

Capital Improvement Plan

Major Capital Projects

Field Service Center

FY 2022 - 2024

Acquire a new service center, warehouse, and laydown yard that will include an approximately 25-acre tract, 155,000 gross square feet building with 15,000 square feet of office space, 8-acres of laydown yard

Transmission Circuit Rebuild

FY 2021 – 2027

Transmission system replacement involving circuit rebuild and a partial circuit reroute

Transmission Circuit Relocation

FY 2022 - 2024

Relocating a portion of transmission line near the Austin Bergstrom International Airport (AUS) in order to make room for the TxDOT expansion of SH 71

Distribution System Resilience Program

FY 2021 - 2027

Incorporates all facets of overhead distribution system maintenance, upgrade, and resilience through grid technology enhancements

Kramer Lane Substation

FY 2022 - 2024

The new substation is needed to provide capacity to support new developments in the rapidly growing North MoPac corridor

East Village Substation

FY 2020 - 2024

Construct a new substation to provide capacity and support to the growing development in Northeast Austin



Forecasted Key Financial Metrics Summary

	Minimum or Target	Forecast FY 2023	Forecast FY 2024	Forecast FY 2025	Forecast FY 2026	Forecast FY 2027	Forecast FY 2028
Operating Margin	10%	9%	13%	13%	13%	14%	13%
Net Income (Millions of \$)	> \$0	\$6.3	\$32.2	\$25.9	\$2.9	\$26.2	\$12.2
Quick Ratio	> 1.5	1.4	1.4	1.4	1.4	1.5	1.5
Days Cash on Hand	150 Days	142 Days	150 Days	155 Days	156 Days	158 Days	158 Days
Debt Service Coverage	> 2.0	2.1	2.3	2.1	2.0	2.1	2.1
Debt to Capital	< 50%	55%	54%	54%	54%	53%	52%



