ad valorem taxes.

The combined utility has a tax-exempt and a taxable commercial paper (CP) program in amounts not to exceed $400 million and $100 million, respectively. The Series 2020A and 2020B, issued concurrently with the water and wastewater utility's 2020C issuance, will fully restore the available CP balance. The CP obligations are also secured by a joint and several pledge of net revenues of the combined utility.

As of fiscal 2019 (ending September 30), Austin Energy had $1.9 billion of debt outstanding. This represents a moderate debt ratio of 48.1%. This represents a significant increase from fiscal 2018 when debt totaled $1.4 billion for a debt ratio of 39.6%. Debt to finance the acquisition of the Nacogdoches Biomass Facility drove the increase.

The five-year capital improvement plan through 2025 totals $1 billion, $467.9 million of which will be debt funded. The CIP includes $641.7 million for transmission and distribution projects. Other projects include the new Austin Energy corporate headquarters, construction of chiller plants at the Mueller Development, Austin Community College Highland Campus, and downtown for district cooling service.

LEGAL SECURITY

The electric utility system revenue bonds are payable from net revenues together on a parity basis with payment of debt service on prior subordinate lien obligations. Net revenues of Austin's combined utility (Electric Utility System and Water and wastewater System) have been pledged, jointly and severally, to the payment of the prior subordinate lien obligations, currently totaling $78.5 million and separately rated at Aa2 with a stable outlook.

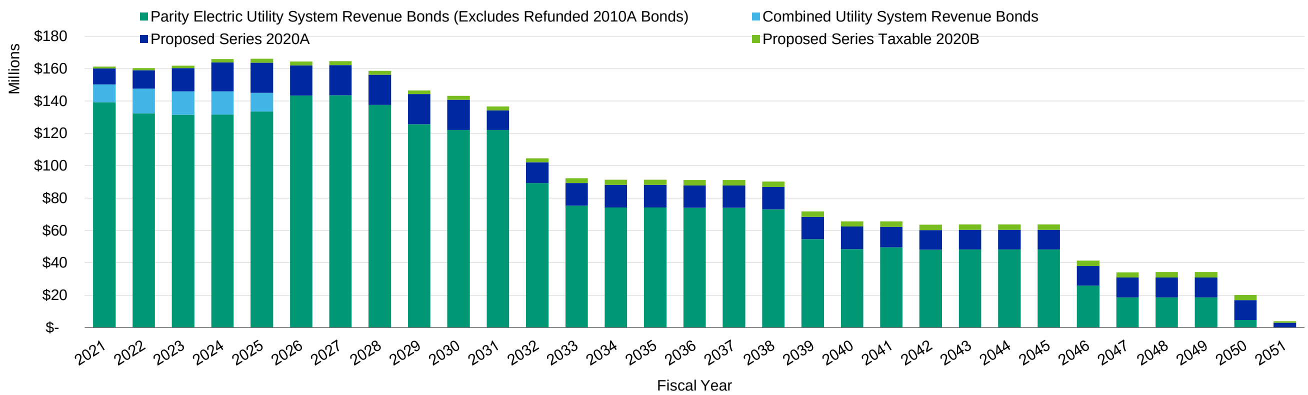
The liens on the prior first and prior subordinate lien obligations are closed and all new bonds issued for electric system purposes are secured only by the net revenues of the electric system. New water and wastewater bonds are also separately secured bonds. On May 15, 2019, the prior first lien obligations were fully paid and discharged. The rate covenant of the combined systems is 1.25x annual debt service coverage for prior first lien and separate lien obligations plus 1.10x coverage for prior subordinate lien bonds. The master ordinance includes a springing debt service reserve requirement, which is a credit negative in our view and reflected in our notching under the rating methodology grid. Under the bond ordinance, the electric system has no debt service reserve requirement when debt service coverage exceeds 1.50x. A springing reserve is required to be funded in 10% increments (up to 50% of maximum annual debt service) for every 10 basis points drop below 1.50x debt service coverage. Based on the current debt service coverage level for parity electric utility system obligations as calculated under the bond ordinance, Austin Energy is not required to fund a debt service reserve for electric utility system revenue bonds.

DEBT STRUCTURE

Austin Energy's debt is fixed rate.

Exhibit 3

Debt service modestly increases through FY2027; step downs in later years leave room for future issuance



Source: Preliminary official statement; Austin Energy

DEBT-RELATED DERIVATIVES

None.

PENSIONS AND OPEB

Austin Energy participates in the Austin Employees' Retirement System (COAERS), a single employer defined benefit pension plan. Austin Energy's share of the net pension liability was $319 million on a reported basis in fiscal 2019. The liability will continue to grow given weak contributions to the system. Moody's calculates the Adjusted Net Pension Liability (ANPL) of Austin Energy at a sizeable $698 million. The total adjusted debt ratio, including ANPL, was 66.9% in fiscal 2019. Moody's ANPL reflects certain adjustments we make to improve the comparability of reported pension liabilities. The adjustments are not intended to replace the reported liability information but to improve comparability with other rated entities.

A key factor in the difference between Moody's ANPL and Austin Energy's reported net pension liability is our use of the FTSE pension liability index, a high-grade corporate bond index, that we use as a discount rate in our valuation of accrued pension liabilities. For fiscal 2019, we applied a discount rate of 4.22% compared with the city's 7.50%. Some actuarial assumptions have changed as of the December 31, 2019 report including salary growth of 3.5%, down from 4.0%, and a discount rate of 7.0% instead of 7.5%. Development of a formal plan to make changes to COAERS is currently underway, and the city is working toward bringing an amendment to the plan before the state legislature during the 2023 session. In the meantime, Austin Energy has begun incorporating increased contributions in its budget.

ESG considerations

Environmental

The public power electric utilities with generation ownership exposure sector continues to face increasingly stringent environmental mandates which require compliance with various laws and regulations. Compliance with these mandates can be costly and violations could subject the utilities to substantial liabilities, as well as damage its reputation. Environmental regulations and the mix of generation sources, as well as the utilities' ability to recover related costs can vary by entity. Restrictions on air pollutants and carbon emissions and the extent to which the utility can cover such costs might play a role can affect the credit quality of sector participants, particularly those dependent upon coal-fired generation. That said, the amortizing nature of public power electric utilities debt capital structure combined with the their unique monopoly position reduce to some extent, exposure to carbon-related stranded costs.

While Austin Energy's environmental risk is moderate given the current reliance on coal; however, the utility's aggressive climate protection plan will drastically reduce carbon intensity over the near term with the planned exit of Fayette and Decker Creek between 2020 and 2022.

Social

The US public power electric utilities with generation ownership sector has moderate social risks. While certain specific social risks may be considered high, the extent of the risk and its impact on the credit profile is mitigated through extensive internal and external controls, regulations and legislation. The safety and reliability of essential utility services are extremely important to customers and is a key focus of the sector.

We do not see any significant social risk for the Utility other than the ongoing coronavirus, which has been manageable with no significant impact to the utility so far. We expect electric bill relief programs and bad debt expenses will have a negligible impact on financial performance.

Governance

The US public power electric utilities with generation ownership exposure sector faces relatively low governance risks as these issues have not typically been a material factor affecting issuers credit quality. That said, governance challenges can arise in rate setting process since board membership is often composed of representation from the utility's service territory. Weak governance in the rate setting process can directly impact credit quality.

The City of Austin has a council-manager form of government. Under this form of government, the mayor and ten council members are all elected by districts for three-year staggered terms. The City Council has the original jurisdiction over Austin Energy's retail electric rates. Austin Energy demonstrates good governance through its City Council-established financial and debt policies. Transfers from the utility to the city's general fund are above average for the sector; however, these transfers are defined by policy and the city's general fund has become less reliant on this source of revenue over time.

Rating methodology and scorecard factors

The grid is a reference tool that can be used to approximate credit profiles in the industry in most cases. However, the grid is a summary that does not include every rating consideration. Please see US Public Power Electric Utilities With Generation Ownership Exposure published in August 2019 for information about the limitations inherent to the grid.

Austin Energy's grid indicated outcome under the below depicted grid is Aa3, which is in line with the Aa3 rating of its electric utility system revenue bonds. The -0.5 notch adjustment reflects the springing debt service reserve requirement for the electric system revenue bonds. Under the bond ordinance, the electric system has no debt service reserve requirement when debt service coverage exceeds 1.50x. A springing reserve is required to be funded in 10% increments (up to 50% of maximum annual debt service) for every 10 basis points drop below 1.50x debt service coverage. Based on the current debt service coverage level for parity electric utility system obligations as calculated under the bond ordinance, Austin Energy is not required to fund a debt service reserve for electric utility system revenue bonds.

US Public Power Electric Utilities with Generation Ownership Exposure Rating Methodology Factors

Factor	Subfactor	Score	Metric
1. Cost Recovery Framework Within Service Territory	Monopoly with unregulated rate setting. Service area characteristics- GO rating. Customer base stability	Aaa	
2. Wllingness and Ability to Recover Costs with Sound Financial Metrics	Rate setting record. Timeliness of recovery. Political risk. Local Government Supportiveness. General fund transfer policy	A	
3. Generation and Power Procurement Risk Exposure	Diversity of Supply. Reliability and cost of supply & distribution	Aa	
4. Competitiveness	Rate Competitiveness (compared to state average)	A	
5. Financial Strength and Liquidity	a) Adjusted days liquidity on hand (3-year avg) (days)	Aaa	319
	b) Adjusted Debt ratio (3-year avg) (%)	A	62.1%
	c) Adjusted Debt Service Coverage or Fixed Obligation Charge Coverage (3-year avg) (x)	Aaa	3.05
Preliminary Grid Indicated Outcome from Grid factors 1-5			
		Notch	
6. Operational Considerations	Construction risk, whether the utility is a vital service provider	0.0	
7. Debt Structure and Reserves	Debt service reserves, special borrowing arrangements and debt structure	-0.5	
8. Revenue Stability and Diversity	Exposure to wholesale power markets, customer concentration, diversity from combined utility operations	0.0	
Grid Indicated Outcome:		**Aa3**	

Financial data sourced from fiscal 2019 CAFR
Source: Moody's Investors Service

REPORT NUMBER 1249557

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MOODY'S INVESTORS SERVICE

FitchRatings

Public Finance
Public Power
United States

Austin, Texas

Assessment

Standalone Credit Profile	aa

New Issues

$227,055,000 Electric Utility System Revenue Refunding and Improvement Bonds, Series 2020A	AA
$55,390,000 Electric Utility System Revenue Refunding Bonds (Taxable), Series 2020B	AA

Outstanding Debt

Electric Utility System Revenue Bonds	AA
Combined Utility Systems (Prior Subordinate Lien) Revenue Bonds	AA

Rating Outlook

Stable

New Issue Summary

Sale Date: Oct. 27, 2020

Series: 2020A and 2020B

Purpose: Bond proceeds will be used to refinance outstanding CP notes into long-term debt, refund outstanding series 2010A bonds and to partially fund the construction of Austin Energy's new administration building. Proceeds will also be used to pay costs of issuance.

Security: Electric-system revenue bonds are secured by net revenues of Austin Energy. The bonds are on parity with the prior subordinate-lien obligations of the combined utility systems. The prior subordinate-lien obligations are secured by a joint and several pledge of net revenues of the combined utility systems, consisting of Austin Energy and Austin Water Utility with revenue bonds rated 'AA–' with a Stable Outlook.

The prior subordinate-lien obligations are rated 'AA', on par with the electric system revenue bonds, given the small amount of debt outstanding in relation to Austin Energy's overall outstanding debt. The issuance of additional bonds secured by the combined utility pledge is no longer permitted by the master bond ordinance, making the lien effectively closed. The remaining prior subordinate lien bonds mature in 2025.