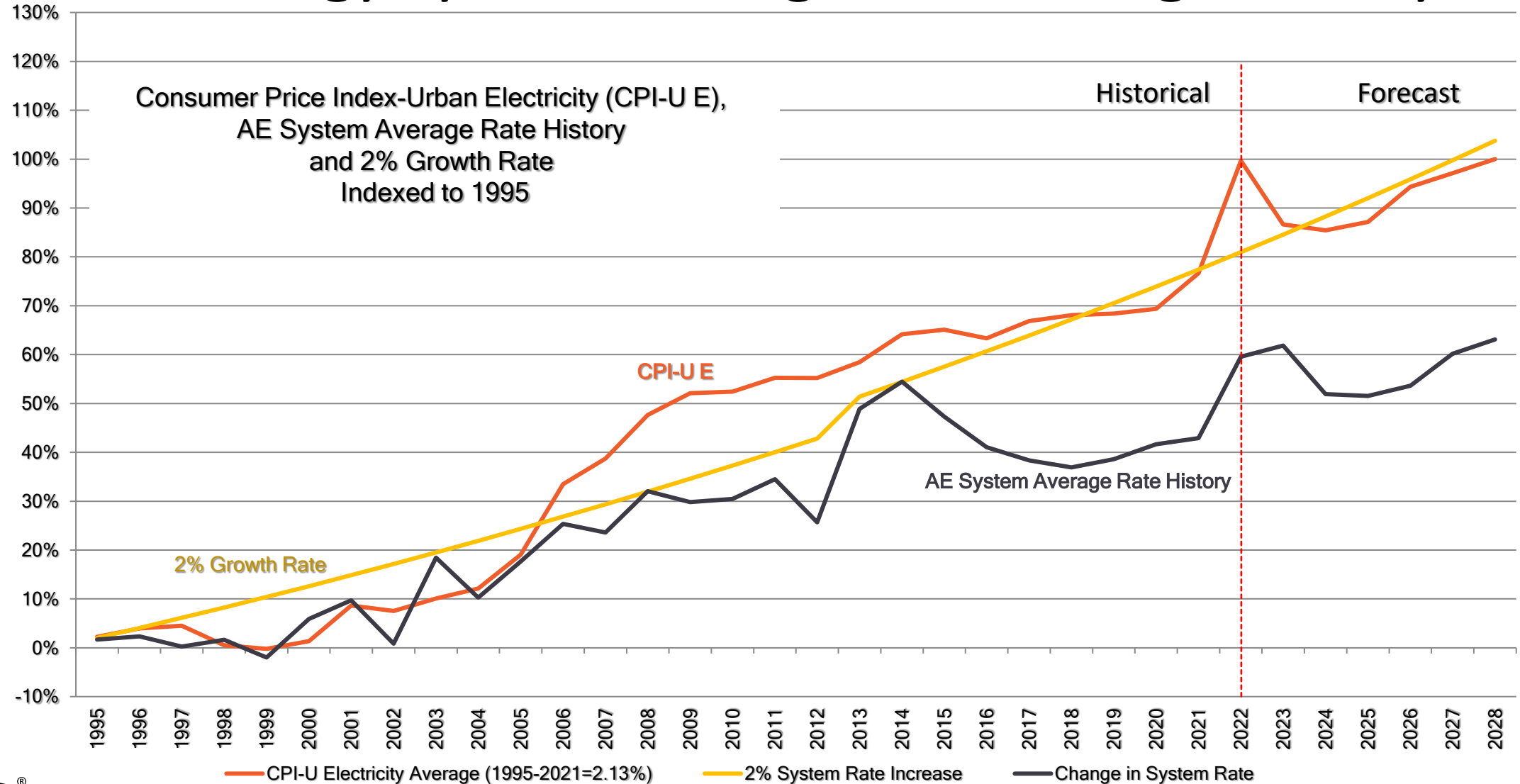
Retail Revenue Summary

	Use of Funds	GFT Applied	Basis for Rate	When Adjusted	Last Adjustment	% of Residential Bill ⁽¹⁾
Base Rates	Includes Customer, Energy and Demand Charges: Recovers O&M, G&A and debt service for generation/power supply, distribution, customer services and corporate services	Yes	Cost of Service for Test Year	Rate review performed at least every 5-years	Effective March 2023, increased 4.6%	50%
Power Supply Adjustment	Recovers ERCOT settlements, fuel, hedging, PPA's, GreenChoice and VOS	No	Actual Expenses	Annually during Budget with +/- 5% Admin. Authority	Nov 2022, increased 52.0%	35%
Regulatory Charge	Recovers ERCOT transmission and related administrative charges/credits and NERC/TRE regulatory fees	Yes	Actual Expenses	Annually during Budget	November 2022, increased 23.5%	11%
Community Benefit Charge: Service Area Lighting	Recovers cost of street lighting, operations of traffic signals and certain Park lighting	Yes	Actual Expenses	Annually during Budget	Nov 2018, reduced 10.1%	1%
Community Benefit Charge: Energy Efficiency Services	Funds the cost of energy efficiency rebates and related costs, weatherization, solar incentives, and the Green Building program	Yes	Actual Expenses	Annually during Budget	Nov 2020, reduced 29.0%	2%
Community Benefit Charge: Customer Assistance Program	Funds projects that help qualifying low-income and other disadvantaged residential customers through bill discounts, payment assistance (Plus 1), arrearage management, and weatherization services	Yes	Actual Expenses	Annually during Budget	Nov 2018, reduced 10.5%	1%

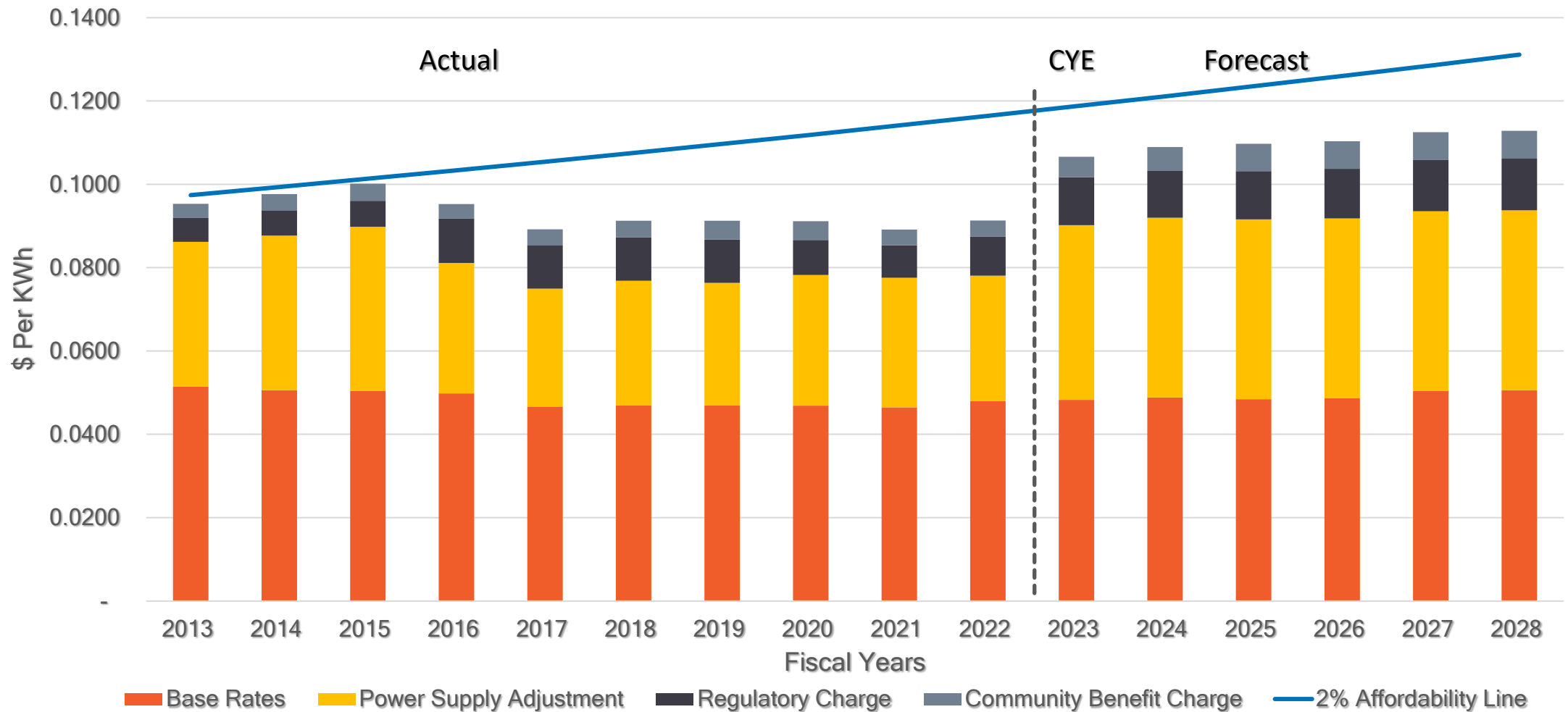


⁽¹⁾ City of Austin Residential Non-CAP Customer using 860 KWh

Austin Energy System Average Rate Change History

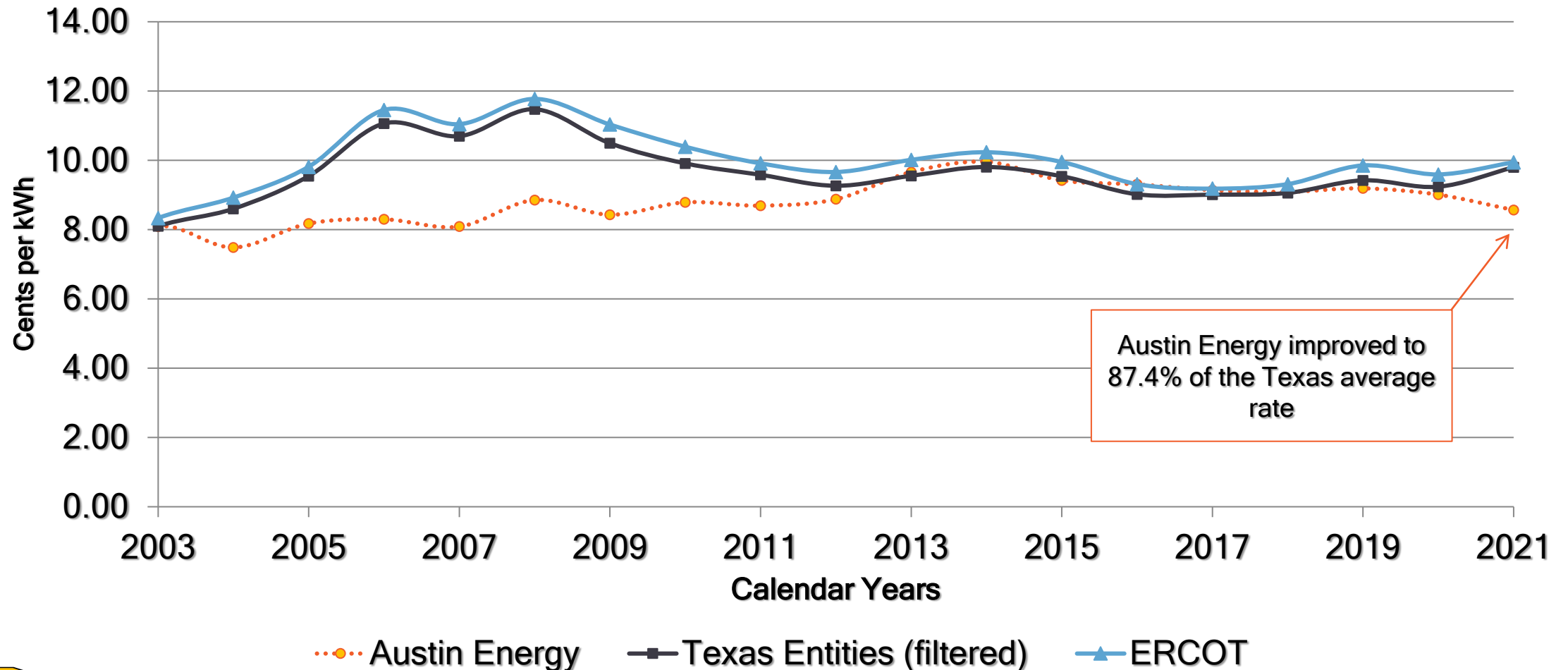


Affordability Goal: Affordability Metric



Affordability Goal: Competitiveness Metric

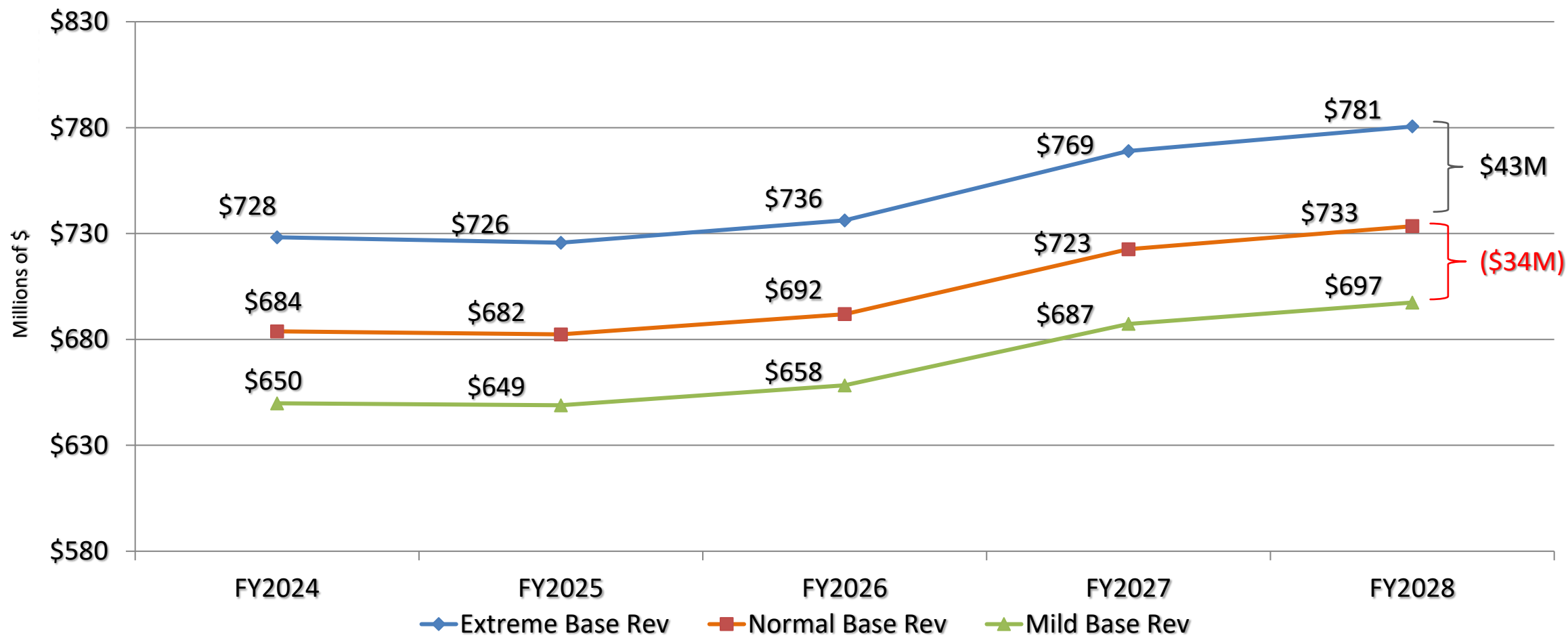
System Average Rates



Source: U.S. Energy Information Administration Form 861

Weather Impacts Base Revenue

Average ~\$77 Million Variance Over the Forecast



FY 2024 Forecast Summary

Challenges and Opportunities

- Weather normalized average consumption continues to decline
- Customer growth drives the increase in energy sales
- Increasing debt service due to expanded CIP Plan to meet customer growth
- Two recent credit downgrades due to reduced liquidity and debt service coverage