The rating affirmation reflects Austin Energy's continued strong financial performance and robust service area characteristics, including the utility's consistently strong customer growth rates, and the City of Austin's (AAA/Negative) strong economy. Financial reserves, which increased in each of the past five years, provide the utility with ample liquidity.

Austin Energy continues to make significant strides toward its renewable- and clean-energy goals. Fitch Ratings expects operating costs will remain low, even as the utility retires 1,296MW of thermal-generation over the next three years and anticipates adding renewable resources to its power supply.

The leverage profile increased in fiscal 2019 following the $460 million purchase of Nacogdoches Power, LLC's (NAC) biomass facility. Additional debt in the proposed issuance is related to the new headquarters building. This combined with the planned spend down of some cash reserves for capital projects over the next two years will add to the ratio. Fitch expects leverage will remain supportive of the current rating.

Key Rating Drivers

Revenue Defensibility: 'aa'; Strong Customer Growth and Rate Affordability: Austin Energy's revenue defensibility is well supported by revenues from electric sales within and around the City of Austin and by electric rates established locally by the city council. Revenue defensibility reflects rapid and sustained annual customer growth, which averaged 2.5% in the last five years, favorable service area characteristics, very strong rate flexibility and very high affordability.

Operating Risk: 'a'; Low and Stable Operating Costs: The operating risk profile remains strong reflecting the utility's low operating costs at 11.1 cents/KWh in fiscal 2019. The utility continues to transition its power supply to more renewable resources, which accounted for 38% of Austin Energy's 2019 total energy load, up from 23% in fiscal 2015. Fitch expects the utility's operating costs to remain relatively stable even as owned resources continue to be replaced with renewable contracts over the next five years.

Financial Profile: 'aa'; Very Strong Financial Performance: Austin Energy's financial profile remains very strong as evidenced by the utility's healthy operating cash flows and robust liquidity. Leverage increased to 6.8x in 2019 due to the debt-financed purchase of a biomass facility in 2019, the output of which was previously purchased through a long-term power purchase agreement.

The higher debt service costs are offset by lower purchased power expenses as a result of buying the facility. Large capital projects over the next two years are expected to reduce cash reserves but liquidity is expected to remain robust.

Applicable Criteria

Public Sector, Revenue-Supported Entities Rating Criteria (March 2020)

U.S. Public Power Rating Criteria (March 2020)

Related Research

Public Power - Fitch Analytical Comparative Tool (FACT) - 2020 (June 2020)

U.S. Public Power: Peer Review (June 2020)

Fitch Ratings Updates 2020 Sector Outlooks to Reflect Coronavirus Impact (March 2020)

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Rating Sensitivities

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade:

- Improved financial performance as evidenced by sustained declines in leverage below 5.0x.

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade:

- Unanticipated increases in operating costs and/or capex as the utility shifts toward additional renewable resources following the closure of the Decker Creek gas-fired Units 1 and 2 (Decker units) and the exit from Austin Energy's share of the Fayette coal power plant.
- A sustained increase in leverage above 7.0x.

Rating History (IDR)

Rating	Action	Outlook/ Watch	Date
AA	Affirmed	Stable	10/14/20
AA	Review – No Action	Stable	6/17/20
AA	Upgraded	Stable	5/14/19
AA–	Upgraded	Stable	5/05/06
A+	Upgraded	Stable	9/17/04
A	Affirmed	RWE	6/08/04
A	Upgraded	N.A.	5/23/00
A–	Assigned	N.A.	4/29/97

IDR – Issuer Default Rating. RWE – Rating Watch Evolving. N.A. – Not applicable.

Credit Profile

Austin Energy provides exclusive electric service to nearly 500,000 electric customers in and around the City of Austin, which makes up roughly half of the utility's defined geographical service territory, while sizeable portions of Travis and Williamson Counties make up the balance.

The utility is the sole supplier of electric service in its service area with the exception of an 11 square mile area accounting for less than 5% of the utility's service territory. The single-certified territory is not subject to retail competition introduced in parts of Texas in 2000. Municipal utilities in the state have the option to offer retail competition in their service areas. Austin Energy has indicated no intent to do so.

The effect of the of the coronavirus outbreak on the utility's overall electric sales remains limited. Total retail electric sales during the six months since March 2020 declined by less than 1% compared with the same period during fiscal 2019. Overall fiscal 2020 energy sales are expected to be up by 1% compared with the prior year.

However, Austin Energy experienced shifts in the composition of residential and commercial energy sales following the city's implementation of the Stay Home – Work Safe order on March 13. Substantial declines in April 2020 commercial sales of approximately 17% were mitigated by an increase in residential sales of approximately 14%, with percentages relative to April 2019. Commercial sales since April rebounded as the city continues to implement a phased reopening.

In response to the pandemic, the utility approved $35 million in electric bill relief for residential and commercial customers. Fitch believes the financial effect to the utility should remain limited as Austin Energy funded approximately $25 million of bill relief by advancing the return of a regulatory charge over recovery, which was set to occur during fiscal 2021. Austin Energy suspended disconnects in March 2020 and the moratorium currently remains in place. Customer receivables increased since its implementation but bill arrearages remain in line, or below, the utility's five-year historical annual cyclical peaks.

Our ratings remain forward-looking in nature. Fitch will continue to monitor developments related to the severity and duration of the coronavirus outbreak and revise expectations for future performance as appropriate.

Revenue Defensibility

Revenue Source Characteristics

Fitch considers Austin Energy's revenue source characteristics as very strong, reflecting the electric utility's monopolistic characteristics. Core electric revenues constitute nearly all of pledged revenues to electric bondholders but also include the utility's chilled water business, which contributed approximately $26 million in revenues during fiscal 2019.

The chilled water business is a fundamental component of the electric utility's strategy to reduce electric usage during peak hours in order to reduce overall costs. Chilled water plants use energy during off-hours to chill water that is used for air conditioning in commercial buildings in Austin's urban core. Companies participating in Austin's chilled water program constructed their buildings to be cooled by Austin Energy's chilled water facilities and signed long-term contracts with the city for the service. The residential and commercial demand response programs are also integral to Austin Energy's plan to reduce peak demand.

Service Area Characteristics

The strength and diversity in both Austin Energy's customer base and Austin's economy continues to underpin electric demand and the utility's revenue collections. Customer growth remains strong as evidenced by the utility's five-year CAGR of 2.5%. Energy sales growth, with a five-year CAGR of 1.1%, is somewhat tempered, relative to the utility's customer growth rates reflecting energy efficiency gains, in addition to the utility's broader strategic investments to reduce peak demand. Austin Energy's management conservatively estimates customer and annual load growth rates of 1.5% and 0.3%, respectively over the next five years. Residential customers accounted for approximately 41% of electric revenues in fiscal 2019.

The City of Austin continues to be one of the top-performing U.S. metro area economies. The city is the state capital and home to the University of Texas System's (AAA/Stable) flagship Austin campus, along with six other colleges and universities. The state government and higher education sectors historically provided stability and economic cushion during downturns and the technology sector continues to stimulate economic growth within the service territory.

The city's population outpaces both the state and the nation and is estimated at nearly one million residents. Wealth indicators for the area are above average with median household income at 112% of the national average. Similar to the rest of the nation, Austin's unemployment rate peaked in the spring of 2020 at 12.4% in April 2020, but rates have since rebounded to 5.6% in August 2020, below the state and national August figures of 7.0% and 8.5%, respectively.

Rate Flexibility

The utility's average retail revenue per kilowatt hour at 9.19 cents/kWh, as reported by the U.S. Energy Information Administration in 2019, compares well to other large Texas utilities and remains in line with the state average. Austin Energy rates and state-wide revenue per kWh have benefited from lower natural gas and renewable energy costs.

The low electric rates continue to contribute to Austin Energy's very affordable rates. The rate affordability also benefits from the City of Austin's high median income levels and the utility's lower average power consumption levels among its customer base, relative to other Texas utilities. Fitch measures rate affordability as the total cost of residential electric service divided by median household income within the service territory. Austin Energy's rate affordability was 1.7% in 2018.

Electric rates are approved by the city council and are not subject to any additional oversight, although the city also hires an independent consumer advocate as part of the rate review process. Austin Energy conducts a cost-of-service study at least once every five years to determine its base rates, which account for approximately half of the average residential retail bill. The majority of the remaining bill relates to energy, such as a Power Supply Adjustment (PSA), regulatory or transmission costs, and community benefit charges, each of which can be adjusted at least annually.

Austin Energy recently completed a 2021 rate review and base rates are expected to remain unchanged over the next two years. This follows the 2016 rate review, in which base rates were reduced by 6.7% starting in January 2017. Management intends to complete an interim base rate review in 2023, which will account for the closure of the Decker units and the utility's planned exit from the Fayette coal facility. Projected base rate increases are expected to be somewhat offset by a decline in certain PSA costs related to the NAC biomass facility.

The City of Austin's city council maintains a stated 2% annual rate cap target. However, the 2% cap is evaluated over time, on average, so the recent years of lower fuel and purchased power costs created headroom in Austin Energy's rates when compared with the 2% annual cap target put in place in 2012. Given Austin Energy's high rate affordability and headroom under the city's 2% annual cap target, Fitch does not believe the utility's rate flexibility is constrained.

Rate Structure Considerations

Fitch believes Austin Energy's annual electric rate adjustment mechanisms are essential for the full recovery of ongoing power costs. An additional and important cost recovery component is the recovery of line extension costs. The utility made the decision to move to 100% recovery of costs in 2015. Fiscal 2016 was the first full year the policy was in place and cash collections have averaged $41 million annually in the four years through fiscal 2019, up from around $13 million in fiscal 2014. Connection fees are expected to continue to cover costs associated with robust customer growth.

Operating Risk

Low Operating Costs, Transitioning Power Supply

Austin Energy's operating costs remained low at 11.1 cents in fiscal 2019 despite a gradual increase over the past five years. Operating costs are expected to remain stable even with the utility's continued pursuit of its Resource Generation and Climate Protection Plan to 2027 (2030 Plan), which outlines the city's goal to have 100% carbon-free electric generation by 2035.

Approximately 63% of Austin Energy's annualized load was carbon-free, as of March 2020, with 23% derived from the South Texas Project nuclear facility and the remaining portion from renewable resources. The cost structure will likely be aided by continued competitive renewable prices in the Electric Reliability Council of Texas (ERCOT) market, although the magnitude of price declines enjoyed in the past five years seem unlikely to repeat.

Austin Energy owns 2,586MW generation capacity including the 115MW NAC facility, which the utility acquired in June 2019 for $460 million. Austin Energy purchases approximately 2,071MW of energy through purchase power contracts, all of which are sourced through renewable projects located within ERCOT. While the total capacity including purchased power appears larger than needed relative to the utility's 2019 peak of 2,810MW, renewable generation is intermittent and only available during certain times.

The existing fuel portfolio is increasingly diverse with renewable energy accounting for the largest portion of the fuel supply in the last two years at 38% in fiscals 2018–2019. Coal-fired generation accounts for the next largest percentage at 27%. In the last five years, net market purchases, as a percent of net load, declined as Austin Energy increased its renewable purchased power.

Operating Cost Flexibility

In order to achieve the carbon-free generation targets outlined in Austin Energy's 2030 Plan, the utility plans to close or exit another 1,296 MW of owned thermal generation during the next three years. Specifically, the 2030 Plan includes the closure of both the Decker units by YE 2021 and the exit from Fayette facility by YE 2022. Austin Energy anticipates adding renewable energy resources following the retirement of the thermal generation resources.