- Approved base rate increase stabilizes Austin Energy's financial position
- Improving cash position due to rate increase and recovery of PSA and Regulatory
- Restricted reserves will be fully funded by FY 2027
- Forecasted rates remain well below the 2% affordability metric



Austin Energy Fiscal Year 2024 Forecast and Budget Planning

Budget Planning



Austin Energy FY 2024 Budget Planning

- Austin Energy's \$1.7B operating budget comprises costs that cannot be significantly changed in the short run
- Program costs are inputs to the budget (*e.g. Resource Plan and Customer Assistance Program*)
- FY 2024 will be the first full year with the base rate update (rates effective March 1, 2023)
- Power supply costs and the Power Supply Adjustment tariff structure present the greatest volatility in the budget
- Capital spending focuses on substations, transmission and the field service center



Austin Energy Financial Reports

Austin Energy is required to report its financial performance in two separate and distinct formats, the Fund Summary and Financial Statements. These two reports will not necessarily match and are used for different purposes.

Fund Summary ⁽¹⁾

- Reports the approved budget and actual revenues and expenditures
- Funds are structured to reflect the operating activities of the utility
- Represents cash received and payments expected to be paid during the fiscal year
- Encumbrances recognized in the year committed
- Relied upon by City of Austin stakeholders to ensure compliance with the approved budget