ERCOT, the regionalized market operating in most of Texas, offers available energy resources should Austin Energy have additional capacity needs. However, tightening reserve margins in ERCOT could lead to energy price volatility, particularly during the summer months. The utility maintains a robust energy risk program focused on entering into futures contracts, options and swaps to mitigate the financial exposure of short-term price volatility. Austin Energy does not anticipate having large open positions after the closure of these thermal resources.

Fitch does not expect the 2030 plan will meaningfully affect operating costs over the medium term. The utility is well positioned to meet the goals included in the plan, although the objective related to terminating Austin Energy's ownership share of the Fayette coal plant could be challenging given the co-ownership with the Lower Colorado River Authority (AA–/Stable). The goals of the 2030 Plan are subject to certain overarching affordability goals including the 2% rate cap target, which places a protective limit on the overall cost and pace of the utility's resource conversion.

Capital Planning and Management

Fitch calculates Austin Energy's age of plant at 17 years, which may reflect potentially elevated capital needs but reflects older generation plants that are intended to be retired in the near term. Capex/depreciation, which averaged just over 100% during fiscals 2015–2018, increased substantially in fiscal 2019 due to the purchase of the NAC biomass facility. Austin Energy plans to accelerate the depreciation of the NAC facility through fiscal 2023.

The five-year capital program, fiscals 2021–2025, includes an estimated $1.1 billion in planned investments. The capital improvement program is more heavily weighted toward the next three years and includes Austin Energy's planned new headquarters at a cost of around $150 million, the construction of three chilled water plants, in addition to transmission projects that will be needed to support the planned closure of the Decker units. The transmission projects will facilitate additional purchase power imports into the city. Transmission costs will be recovered through the ERCOT transmission rate that is charged proportionally across all electric customers within ERCOT.

Financial Profile

Strong Operating Cash Flow and Liquidity, Elevated Debt

Austin Energy's financial profile assessment of 'aa' continues to reflect very strong financial performance despite the increase in the utility's 2019 long-term debt following the purchase of the NAC biomass facility. Liquidity levels remained robust and reflect a historical willingness to bolster reserves with excess cash flow. Fitch calculated coverage of full obligations, which includes the general fund transfer, was 1.7x in fiscal 2019 and reflects continued strong operating cash flow.

Unrestricted cash and investments, including the contingency, power supply stabilization and capital reserves, totaled $690 million at FYE 2019, representing approximately 218 days on hand. The utility's financial policies include a combined reserve target amount equal to no less than 150 days of operating and maintenance expenditures. The combined reserves include the utility's contingency, power supply stabilization and capital reserves.

Austin Energy's leverage ratio increased to 6.8x in fiscal 2019 from 5.8x in fiscal 2018 following the debt-financed purchase of the NAC biomass plant for approximately $460 million. While debt levels increased substantially, the effect to leverage was somewhat tempered by the utility's historical build-up of cash reserves during the past five years. Fitch expects leverage to moderate near current levels over the medium term as Austin Energy plans to fund approximately 50% of its capex with operating cash flows and reserves.

Fitch Analytical Stress Test (FAST) — Base Case and Stress Case

The FAST base case scenario represents our expectation of Austin Energy's financial performance through the five-year forecast period ending fiscal 2024. Given expected continued growth and planned capex in the system, including the construction of the new headquarters, leverage is expected to increase slightly in the next two years, but will remain supportive of the rating.

Coverage levels should remain adequate, as the utility continues to use its rate adjustment mechanisms, including the PSA, and regulatory and community benefit charges, to passthrough costs to retail consumers. Liquidity levels remain robust despite some planned spending of reserves on capital projects.

The base case scenario includes the expectation for an increase in power supply expenses following the closure of the Decker units and the exit from the Fayette facility. While additional increases in power supply costs are passed through to customers and thereby limit the effects on Austin Energy's financial profile, the operating cost burden may increase. Unanticipated capex that results in a substantial decline in cash reserves, or an increase in debt, could pressure the leverage profile.

Fitch's stress case anticipates a decline in sales in the first two years with a recovery in the final three years of the forecast. The stress case assumes a 4.4% decline in Year 1 followed by another 2.2% decline in Year 2, both of which would be sizable declines for Austin Energy, given the historical growth in the city. Fitch notes the declines are layered on the utility's conservative annual load growth assumption of 0.3%. We believe the rate adjustment mechanisms could be implemented to mitigate a substantial decline in energy sales.

Debt Profile

Outstanding debt, including Austin Energy's portion of a very small amount of remaining combined subordinate lien obligations, totals approximately $1.9 billion, all of which was issued as fixed-rate obligations. The combined subordinate-lien obligations mature in 2025. The utility uses tax-exempt and taxable CP programs to fund construction, which is periodically refinanced with long-term debt. Fitch's leverage calculation also included approximately $1 billion of other obligations including pension liabilities and capitalized fixed charges for purchased power.

ESG Considerations

Unless otherwise disclosed in this section, the highest level of Environmental, Social and Corporate Governance (ESG) Credit Relevance is a Score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

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Financial Summary

($ 000, Audited Fiscal Years Ended Sept. 30)	2015	2016	2017	2018	2019
Net Adjusted Debt/Adjusted FADS (x)	**5.23**	**4.93**	**5.67**	**5.80**	**6.75**
Total Current Maturities of Long-Term Debt	65,303	44,456	35,140	37,172	78,458
Total Long-Term Debt	1,379,004	1,383,926	1,408,124	1,430,365	1,937,790
Total Debt	**1,444,307**	**1,428,382**	**1,443,264**	**1,467,537**	**2,016,248**
+ Capitalized Fixed Charge – Purchased Power	420,780	470,127	558,031	555,054	558,953
+ Total Pension Obligation (GASB Fitch-Adjusted NPL + FASB PBO)	336,050	402,465	418,653	391,763	475,937
- Total Unrestricted Cash	401,837	550,157	597,709	688,848	690,235
- Restricted FADS	74,668	63,828	69,883	71,409	106,486
Net Adjusted Debt	**1,724,633**	**1,686,990**	**1,752,357**	**1,654,097**	**2,254,417**
Adjusted FADS for Leverage Calculation					
Total Operating Revenue	1,351,436	1,370,428	1,362,132	1,400,523	1,447,300
Total Operating Expense	1,146,337	1,177,658	1,225,959	1,287,935	1,357,224
Operating Income	**205,099**	**192,770**	**136,173**	**112,588**	**90,076**
+ Depreciation and Amortization	152,544	156,699	162,930	165,645	204,082
+ Interest Income	8,127	6,632	6,771	10,645	32,719
FADS	**365,770**	**356,101**	**305,874**	**288,878**	**326,877**
+ Adjustment for Purchased Power	52,598	58,766	69,754	69,382	69,869
- Total Transfers/Distributions	113,770	114,203	115,582	115,885	118,536
+ Pension Expense	25,235	41,580	49,135	42,738	55,555
Adjusted FADS for Leverage	329,832	342,243	309,181	285,113	333,765
Coverage of Full Obligations (x)	**1.90**	**1.61**	**1.49**	**1.46**	**1.67**
FADS	365,770	356,101	305,874	288,878	326,877
+ Adjustment for Purchased Power	52,598	58,766	69,754	69,382	69,869
- Total Transfers/Distributions	113,770	114,203	115,582	115,885	118,536
Adjusted FADS for Coverage	**304,598**	**300,664**	**260,046**	**242,375**	**278,210**
Full Obligations Calculation					
Cash Interest Paid	59,264	62,966	60,613	61,161	59,213
Prior Year Current Maturities	48,099	65,303	44,456	35,140	37,172
Total Annual Debt Service	**107,363**	**128,269**	**105,069**	**96,301**	**96,385**
+ Adjustment for Purchased Power	52,598	58,766	69,754	69,382	69,869
Total Fixed Obligations	**159,961**	**187,035**	**174,823**	**165,683**	**166,254**
Liquidity Cushion (Days)	**148**	**197**	**205**	**224**	**218**
Unrestricted Cash (days)	**148**	**197**	**205**	**224**	**218**
Liquidity Calculation					
+ Total Unrestricted Cash	401,837	550,157	597,709	688,848	690,235
Total Liquidity	**401,837**	**550,157**	**597,709**	**688,848**	**690,235**
Cash Operating Expense Calculation					
Total Operating Expense	1,146,337	1,177,658	1,225,959	1,287,935	1,357,224
- Depreciation and Amortization	152,544	156,699	162,930	165,645	204,082
Cash Operating Expense	**993,793**	**1,020,959**	**1,063,029**	**1,122,290**	**1,153,142**

FADS – Funds available for debt service. GASB – Governmental Accounting Standards Board. NPL – Nonperforming loans. FASB – Financial Accounting Standards Board. PBO – Pension benefit obligation.
Sources: Fitch Ratings, Fitch Solutions, Lumesis, U.S. Energy Information Administration, Austin, Texas.

Key Definitions

Terms	Definition	Significance
Issuer Default Rating (IDR)	An expression of overall enterprise risk and relative vulnerability to default.	Provides an opinion of the relative ability of an entity to meet financial commitments, expressed as an ordinal measure of credit risk.
Net Adjusted Debt	Adjusted debt – unrestricted cash – funds restricted for debt service	Provides an inclusive evaluation of long-term liabilities offset by funds available for debt service.
Adjusted FADS	EBITDA + interest income + 30% of purchase power expense + operating lease expense – transfers/distributions + pension expense	Provides an indication of cash flow available for the payment of debt service, adjusting for purchased power, operating lease and pension obligations.
Net Adjusted Debt to Adjusted FADS	Net adjusted debt/adjusted FADS	Provides an indication of net total leverage position against available operating cash flow.
Full Obligations	Cash interest paid + scheduled long-term principal payments + 30% of purchase power expense	Provides an indication of inclusive fixed and debt service obligations.
Coverage of Full Obligations	(EBITDA + interest income + 30% of purchase power expense + operating lease expense – transfers/distributions)/full obligations	Provides an indication of the relative cushion of operating cash flow to fixed charges.
Base Case	The expected forward-looking case in the current macroeconomic environment.	Provides the analytical starting point in the forward-looking analysis, and also informs the rating case.
Rating Case	The potential performance under a common set of assumptions.	Illustrates how cycles affect individual issuers differently, and informs the level of rating stability and credit resiliency.

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

FITCH RATES AUSTIN, TX'S ELEC UTIL SYS REV RFDG BONDS 'AA'; OUTLOOK STABLE

Fitch Ratings-Austin-17 July 2019: Fitch Ratings has assigned an 'AA' rating to the following electric utility system revenue refunding bonds to be issued by the City of Austin, TX:

--Approximately $172 million, series 2019B;
--Approximately $106 million, series 2019C.

Bond proceeds will be used to refinance outstanding commercial paper notes into long-term debt and to finance around $30 million in new capital projects. Proceeds will also be used to pay costs of issuance. The bonds are expected to price on July 30, 2019 via negotiated sale.

Fitch also affirms the Issuer Default Rating (IDR) for Austin, TX Electric (AE) and the ratings on the following bonds issued by the City of Austin, TX at 'AA':

--$1.5 billion electric utility system revenue and revenue refunding bonds;
--$91.0 million combined utility systems (prior subordinate lien) revenue bonds.

The Rating Outlook is Stable.

ANALYTICAL CONCLUSION

AE's operating costs remain low despite significant strides made toward the City of Austin's (general government IDR AAA/Stable) renewable- and clean-energy goals. This trend bodes well for future operating-cost flexibility over the next five years, given AE aims to close two of its largest thermal-generation plants and replace the capacity with renewable contracts. The rating also reflects AE's strong financial performance and service area growth. Customer growth in the service area is very strong and financial reserves have increased to healthy levels.

AE's leverage profile is expected to increase slightly with the decision to fund the $460 million purchase of Nacogdoches Power, LLC (a biomass power plant) in 2019 and a portion of capex for its new headquarters building with additional debt in the next two years. However, leverage should return to existing levels by 2022 even after considering Fitch's stress scenario.

CREDIT PROFILE

AE provides exclusive electric service to nearly 500,000 electric customers in and around the City of Austin. The City of Austin makes up roughly half of the utility's defined geographical service territory, while sizeable portions of Travis and Williamson Counties make up the balance. AE is the sole supplier of electric service in its service area and is not subject to retail competition introduced in parts of Texas in 2000. Municipal utilities in the state have the option to offer retail competition in their service areas. AE has indicated no intent to do so.

KEY RATING DRIVERS

Revenue Defensibility: 'aa'; Strong Growth and Rate Affordability

AE's revenue defensibility is well supported by revenues from electric sales within and around the City of Austin and electric rates that are established locally by the city council. AE's revenue defensibility reflects rapid average annual customer growth of 2.4% over the last five years, favorable service area characteristics, very strong rate flexibility and very high affordability.

Operating Risk: 'a'; Low and Stable Operating Costs

AE's operating risk profile is strong and exhibits stability despite a transitioning power supply whereby renewable resources nearly doubled in the last five years to 37% of total energy supply in 2018. Operating cost burden hovered just above $0.10/kWh over the same five-year time frame, including AE's transfer obligation to the City of Austin's general fund, supporting the utility's low operating risk. Fitch expects the utility's operating risk profile to remain stable even as owned resources continue to be replaced with renewable contracts.

Financial Profile: 'aa'; Improved Financial Performance; Stable Leverage

AE's financial profile is very strong, characterized by very low leverage, coverage of full obligations in excess of 1.8x over the past three years and robust liquidity. Leverage will increase only slightly from 5.3x to an estimated 5.7x in the first year of the Fitch base case due to the purchase of a biomass facility earlier in 2019 as debt service costs are mitigated by lower purchased power expenses from buying the facility. Robust cash flow in the upcoming years is expected to be used to fund a portion of capex and to defease debt.

Asymmetric Additional Risk Considerations: None

RATING SENSITIVITIES

Higher Costs: The Stable Outlook reflects Fitch's expectation that AE's 'AA' rating will remain at its current level. AE expects to close both older Decker Creek gas-fired units and exit from its share of the Fayette coal power plant in the next five years, and then shift toward additional renewable resources. This trend is consistent with the past five years and is not expected to result in diminished operating cost flexibility. However, should a material shift occur, either in operating costs or capex, it could pressure AE's operating cost profile or financial profile.

SECURITY

Electric-system revenue bonds are secured by net revenues of AE. The bonds are on parity with the prior subordinate-lien obligations of the combined utility systems. The prior subordinate-lien obligations are secured by a joint and several pledge of net revenues of the combined utility systems, consisting of AE and Austin Water Utility (revenue bonds rated AA-/Stable). The prior subordinate-lien obligations are rated 'AA' on par with the electric system revenue bonds, given the small amount of debt outstanding in relation to AE's overall outstanding debt. The ability to issue additional prior subordinate-lien bonds was eliminated in 2000. The remaining prior subordinate lien bonds mature in 2025.

For additional information on Austin Energy, see Fitch New Issue Report, 'Austin Energy, Texas' dated May 20, 2019.

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In addition to the sources of information identified in Fitch's applicable criteria specified below, this action was informed by information from Lumesis.

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Additional information is available on www.fitchratings.com

Applicable Criteria
Public Sector, Revenue-Supported Entities Rating Criteria (pub. 28 May 2019)
https://www.fitchratings.com/site/re/10064680
U.S. Public Power Rating Criteria (pub. 03 Apr 2019)
https://www.fitchratings.com/site/re/10066654

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FITCH RATES AUSTIN, TX'S ELECTRIC UTILITY SYSTEM REVS 'AA'; UPGRADE EXISTING REVS TO 'AA'

Fitch Ratings-Austin-14 May 2019: Fitch Rating has assigned a 'AA' rating to the following bonds to be issued by the City of Austin, TX:

--Approximately $465 million in Electric Utility System Revenue Bonds, series 2019A (taxable).

Bond proceeds will be used to acquire Nacogdoches Power LLC, the owner and operator of a biomass-fired power generation plant located in east Texas that sells renewable power to Austin Energy (AE) under contract through 2032. Proceeds will also be used to pay costs of issuance. The bonds are expected to price on May 22, 2019 via negotiated sale.

Fitch Ratings has upgraded the Issuer Default Rating (IDR) for Austin, TX Electric and the ratings on the following bonds issued by the City of Austin, TX to 'AA' from 'AA-':

--$1.1 billion million electric utility system revenue bonds;
--$91.0 million combined utility systems (prior subordinate lien) revenue bonds.

The Rating Outlook is Stable.

Nacogdoches Biomass Plant Purchase

Austin Energy (AE) has an existing purchase power agreement (PPA) with Nacogdoches Power, LLC to purchase the energy output of a 100 MW biomass generation plant for 20 years (2012-2032). AE will use bond proceeds to purchase Nacogdoches Power LLC, a subsidiary of Southern Power Company for $460 million and will take over ownership and operation of the plant. Existing short-term fuel and service contracts will remain in place and operations are expected to remain the same. The PPA will remain in place between AE and Nacogdoches Power, LLC but AE, as the new owner of Nacogdoches, LLC will move to cost-based recovery terms through the remaining life of the contract. The purchase will allow AE to reduce the overall cost of the project and provide AE flexibility to make long-term decisions about operation of the facility as a component of its overall resource strategy.

ANALYTICAL CONCLUSION

The rating upgrade primarily reflects improvement in AE's operating cost profile, including its operating cost burden, which has been more consistent over the last five years than Fitch expected. AE's operating costs have remained low despite significant strides made towards the City's renewable and clean energy goals. This trend bodes well for future operating cost flexibility over the next five years, given AE's intent to close two of its largest thermal generation plants and replace the capacity with renewable contracts. The upgrade also reflects AE's strong financial performance and service area growth. Customer growth in the service area is very strong, and financial reserves have increased to healthy levels.

AE's leverage profile is expected to increase slightly with the decision to fund the $460 million purchase of Nacogdoches Power LLC and a portion of capex for its new headquarters building with additional debt. However, leverage should return to existing levels by 2022 even after considering Fitch's stress scenario.

CREDIT PROFILE

AE provides exclusive electric service to nearly 500,000 electric customers in and around the City of Austin. The city of Austin makes up roughly half of the utility's defined geographical service territory, while sizeable portions of Travis and Williamson Counties make up the balance. AE is the sole supplier of electric service in its service area and is not subject to retail competition introduced in parts of Texas in 2000. Municipal utilities in the state have the option to offer retail competition in their service areas. AE has indicated no intent to do so.

KEY RATING DRIVERS

Revenue Defensibility: 'aa'; Strong Growth and Rate Affordability

AE's revenue defensibility is well supported by revenues from electric sales within and around the City of Austin and electric rates that are established locally by City Council. AE's revenue defensibility reflects rapid average annual customer growth of 2.4% over the last five years, favorable service area characteristics, strong rate flexibility and very high affordability.

Operating Risk: 'a'; Low and Stable Operating Costs

AE's operating risk profile is strong and has exhibited stability despite a transitioning power supply whereby renewable resources have nearly doubled in the last five years to 37% of total energy supply in 2018. Operating cost burden has hovered just above $0.10/kWh over the same five-year time period, including AE's transfer obligation to the city's general fund, supporting the utility's low operating risk. Fitch expects the utility's operating risk profile to remain stable even as owned resources continue to be replaced with renewable contracts.

Financial Profile: 'aa'; Improved Financial Performance; Stable Leverage

AE's financial profile is very strong, characterized by very low leverage, coverage of full obligations in excess of 1.8x over the past three years and robust liquidity. Leverage will increase only slightly from 5.3x to an estimated 5.7x in the first year of the Fitch base case due to the purchase of the biomass facility as debt service costs are mitigated by lower purchased power expenses by buying the facility. Robust cash flow in the upcoming years is expected to be used to fund a portion of capex and to defease debt.

Asymmetric Additional Risk Considerations

RATING SENSITIVITIES

Higher Costs: The Stable Outlook reflects Fitch's expectation that Austin Energy's 'AA' rating will remain at its current level. AE's expects to close both older Decker Creek gas-fired units and exit from AE's share of the Fayette coal power plant in the next five years and shift towards additional renewable resources. This trend is anticipated to be similar to the past five years and is not expected to result in diminished operating cost flexibility. However, should a material shift occur, either in operating or capital costs, it could pressure the AE's operating cost profile or financial profile.

SECURITY

Electric system revenue bonds are secured by net revenues of AE. The electric revenue bonds are on parity with the prior subordinate lien obligations of the combined utility systems. The prior subordinate lien obligations are secured by a joint and several pledge of net revenues of the combined utility systems, consisting of AE and Austin Water Utility (revenue bonds rated 'AA-'/Stable). The prior subordinate lien obligations are rated 'AA' on par with the electric system revenue bonds, given the small amount of debt outstanding in relation to AE's overall debt outstanding. The ability to issue additional prior subordinate lien bonds was eliminated in 2000. The remaining prior subordinate lien bonds mature in 2025.

Revenue Defensibility
Revenue Source Characteristics

Core electric revenues constitute nearly all of pledged revenues to electric bondholders. Revenues include the utility's chilled water business of approximately $25 million in annual revenues.
The chilled water business is a fundamental component of the electric utility's strategy to reduce electric usage during peak hours in order to reduce overall costs. Chilled water plants use energy during off-hours to chill water that is used for air conditioning load in commercial buildings in the city's urban core. Companies participating in the city's chilled water program have constructed their buildings to be cooled by AE's chilled water facilities and signed long-term contracts with the city for the service.

Service Area Characteristics

The strength and diversity in both AE's customer base and the city's economy continue to underpin electric demand and the utility's revenue collections. Customer growth has been strong, averaging 2.4% annually over the past five years. Residential customers accounted for approximately 41% of electric revenues. Energy sales are positive but modest despite strong customer growth, reflecting energy efficiency gains and conservation investments that have resulted in a relatively flat load profile. Load growth has averaged 1.8% annually over the past five years, but AE management uses a planning estimate of 0.5% load growth in future years. Customer growth is expected to continue at 1.6% annually. Fitch views these assumptions as reasonable.

The City of Austin (general government IDR 'AAA'/Stable) continues to be one of the top performing U.S. metro area economies. The city is the state capital and home to the University of Texas at Austin (University of Texas System; rated 'AAA'), as well as six other colleges and universities. The large state government and higher education employment base historically has provided a stabilizing presence and economic buffer during downturns. Technology is also a major economic driver. The city's population has been growing at a pace well above the state and nation and is estimated at nearly one million residents. Wealth indicators for the area are above average with median household income at 112% and 111% of the state and national averages, respectively. The city's February 2019 unemployment rate of 2.8% is low relative to state and national averages or 3.9% and 4.1%, respectively.

Rate Flexibility

AE's average retail revenue per kilowatt hour (9.14 cents/kWh) as reported by the EIA in 2017 compared well to other large Texas utilities and in line with the state average. Both AE rates and statewide revenue per kWh have declined in the last four years due to lower natural gas and renewable energy costs. More importantly, AE's rate affordability is very high. With lower average power consumption levels that other areas of the state, rate affordability (a measure of annual energy cost against median household income) was 1.7% in fiscal 2017, indicating very strong rate flexibility.

Electric rates are approved by the city council and are not subject to any additional oversight, although the City also hires an independent consumer advocate as part of the rate review process. AE conducts a cost of service study at least every five years following a period between 1996 and 2012 when no rate changes were implemented. AE's most recent rate review process occurred in 2016 and new rates became effective Jan. 1, 2017. The rate package included a 6.7% base rate decrease, primarily enjoyed by large industrial and commercial customers but spread across all customer classes. The next rate review will occur in 2020.

The city council has a stated rate cap target of 2% annually. However, the 2% cap is evaluated over time, on average, so the recent years of lower fuel and purchased power costs have created headroom in AE's rates as compared to the 2% annual cap target, put in place in 2012. Given AE's very high rate affordability and room under the city's 2% cap target, rate flexibility is not viewed as limited.

Rate Structure Considerations

AE's electric rates include annual adjustment mechanisms, the largest of which is the power supply adjustment, but others include the recovery of transmission and community benefit charges. An additional and important cost recovery component is the recovery of line extension costs. AE made the decision to move to 100% recovery of costs in 2015. Fiscal 2016 was the first full year the policy was in place. Cash collections increased from around $13 million in fiscal 2014 to over $35 million since fiscal 2016, the first full year of collections. Connection fees are expected to continue to cover costs associated with AE's robust customer growth levels.

Operating Risk
Low and Stable Operating Costs

Operating cost is low at 10.5 cents in fiscal 2018 and has remained flat, around this level over the past five years. Operating costs are expected to remain stable even with AE's continued pursuit of its Resource Generation and Climate Protection Plan to 2027 (2027 Plan), which outlines the city's intent to reach zero greenhouse gas emissions by 2050 or earlier, a target of 65% renewable energy by 2027 and specific targets dates for the closure of existing older thermal plants. The cost structure will likely be aided by continued competitive renewable prices in the ERCOT market, although the magnitude of prices declines enjoyed in the past five years seem unlikely to repeat.

AE owns and, in some cases operates, multiple generating projects that are nearly sufficient to meet native load requirements in all months. AE owns 2,471 MW of thermal generation capacity compared to its 2018 summer peak demand of 2,878. The balance of AE's energy is provided by another approximately 2,000 MW of renewable purchase power contracts, including the Nacogdoches plant purchase. While this amount appears larger than needed, renewable generation is intermittent and only available during certain times.

Operating Cost Flexibility

AE's existing fuel portfolio is increasingly diverse as owned resources are being supplemented and gradually replaced with a growing portfolio of renewable contracts, as outlined by the city's formal 2027 Plan. Renewable energy has accounted for the largest portion of the fuel supply in the last two years at 38% and 36% in fiscals 2018 and 2017, respectively. Coal-fired generation still accounts for the next largest percentage at 29%. Over the last five years, AE has replaced market purchases with renewable purchased power.

AE plans over the next five years to close or exit another approximately 1,300 of owned thermal generation at Decker (gas-fired) and Fayette (coal-fired). The capacity is expected to be replaced with purchased capacity contracts and/or renewable purchase power agreements. ERCOT, the regionalized market operating in most of Texas, offers available energy resources. However, reserve margins are tight in the short-term, which could lead to energy pricing volatility, particularly in the summer months. AE does not anticipate having large open positions after the closure of these thermal resources but will have contracts in place that protect against the financial exposure of short-term price volatility.

Fitch does not expect AE's 2027 plan will have a meaningful impact on operating cost over the medium term. The utility is well positioned to meet the goals included in the plan, although the objective related to terminating AE's ownership share of the Fayette coal plant could be challenging given the co-ownership with the Lower Colorado River Authority. The goals of the 2027 Plan are subject to the city's 2% rate cap target, which places a protective limit on the overall cost and pace of AE's resource conversion.

Capital Planning and Management

Fitch calculates AE's age of plant at 20 years, which may reflect potentially elevated capital needs but likely reflects older generation plants that are intended to be retired in the near term. Capex to depreciation has averaged just over 100% over the past five years, reflecting ongoing reinvestment in the system. AE's five-year capital program (2019-2023) includes an estimated $1.4 billion in planned investments. The CIP includes AE's planned new headquarters at a cost of around $150 million between fiscals 2019 and 2021, the purchase of the Nacogdoches biomass facility for $460 million and additional transmission projects that will be needed to support the planned closure of the Decker power plant and facilitate additional purchase power imports into the city. Transmission costs will be recovered through the ERCOT transmission rate that is charged proportionally across all electric customers within ERCOT.

Financial Profile

AE's financial profile is 'aa' based on moderate debt levels and improved financial performance and liquidity over the past four years. AE's improved financial performance resulted from stronger than budgeted energy sales and a decision to bolster reserves with excess cash flow. Fitch calculated coverage of full obligations, which includes the general fund transfer, was over 1.7x since fiscal 2015. The improvement follows a prior period of thinner margins that was addressed at the time of the 2012 base rate increase and 2016 rate restructuring.

Financial performance in fiscal 2018 was similar to fiscal 2017, which was a strong year but margins were lower than fiscal 2016 due to the approximately 7% base rate decrease that was effective Jan. 1, 2017. Strong financial performance in fiscals 2015 and 2016 allowed AE to reduce its revenue requirements and implement a sizable base rate decrease in 2017. Fiscal 2018 was the first full year of implementation.

Liquidity has strengthened with the stronger margins since the percentage of cash flow used to fund capital has remained relatively constant, at just over 50% of annual CIP costs. Unrestricted cash and investments, including the contingency, power supply stabilization and capital reserves, totaled $689 million at the end of fiscal 2018, or 224 days on hand. This is significantly improved from 90 days cash and investments at the end of fiscal 2014. The increase is a result of AE's intentional increase to its reserves that began in fiscal 2015. AE's reserve policy now targets combined reserve levels equal to no less than 150 days of operating and maintenance expenditures, which includes the utility's contingency, power supply stabilization and capital reserves, equal to $192 million at the end of fiscal 2018. Unrestricted reserves should end fiscal 2019 at similar levels; management does not expect to continue to build cash reserves further. Over the next five years, reserves will be used to fund a portion of the new headquarters building cost and a planned debt defeasance of the remaining Fayette debt in 2023.

AE's leverage has remained relatively level over this time period. While debt levels have increased, the impact to leverage has been offset by the build-up of cash reserves over the same time period. Net Adjusted Debt to adjusted funds available for debt service was 5.3x at the end of fiscal 2018, which includes the utility's share of the city's pension obligation.

Future Financial Performance under Fitch Rating Case

Given expected continued growth, planned capital reinvestment in the system, including the Nacogdoches Power, LLC purchase and the scale of anticipated debt financing of future needs, leverage should remain between 5x-6x over the next five years. Leverage is not expected to be materially impacted by Fitch's rating case, a moderate stress scenario that assumed declining electric sales in the first two years of the stress (4.4% and 2.2%, respectively) with a return to growth in the final three years of the scenario. While growth in AE's sales is expected to remain strong, Fitch's rating case scenario could potentially occur from weather-related impacts or recessionary trends.

Debt Profile

Outstanding debt, including AE's portion of the very small amount of remaining combined subordinate lien obligations, totals approximately $1.44 billion, all of which was issued as fixed-rate obligations. The remaining combined subordinate lien obligations mature in 2025. AE uses its tax-exempt and taxable commercial paper programs to fund construction, which is periodically refinanced with long-term debt. AE expects to complete a take-out of its outstanding commercial paper balances in the summer of 2019.

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Additional information is available on www.fitchratings.com

Applicable Criteria
Rating Criteria for Public-Sector, Revenue-Supported Debt (pub. 26 Feb 2018)
https://www.fitchratings.com/site/re/10020113
U.S. Public Power Rating Criteria (pub. 03 Apr 2019)
https://www.fitchratings.com/site/re/10066654

MOODY'S INVESTORS SERVICE

Rating Action: Moody's assigns Aa3 to Austin (City of) TX Electric Enterprise's Taxable Series 2019A Electric Utility System Revenue Bonds; stable outlook

14 May 2019

New York, May 14, 2019 -- Moody's Investors Service has assigned a Aa3 rating to the Austin (City of) TX Electric Enterprise's (Austin Energy) senior lien $464.74 million Electric Utility System Revenue Bonds, Taxable Series 2019A and affirmed the Aa3 rating on Austin Energy's parity electric revenue obligations of about $1 billion outstanding. The outlook is stable.

RATINGS RATIONALE

The Aa3 rating considers the prudent decision by management to acquire the Nacogdoches Biomass Facility, which had been in standby mode due to uneconomic cost to run in a low natural gas price environment, and minimize the customer rate impact and potential debt service coverage pressures of escalating contract payments. Nevertheless, the acquisition will raise Austin Energy's below average debt profile closer to similarly rated peers and will lock in fixed costs for a facility that runs on a very limited basis.

The rating is also based on a diverse fuel supply, a top performing service area economy, and sound financial metrics including debt service coverage ratios (DSCRs) and liquidity averaging around 2.8x and 300 adjusted days liquidity on hand, respectively, although we expect DSCRs to narrow over the near term. These strengths are bolstered by Austin Energy's close relationship to the City of Austin (Aaa stable) and access to the city's investment pool as a source of liquidity in a worst case scenario. The utility's above average general fund transfer requirement is a constraining factor for the rating. Austin Energy's ability to maintain good financial metrics and affordable rates while implementing the city's Climate Protection Plan will be key to future reviews.

RATING OUTLOOK

The stable outlook reflects our expectation that Austin Energy will continue to effectively implement its operating and financial strategies, allowing the utility to achieve its targeted goals and support its strong credit quality going forward.

FACTORS THAT COULD LEAD TO AN UPGRADE

- Successful implementation of the generation supply strategy, including integration of biomass facility, while maintaining competitiveness and avoiding any significant increase in the currently sound debt ratio or weakening of debt service coverage metrics

FACTORS THAT COULD LEAD TO A DOWNGRADE

- Failure to implement needed rate increases in a timely manner or political intervention resulting in deterioration of key financial metrics

- Adjusted DSCR falls below 1.8x or adjusted days liquidity on hand of less than 150 days for an extended period

- More aggressive demands for transfers to the city's general fund

LEGAL SECURITY

The electric utility system revenue bonds are payable from net revenues together on a parity basis with payment of debt service on prior subordinate lien obligations. Net revenues of Austin's combined utility (Electric Utility System and Water and Wastewater System) have been pledged, jointly and severally, to the payment of the prior subordinate lien obligations, currently totaling $90.7 million and separately rated at Aa2 with a stable outlook. (See separate press release on www.moodys.com of July 20, 2017 related to City of Austin, (TX) Water and Wastewater System for further details related to the prior subordinate lien bonds).

The liens on the prior first and prior subordinate lien obligations are closed and all new bonds issued for electric system purposes are secured only by the net revenues of the electric system. New water and wastewater bonds are also separately secured bonds. On May 15, 2019, the prior first lien obligations were fully paid and discharged. The rate covenant of the combined systems is 1.25x annual debt service coverage for prior first lien and separate lien obligations plus 1.10x coverage for prior subordinate lien bonds. The master ordinance includes a springing debt service reserve requirement, which is a credit negative in our view and reflected in our notching under the rating methodology grid. Under the bond ordinance, the electric system has no debt service reserve requirement when debt service coverage exceeds 1.50x. A springing reserve is required to be funded in 10% increments (up to 50% of maximum annual debt service) for every 10 basis points drop below 1.50x debt service coverage. Based on the current debt service coverage level for parity electric utility system obligations as calculated under the bond ordinance, Austin Energy is not required to fund a debt service reserve for electric utility system revenue bonds.

USE OF PROCEEDS

A portion of the series 2019A bonds will be used to acquire Nacogdoches Power, LLC, which is the owner and operator of the Nacogdoches Biomass Facility, a biomass-fired power plant in East Texas. Additionally, a portion of the proceeds will be used to reimburse for the bank commitment fees, and pay for bond issuance costs.

PROFILE

Austin Energy is a city-owned electric utility that provides electric generation and distribution services to over 480,000 customers of the City of Austin (Aaa stable) and surrounding areas in Travis (Aaa stable) and Williamson (Aa1 stable) counties. Although the utility's service territory is roughly geographically split 50/50 between in city and out of city, the majority of sales are in-city.

METHODOLOGY

The principal methodology used in these ratings was US Public Power Electric Utilities With Generation Ownership Exposure published in November 2017. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

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MOODY'S
INVESTORS SERVICE

Rating Action: **Moody's assigns Aa3 to Austin (City of) TX Electric Enterprise's Series 2019B and 2019C revenue bonds; stable outlook**

19 Jul 2019

New York, July 19, 2019 -- Moody's Investors Service ("Moody's") has assigned a Aa3 rating to the Austin (City of) TX Electric Enterprise's (Austin Energy) $172 million Electric Utility System Revenue Refunding Bonds, Series 2019B and Aa3 to the $106 million Electric Utility System Revenue Refunding and Improvement Bonds, Taxable Series 2019C. Moody's also maintains a Aa3 rating on Austin Energy's parity electric revenue obligations of about $1.53 billion outstanding. The outlook is stable.

RATINGS RATIONALE

The Aa3 rating is based on a diverse fuel supply, a top performing service area economy, and sound financial metrics including debt service coverage ratios (DSCRs) and liquidity averaging around 2.8x and 300 adjusted days liquidity on hand, respectively, although we expect DSCRs to narrow over the near term. These strengths are bolstered by Austin Energy's close relationship to the City of Austin (Aaa stable) and access to the city's investment pool as a source of liquidity in a worst case scenario. The utility's above average general fund transfer requirement is a constraining factor for the rating. Austin Energy's ability to maintain good financial metrics and affordable rates while implementing the city's Climate Protection Plan will be key to future reviews.

The rating also considers the prudent decision by management to acquire the Nacogdoches Biomass Facility, which had been in standby mode due to uneconomic cost to run in a low natural gas price environment, and minimize the customer rate impact and potential debt service coverage pressures of escalating contract payments. The transaction was finalized in June 2019. Nevertheless, the acquisition raises Austin Energy's below average debt profile closer to similarly rated peers and locks in fixed debt costs for a facility that runs on a very limited basis.

RATING OUTLOOK

The stable outlook reflects our expectation that Austin Energy will continue to effectively implement its operating and financial strategies, allowing the utility to achieve its targeted goals and support its strong credit quality going forward.

FACTORS THAT COULD LEAD TO AN UPGRADE

- Successful implementation of the generation supply strategy, including integration of biomass facility, while maintaining rate competitiveness

- Avoiding any weakening of debt service coverage metrics and maintaining a debt ratio below 40%

FACTORS THAT COULD LEAD TO A DOWNGRADE

- Failure to implement needed rate increases in a timely manner or political intervention resulting in deterioration of key financial metrics

- Adjusted DSCR falls below 1.8x or adjusted days liquidity on hand of less than 150 days for an extended period

- More aggressive demands for transfers to the city's general fund

LEGAL SECURITY

The electric utility system revenue bonds are payable from net revenues together on a parity basis with payment of debt service on prior subordinate lien obligations. Net revenues of Austin's combined utility (Electric Utility System and Water and wastewater System) have been pledged, jointly and severally, to the payment of the prior subordinate lien obligations, currently totaling $90.7 million and separately rated at Aa2 with a stable outlook. (See separate press release on www.moodys.com of July 20, 2017 related to City of Austin, (TX) Water and Wastewater System for further details related to the prior subordinate lien bonds).

The liens on the prior first and prior subordinate lien obligations are closed and all new bonds issued for electric system purposes are secured only by the net revenues of the electric system. New water and wastewater bonds are also separately secured bonds. On May 15, 2019, the prior first lien obligations were fully paid and discharged. The rate covenant of the combined systems is 1.25x annual debt service coverage for prior first lien and separate lien obligations plus 1.10x coverage for prior subordinate lien bonds. The master ordinance includes a springing debt service reserve requirement, which is a credit negative in our view and reflected in our notching under the rating methodology grid. Under the bond ordinance, the electric system has no debt service reserve requirement when debt service coverage exceeds 1.50x. A springing reserve is required to be funded in 10% increments (up to 50% of maximum annual debt service) for every 10 basis points drop below 1.50x debt service coverage. Based on the current debt service coverage level for parity electric utility system obligations as calculated under the bond ordinance, Austin Energy is not required to fund a debt service reserve for electric utility system revenue bonds.

USE OF PROCEEDS

A portion of the series 2019B bonds are being issued to refund the city's outstanding tax-exempt commercial paper notes issued for the Electric Utility System, and a portion of the series 2019C bonds are being issued to refund the city's outstanding taxable commercial paper notes issued for the Electric Utility System. Refunding the notes will enable the city to restore the available capacity under its $400,000,000 tax-exempt commercial paper note program and $75,000,000 taxable commercial paper note program. A portion of the series 2019C bonds will also be used to fund the construction of a chiller plant.

PROFILE

Austin Energy is a city-owned electric utility that provides electric generation and distribution services to over 480,000 customers of the City of Austin (Aaa stable) and surrounding areas in Travis (Aaa stable) and Williamson (Aa1 stable) counties. Although the utility's service territory is roughly geographically split 50/50 between in city and out of city, the majority of sales are in-city.

METHODOLOGY

The principal methodology used in these ratings was US Public Power Electric Utilities With Generation Ownership Exposure published in November 2017. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

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S&P Global
Ratings

RatingsDirect®

Austin, Texas; Retail Electric

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Austin, Texas; Retail Electric

Credit Profile		
US$464.74 mil elec util sys rev bnds, taxable ser 2019A due 11/15/2031		
Long Term Rating	AA/Stable	New
Austin retail elec		
Long Term Rating	AA/Stable	Affirmed

Rationale

S&P Global Ratings assigned its 'AA' long-term rating to Austin, Texas' parity electric utility system series 2019A taxable revenue bonds. At the same time, S&P Global Ratings affirmed its 'AA' underlying rating (SPUR) on the city's parity electric system (d/b/a Austin Energy) revenue debt. The outlook is stable.

A pledge of the electric system's net revenues secures the system's series 2019A revenue bonds. These bonds are subordinate to two liens of combined utility system bonds (which water, sewer, and electric system revenues secure). A first-lien pledge on the combined net revenues of the city's electric, waterworks, and sanitary sewer system secures the combined utility debt. The prior first-lien and prior subordinate-lien bonds, are both closed to new issuance. As of May 16, 2019, $90 million in prior subordinate-lien bonds will be outstanding and all prior first-lien obligations will be retired. The city will issue all future electric system debt under the parity electric utility obligations lien.

Officials intend to use series 2019A bond proceeds to fund the acquisition of Nacogdoches Power LLC, which is the owner and operator of the 115 MW Nacogdoches Biomass Facility, from Southern Power Co. The electric system had $1.4 billion in total debt outstanding as of Sept. 30, 2018. The rating further reflects our opinion of the electric system's very strong enterprise and financial risk profiles.

The enterprise risk profile reflects our view of the system's:

- Extremely strong service area economic fundamentals, reflecting a growing residential customer base that is not concentrated in revenues from its principal customers and benefits from the Austin metropolitan statistical area (MSA) deep employment base;
- Extremely strong industry risk relative to other industries and sectors;
- Adequate market position, although its 2017 weighted average electric system rate is 7.8% above the state average, we believe the system's discretionary power supply adjustment (PSA) mechanism, which is reviewed monthly and recovers costs over a 12-month period, has supported its strong coverage metrics; and
- Very strong operational and management assessment, as evidenced by a diversified generation resource mix of coal, gas, and efficient nuclear for base load; its expanding renewable portfolio that accounted for 37% of energy in fiscal 2018; and its robust financial management policies and practices, including various financial metric targets and annually updating its five-year financial projections and capital improvement plan (CIP).

The financial risk profile reflects our view of the system's:

- Strong coverage metrics, reflecting our view of the issuer's historically robust fixed-charge coverage and the issuer's projected fixed-charge coverage (including additional debt and possible rate adjustments) that we expect will range between 1.4x and 1.24x over the next five years;
- Extremely strong liquidity and reserves, with 296 days of total available liquidity on hand in fiscal 2018, including available contingency, power supply stabilization, and capital reserves and undrawn taxable commercial paper (CP); and,
- Very strong debt and liabilities profile, reflecting our forward-looking view of the system's debt burden, including additional debt that we believe will increase its debt-to-capitalization ratio above 50% by fiscal 2020.

Outlook

The stable outlook reflects our expectation that Austin's deep and steadily growing customer base, diverse generation resource mix, and its rate-setting and financial policies will enable the system to achieve strong fixed-charge coverage levels. Management plans to adjust rates as necessary to maintain strong financial metrics as the utility adds debt to fund about 60% of its capital plan over the next five years.

Upside scenario

Given the system's additional debt needs, ambitious plans to increasingly migrate to renewable generation, the presence of uneconomical biomass resources that represent a disproportionate amount of the debt portfolio, and projected fixed-charge levels, we view upward rating potential to be limited.

Downside scenario

Although unlikely, if financial margins or system liquidity decline materially below our expectations over the outlook's two-year time horizon due to regulatory challenges, the absence of a proportionate rate response to additional debt service requirements, or larger-than-anticipated debt needs, the ratings or outlook could face stress.

Utility Description

Austin Energy operates a vertically integrated utility that serves 485,200 customers within the city limits and portions of Travis and Williamson counties, with a fuel supply consisting of a diverse mix of coal, nuclear, and natural gas, and a growing renewable energy portfolio. The utility plans to transition away from coal as a fuel resource over the next four years and will continue to add wind and solar capacity as it works to be 65% renewable by 2027.

Austin Energy's customer growth of 10% over the past five years has supported maintaining robust financial metrics and limited the need for rate increases. However, the utility's additional debt needs over the next five years to fund 60% of its $1.5 billion CIP will increase annual debt service requirements and will likely require revenue enhancements to maintain very strong coverage levels. The Austin electric system's service area within the city limits accounts for about 85% of energy sales. The city remains a non-opt-in provider, thus securing its customer base.

We believe Austin Energy's purchase of the Nacogdoches biomass-fired facility in East Texas will produce cost savings by replacing escalating capacity payments under its onerous 20-year purchase power agreement with lower projected operating and debt service costs as owner of the facility. Management projects the acquisition will save $274 million through fiscal 2032. However, the 115 MW biomass plant is not economic in the current low natural gas price environment. Austin Energy currently plans to continue to operate the biomass plant. Officials expect the plant will run only during peak summer months and will operate at a 14% capacity factor. Because of the plant's weak economics, we believe it will likely be decommissioned prior to bond maturity. If that were to occur, we expect the utility to fully recover any stranded debt costs from its captive customer base, which is a key credit attribute.

Enterprise Risk

Economic fundamentals – Extremely strong

We consider Austin's economy very strong. The city, with a population estimated at 963,800, is in Hays, Travis, and Williamson counties in the Austin-Round Rock MSA, which we consider broad and diverse. It also benefits, in our view, from a stabilizing institutional influence. State and local government and higher education--including the University of Texas--continue to anchor a diverse economy. The retail, technology, and health care sectors also contribute to the Austin MSA's diversity, and have fueled growth of population and property valuations. Population growth was 1.9%, or an annual net increase of 18,000. We consider city income levels average with median household effective buying income equal to 105% of the nation in 2017. Austin's 2.7% annual average unemployment rate was below that of the state and nation.

The system's growing and diverse customer base (485,200 customers in fiscal 2018) benefits from Austin's deep employment base. Total revenue has been stable while customer growth and total sales have annually increased a combined 10% and 6.5%, respectively over the past four years. The revenue stream was not concentrated among any of its principal customers. The system's 10 leading customers (including four government entities) accounted for just 17.5% of total revenue in fiscal 2018, with the leading customer accounting for just 5.5%.

Industry risk – Extremely strong

Consistent with "Methodology: Industry Risk" (published Nov. 19, 2013, on RatingsDirect), we consider industry risk for municipal retail electric and gas utilities covered under these criteria as very low, and therefore extremely strong as compared with other industries and sectors.

Market position – Adequate

We consider the system's retail rates to be above average but the system's PSA mechanism, which is reviewed monthly, provides timely recovery of costs. Based on the U.S. Energy Information Administration's latest available data from 2017, the system's weighted average system rate competitiveness (based on relative customer classes' revenue contributions) was 107.8% of the state average in 2017. While the PSA mechanism is discretionary, it is adjusted annually or can be adjusted if the system is 10% under or over-recovered.

Due to lower annual debt service requirements, the city council approved a rate settlement agreement that lowered base rates 6.6% in January 2017 and provided the system with some flexibility to increase rates in the future. The city has indicated it expects to produce a cost-of-service study at least once every five years. It last raised base rates in October 2012 and due to increasing debt service requirements, officials will likely consider a base rate increase in 2022.

Operational management assessment (OMA) – Very strong

We consider the system's power supply and operational assets to be diverse with 18 baseload and intermediate generating units providing the system flexibility. Austin Energy meets energy requirements with a diverse mixture of coal, natural gas, and nuclear power plants, and a growing portfolio of renewable energy resources, primarily wind. The system has plans to retire its coal-fired Fayette Power Project by 2023. Of the city's baseload power, 570 MW comes from the Fayette coal plant, in which Austin and the Lower Colorado River Authority each have a 50% interest in two of the plant's three units. Management expects that added renewable energy resources and increased energy efficiency and demand-side management will enable Austin to divest itself of the Fayette plant, which contributes 75% of the utility's carbon emissions.

Total owned capacity is 2,470 MW, and renewable power purchase agreements add 1,976 MW. The South Texas Project's unit 1 and 2 provide Austin with 400 MW of nuclear capacity. This plant is one of the most cost-efficient, highest-output nuclear facilities in the U.S. The licenses for those units were to expire in 2027 and 2028, but were extended by the Nuclear Regulatory Commission (NRC) for another 20 years. Both the coal and gas-fired facilities have fuel supply contracts designed to minimize market exposure in the near term, although Austin Energy has the ability to implement power supply adjustments that passes through costs to the retail customer.

The system also has among the largest (in terms of capacity) renewable energy portfolios in the country. Austin Energy's renewable energy target has increased to 65% by 2027. The system's carbon emissions targets also call for overall reductions to 20% below 2005 levels by 2020 and management currently plans to retire the Fayette Power Project by 2023. Austin Energy's renewable portfolio represented about 37% of energy in fiscal 2018, up from 23% in fiscal 2015, and officials expect this will continue to rise as it layers in wind and solar capacity.

We consider the system's financial management policies and practices credit supportive, including formal policies regarding transfers, PSAs, financial metric targets, and annually updating its five-year financial projections and CIP.

Financial Risk

Coverage metrics – Strong

Our assessment of coverage reflects the system's historical robust fixed-charge coverage (exceeding 1.5x since fiscal 2016) and our forward-looking view of coverage metrics as annual debt service requirements increase, resulting in coverage metrics ranging between a strong 1.3x and 1.2x from fiscal years 2020 through 2022 before improving to 1.38x in fiscal 2023 following a possible rate increase.

Because of lower annual debt service requirements and continued annual customer growth, fixed-charge coverage improved to a robust 2.1x in fiscal 2018 from about 1.5x in fiscal years 2017 and 2016. S&P Global Ratings' imputed fixed-charge coverage calculation is our internally adjusted coverage metric that imputes certain costs borne by power suppliers. Fixed-charge coverage treats capacity payments to power suppliers as debt service rather than as operating expenses because we view these payments as funding the suppliers' recovery of capital investments in generation assets. Our fixed-charge coverage ratio provides comparability among utilities that own generation resources and those that outsource the power supply function.

Management's five-year projection, which assumes annual customer growth of 1.6%, a rate increase in the last year of the forecast, and debt financing 60% of its CIP, reflects the maintenance of strong financial performance. In addition, policy limits transfers to the general fund to 12% of nonfuel and nondistrict cooling revenue, with a floor of $105 million. For 2018, the amount of the transfer was $109 million, although management forecasts that the transfer will steadily increase to $116 million by 2023.

Liquidity and reserves – Extremely strong

We consider the system's increased total available liquidity position to be extremely strong, including designated contingency, power supply stabilization, and capital reserves, and undrawn taxable CP.

The system maintained $743 million in total available liquidity at the end of fiscal 2018, or an extremely strong 296 days' cash. Financial projections indicate maintaining at least 223 days in total liquidity (excluding CP) through fiscal 2023, while cash funding about 40% of its capital program.

Debt and liabilities – Very strong

Our forward-looking view of the system's debt burden considers management's plans to debt finance about 60% of its $1.5 billion CIP over the next five years. Based on the issuer's financial projections, we believe the system's debt-to-capitalization rate will increase in fiscal 2020 and remain above 52% through fiscal 2023, which we consider very strong for a vertically integrated utility. The system's debt-to-capitalization ratio was a moderate 44% in fiscal 2018. It had $1.4 billion in long-term debt in fiscal 2018, including prior-lien combined system utility debt that the electric system supports. Following the series 2019A debt issue, officials have preliminary plans to issue $305 million later in 2019 to take out a portion of its outstanding CP obligations, and fund a $30 million district cooling plant.

Ratings Detail (As Of May 15, 2019)		
Austin RETELEC		
Long Term Rating	AA/Stable	Affirmed
Austin retail elec		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

S&P Global
Ratings

RatingsDirect®

Austin, Texas; Retail Electric

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Austin, Texas; Retail Electric

Credit Profile		
US$175 mil elec util sys rev rfdg bnds ser 2019B due 11/15/2049		
Long Term Rating	AA/Stable	New
US$105.08 mil elec util sys rev rfdg & imp bnds ser 2019C due 11/15/2049		
Long Term Rating	AA/Stable	New

Rationale

S&P Global Ratings assigned its 'AA' long-term rating to Austin, Texas' parity electric utility system series 2019B revenue refunding bonds and series 2019C taxable revenue refunding and improvement bonds. The outlook is stable.

A pledge of the electric system's net revenues secures the system's series 2019B and 2019C revenue bonds. These bonds are subordinate to prior subordinate-lien combined utility system bonds (which water, sewer, and electric system revenues secure). The prior subordinate-lien bonds are closed to new issuance. As of May 16, 2019, $90 million in prior subordinate-lien bonds were outstanding and all prior first-lien obligations were retired. The city will issue all future electric system debt under the parity electric utility obligations lien.

Officials plan to use series 2019B and 2019C bond proceeds to refund a portion of the combined utility system's outstanding commercial paper (CP) obligations, and fund a $30 million district cooling plant. The electric system (d/b/a Austin Energy) will have $1.8 billion in total debt outstanding as of July 23, 2019. The rating further reflects our opinion of the electric system's very strong enterprise and financial risk profiles.

The enterprise risk profile reflects our view of the system's:

- Extremely strong service area economic fundamentals, reflecting a 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;
- Extremely strong industry risk relative to other industries and sectors;
- Adequate market position, although its 2017 weighted average electric system rate is 7.8% above the state average, we believe the system's discretionary power supply adjustment (PSA) mechanism, which is reviewed monthly and recovers costs over a 12-month period, has supported its strong coverage metrics; and
- Very strong operational and management assessment, as evidenced by a diversified generation resource mix of coal, gas, and efficient nuclear for base load; its expanding renewable portfolio that accounted for 37% of energy in fiscal 2018; and its robust financial management policies and practices, including various financial metric targets and annually updating its five-year financial projections and capital improvement plan (CIP).

The financial risk profile reflects our view of the system's:

- Strong coverage metrics, reflecting our view of the issuer's historically robust fixed-charge coverage and the issuer's projected fixed-charge coverage (including additional debt and possible rate adjustments) that we expect will range between 1.4x and 1.24x over the next five years;

- Extremely strong liquidity and reserves, with 296 days of total available liquidity on hand in fiscal 2018, including available contingency, power supply stabilization, and capital reserves and undrawn taxable CP; and,
- Very strong debt and liabilities profile, reflecting our forward-looking view of the system's debt burden, including additional debt that we believe will increase its debt-to-capitalization ratio above 50% by fiscal 2020.

Outlook

The stable outlook reflects our expectation that Austin's deep and steadily growing customer base, diverse generation resource mix, and its rate-setting and financial policies will enable the system to achieve strong fixed-charge coverage levels. Management plans to adjust rates as necessary to maintain strong financial metrics as the utility adds debt to fund about 60% of its CIP over the next five years.

Upside scenario

Given the system's additional debt needs, ambitious plans to increasingly migrate to renewable generation, the presence of uneconomical biomass resources that represent a disproportionate amount of the debt portfolio, and projected fixed-charge levels, we view upward rating potential to be limited.

Downside scenario

Although unlikely, if financial margins or system liquidity decline materially below our expectations over the outlook's two-year time horizon due to regulatory challenges, the absence of a proportionate rate response to additional debt service requirements, or larger-than-anticipated debt needs, the ratings or outlook could face stress.

Utility Description

Austin Energy operates a vertically integrated utility that serves 485,200 customers within the city limits and portions of Travis and Williamson counties, with a fuel supply consisting of a diverse mix of coal, nuclear, and natural gas, and a growing renewable energy portfolio. The utility plans to transition away from coal as a fuel resource over the next four years and will continue to add wind and solar capacity as it works to be 65% renewable by 2027.

Austin Energy's customer growth of 10% over the past five years has supported maintaining robust financial metrics and limited the need for rate increases. However, the utility's additional debt needs over the next five years to fund 60% of its $1.5 billion CIP will increase annual debt service requirements and will likely require revenue enhancements to maintain very strong coverage levels. The Austin electric system's service area within city limits accounts for about 85% of energy sales. The city remains a nonopt-in provider, thus securing its customer base.

We believe Austin Energy's purchase of the Nacogdoches biomass-fired facility in East Texas will produce cost savings by replacing escalating capacity payments under its onerous 20-year purchase power agreement with lower projected operating and debt service costs as owner of the facility. Management projects the acquisition will save $274 million through fiscal 2032. However, the 115 MW biomass plant is not economic in the current low natural gas price environment. Austin Energy currently plans to continue to operate the biomass plant. Officials expect the plant will run only during peak summer months and will operate at a 14% capacity factor. Because of the plant's weak economics, we believe it will likely be decommissioned prior to bond maturity. If that were to occur, we expect the utility to fully recover any stranded debt costs from its captive customer base, which is a key credit attribute.

Enterprise Risk

Economic fundamentals – Extremely strong

We consider Austin's economy very strong. The city, with a population estimated at 963,800, is in Hays, Travis, and Williamson counties in the Austin-Round Rock MSA, which we consider broad and diverse. It also benefits, in our view, from a stabilizing institutional influence. State and local government and higher education--including the University of Texas--continue to anchor a diverse economy. The retail, technology, and health care sectors also contribute to the Austin MSA's diversity, and have fueled growth of population and property valuations. Population growth was 1.9%, or an annual net increase of 18,000. We consider city income levels average with median household effective buying income equal to 105% of the nation in 2018. Austin's 2.7% annual average unemployment rate in 2018 was below that of the state and nation.

The system's growing and diverse customer base (485,200 customers in fiscal 2018) benefits from Austin's deep employment base. Total revenue has been stable while customer growth and total sales have annually increased a combined 10% and 6.5%, respectively over the past four years. The revenue stream was not concentrated among any of its principal customers. The system's 10 leading customers (including four government entities) accounted for just 17.5% of total revenue in fiscal 2018, with the leading customer accounting for just 5.5%.

Industry risk – Extremely strong

Consistent with "Methodology: Industry Risk" (published Nov. 19, 2013, on RatingsDirect), we consider industry risk for municipal retail electric and gas utilities covered under these criteria as very low, and therefore extremely strong as compared with other industries and sectors.

Market position – Adequate

We consider the system's retail rates to be above average but the system's PSA mechanism, which is reviewed monthly, provides timely recovery of costs. Based on the U.S. Energy Information Administration's latest available data from 2017, the system's weighted average system rate competitiveness (based on relative customer classes' revenue contributions) was 107.8% of the state average in 2017. While the PSA mechanism is discretionary, it is adjusted annually or can be adjusted if the system is 10% under or over-recovered.

Due to lower annual debt service requirements, the city council approved a rate settlement agreement that lowered base rates 6.6% in January 2017 and provided the system with some flexibility to increase rates in the future. The city has indicated it expects to produce a cost-of-service study at least once every five years. It last raised base rates in October 2012 and due to increasing debt service requirements, officials will likely consider a base rate increase in 2022.

Operational management assessment (OMA) – Very strong

We consider the system's power supply and operational assets to be diverse with 18 baseload and intermediate generating units providing the system flexibility. Austin Energy meets energy requirements with a diverse mixture of coal, natural gas, and nuclear power plants, and a growing portfolio of renewable energy resources, primarily wind. The system has plans to retire its coal-fired Fayette Power Project by 2023. Of the city's baseload power, 570 MW comes from the Fayette coal plant, in which Austin and the Lower Colorado River Authority each have a 50% interest in two of the plant's three units. Management expects that added renewable energy resources and increased energy efficiency and demand-side management will enable Austin to divest itself of the Fayette plant, which contributes 75% of the utility's carbon emissions.

Total owned capacity is 2,470 MW, and renewable power purchase agreements add 1,976 MW. The South Texas Project's unit 1 and 2 provide Austin with 400 MW of nuclear capacity. This plant is one of the most cost-efficient, highest-output nuclear facilities in the U.S. The licenses for those units were to expire in 2027 and 2028, but were extended by the Nuclear Regulatory Commission (NRC) for another 20 years. Both the coal and gas-fired facilities have fuel supply contracts designed to minimize market exposure in the near term, although Austin Energy has the ability to implement power supply adjustments that pass through costs to the retail customer.

The system also has among the largest (in terms of capacity) renewable energy portfolios in the country. Austin Energy's renewable energy target has increased to 65% by 2027. The system's carbon emissions targets also call for overall reductions to 20% below 2005 levels by 2020 and management currently plans to retire the Fayette Power Project by 2023. Austin Energy's renewable portfolio represented about 37% of energy in fiscal 2018, up from 23% in fiscal 2015, and officials expect this will continue to rise as it layers in wind and solar capacity.

We consider the system's financial management policies and practices credit supportive, including formal policies regarding transfers, PSAs, financial metric targets, and annually updating its five-year financial projections and CIP.

Financial Risk

Coverage metrics – Strong

Our assessment of coverage reflects the system's historical robust fixed-charge coverage (exceeding 1.5x since fiscal 2016) and our forward-looking view of coverage metrics as annual debt service requirements increase, resulting in coverage metrics ranging between a strong 1.3x and 1.2x from fiscal years 2020 through 2022 before improving to 1.38x in fiscal 2023 following a possible rate increase.

Because of lower annual debt service requirements and continued annual customer growth, fixed-charge coverage improved to a robust 2.1x in fiscal 2018 from about 1.5x in fiscal years 2017 and 2016. S&P Global Ratings' imputed fixed-charge coverage calculation is our internally adjusted coverage metric that imputes certain costs borne by power suppliers. Fixed-charge coverage treats capacity payments to power suppliers as debt service rather than as operating expenses because we view these payments as funding the suppliers' recovery of capital investments in generation assets. Our fixed-charge coverage ratio provides comparability among utilities that own generation resources and those that outsource the power supply function.

Management's five-year projection, which assumes annual customer growth of 1.6%, a rate increase in the last year of the forecast, and debt financing 60% of its CIP, reflects the maintenance of strong financial performance. In addition, policy limits transfers to the general fund to 12% of nonfuel and nondistrict cooling revenue, with a floor of $105 million. For 2018, the amount of the transfer was $109 million, although management forecasts that the transfer will steadily increase to $116 million by 2023.

Liquidity and reserves – Extremely strong

We consider the system's increased total available liquidity position to be extremely strong, including designated contingency, power supply stabilization, and capital reserves, and undrawn taxable CP.

The system maintained $743 million in total available liquidity at the end of fiscal 2018, or an extremely strong 296 days' cash. Financial projections indicate maintaining at least 223 days in total liquidity (excluding CP) through fiscal 2023, while cash funding about 40% of its capital program. Following the series 2019B and 2019C debt issues, officials report $82 million in CP obligations will be outstanding. The city's tax-exempt and taxable CP programs for the combined utility systems (which water, sewer, and electric system revenues secure) total $400 million and $75 million, respectively.

Debt and liabilities – Very strong

Our forward-looking view of the system's debt burden considers management's plans to debt finance about 60% of its $1.5 billion CIP over the next five years. Based on the issuer's financial projections, we believe the system's debt-to-capitalization rate will increase in fiscal 2020 and remain above 52% through fiscal 2023, which we consider very strong for a vertically integrated utility. The system's debt-to-capitalization ratio was a moderate 44% in fiscal 2018. It had $1.4 billion in long-term debt in fiscal 2018, including prior-lien combined system utility debt that the electric system supports.

TIEC 4-4: Provide a copy of any annual reports for Austin Energy issued in the past four years.

ANSWER: Annual reports of Austin Energy's financial performance are included within the annual reports for the City of Austin, which can be found at the following link:

https://financeonline.austintexas.gov/afo/afo_content.cfm?s=4

Prepared by: JO

Sponsored by: Monica Gonzalez

TIEC 4-5: Provide a copy of Austin Energy’s most recent short/long-term electricity sales and peak load forecast.

ANSWER: Austin Energy filed an objection on June 6, 2022 to TIEC 4-5.

Austin Energy filed a Notice of Procedural Guidelines Section C(2) Ruling on June 6, 2022 because the City of Austin Law Department determined that responsive information is considered either confidential competitive information, confidential critical infrastructure information, or confidential customer information which Austin Energy cannot legally disclose.

Prepared by: TPD

Sponsored by: Thomas Brocato

TIEC 4-6: Provide a copy of any assessment conducted by Austin Energy or in Austin Energy's possession of the adequacy of Austin Energy's generation capacity to serve Austin Energy's projected load.

ANSWER: There are no responsive documents. Austin Energy is not a control area, and as a participant in ERCOT, Austin Energy buys all load from ERCOT and sells all generation to ERCOT in the wholesale market. Generation capacity serves as a physical hedge for load to offset market price risk and to meet environmental goals.

Prepared by: SC / ME

Sponsored by: Erika Bierschbach

TIEC 4-7: Provide a schedule showing the hourly loads during the test-year for each of the following customer classes/subgroups:

a. Primary Voltage ≥ 3 MW < 20 MW.

b. Primary Voltage ≥ 3 MW < 20 MW loads directly served from a distribution substation.

c. Primary Voltage ≥ 20 MW.

ANSWER:

a. Please see Attachment TIEC 4-7A.

b. Austin Energy filed a Notice of Procedural Guidelines Section C(2) Ruling on June 6, 2022 because the City of Austin Law Department determined that information responsive to TIEC 4-7(b) is considered either confidential competitive information, confidential critical infrastructure information, or confidential customer information which Austin Energy cannot legally disclose.

c. Please see Attachment TIEC 4-7B.

Attachment TIEC 4-7A
Attachment TIEC 4-7B

Prepared by: AAM

Sponsored by: Brian Murphy

Attachment TIEC 4-7A

(provided in Native Excel Format)

Attachment TIEC 4-7B

(provided in Native Excel Format)

TIEC 4-8: Does Austin Energy have a facilities charge applicable to customers that lease electrical equipment from Austin Energy? If so, provide the rate, terms, and conditions of any such facilities charge.

ANSWER: No.

Prepared by: WS / MM

Sponsored by: Brian Murphy

TIEC 4-9: Does Austin Energy have an O&M charge applicable to customers that contract with Austin Energy for operation, maintenance, and upkeep of the customer's electrical equipment? If so, provide the rate, terms, and conditions of any such O&M charge.

ANSWER: No.

Prepared by: WS / MM

Sponsored by: Brian Murphy

TIEC 4-10: Provide a schedule showing each of the following metrics for Austin Energy over the past five years and projected for the next five years:

a. Debt service coverage ratio.

b. City transfer.

c. The amount of cash available to fund construction.

<u>ANSWER:</u> The following table shows the requested metrics for the past five years:

	2017	2018	2019	2020	2021
Debit Service Coverage	3.38	3.56	4.00	2.13	1.89
General Fund Transfer $ in millions	$ 108	$ 109	$ 110	$ 111	$ 114
CIP Cash Transfer $ in millions	$ 63	$ 59	$ 67	$ 80	$ 143

Austin Energy filed an objection on June 6, 2022 to TIEC 4-5 to the extent it requests a schedule showing Austin Energy's debt service coverage ratio, city transfer, and the amount of cash available to fund construction projected for the next five years.

Prepared by: MG / AY

Sponsored by: Monica Gonzalez

TIEC 4-11: Referring to Schedule C-3:

a. Explain how Austin Energy determines the total cash flow required under its cash flow methodology.

b. Explain how Austin Energy determines the amount of test year cash contribution to construction.

ANSWER:

a. As described in Section 4.2.7 of the Base Rate Filing Package, Austin Energy:

- Evaluates the cash needs of the utility beyond the "Total Expenses (before Return)" as enumerated on Schedule A, which, in this case, includes debt service, non-nuclear decommissioning reserve funding, the general fund transfer, and internally generated funds for construction;
- Recognizes the sources of funding available from depreciation and amortization, interest and dividend income, and contributions in aid of construction; and
- The difference is the amount of cash flow return required.

b. As shown on Work Paper C-3.3.1, the amount of internally generated funds for construction (IGFC) is based on a three-year average of actual total capital spending (with certain projects removed[1]), a three-year average of contributions in aid of construction (CIAC), and the recognition that 50% of the non-CIAC portion of capital spending should be funded from cash, consistent with Austin Energy's financial policies. It should be noted that the total IGFC includes the amount that is expected to be funded from CIAC and then the CIAC is an offset to IGFC, as shown on Schedule C-3.

Prepared by: GR

Sponsored by: Grant Rabon

[1] Removed are: Non-electric plant, Nacogdoches Generating Facility, and new Austin Energy headquarters.