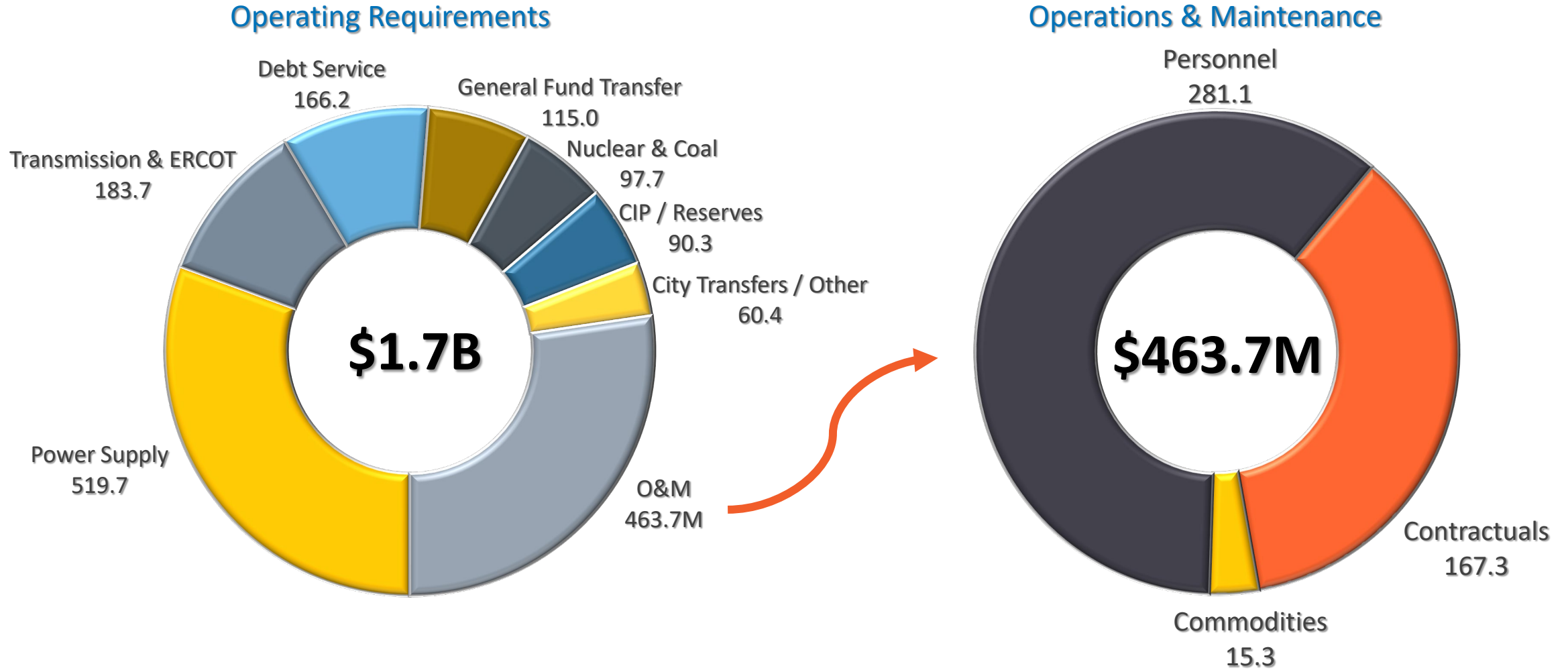
GAAP Financial Statements ⁽²⁾

- Reports the Statement of Revenues, Expenses and Fund Net Position, Statement of Net Position, and Statement of Cash Flows (Annual Comprehensive Financial Report)
- Used to account for services for which the utility charges its customers
- Must comply with Generally Accepted Accounting Principles (GAAP) and subject to an annual audit
- Revenue is recognized when earned and expenses are recorded when a liability is incurred
- Includes non-cash items such as depreciation and amortization
- Relied upon by City of Austin stakeholders, joint project partners, credit rating agencies, external bondholders, and vendors to gauge financial health and integrity



(1) (2) Provided in separate handout

Resources that Austin Energy Uses for its Operations FY 2023



Non-Discretionary Requirements FY 2023

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

Component of the Non-Discretionary Requirements	Fiscal Year 2023 Amended Amount
Transmission & ERCOT: Austin Energy purchases the power it needs from ERCOT to serve its customers. This represents the cost to transmit that power to the Austin Energy load zone which is equivalent to 4% of ERCOT's total cost for transmission.	\$183.7M
Debt Service: Austin Energy has approximately \$1.9 Billion in commercial paper and bonds. This represents the principal and interest payment on that debt.	\$166.1M
General Fund Transfer: By policy, Austin Energy transfers 11.6% of its non-power supply revenue less District Cooling revenue (3-year average is used) to the City's General Fund.	\$115.0M
Internal Transfers/Capital Spending/Reserves: By policy, Austin Energy funds approximately 35-60% of capital projects with cash. Austin Energy also funds and maintains certain Reserves with this cash. This represents the transfer of cash to those accounts.	\$90.3M
Joint Projects: Austin Energy partners with CPS Energy and NRG Energy at South Texas Nuclear Project and the Lower Colorado River Authority at Fayette Power Plant. This represents Austin Energy's share of the operating cost for those joint projects.	\$97.7M
City Services: Austin Energy uses the services of other City departments such as fleets, technology, legal, City Manager's Office and City Council. This represents Austin Energy's direct and allocated costs from the City.	\$49.3M
Economic Development Fund Transfer: Austin Energy, Austin Water and Austin Resource Recovery provide funding for the City's Economic Development Fund. This represents Austin Energy's allocation of costs from the City.	\$9.8M
Total Non-Discretionary Requirements	\$711.9M



Power Supply Cost FY 2023

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

Components of Power Supply Cost	Fiscal Year 2023 Forecasted Amount
Estimated cost of power purchased from ERCOT to serve retail customers (retail market). The amount of power required to serve our customers is fairly predictable, but the cost is market based and can fluctuate significantly. Austin Energy hedges energy prices as a way to protect the utility from price spikes.	\$385.2M
Estimated cost of the fuel and Purchase Power Agreements used to generate power (wholesale market). Fuel cost are based upon competitive market pricing and Purchase Power Agreements are based on contract rates. Actual cost can fluctuate significantly.	\$363.5M
ERCOT cost associated with serving Austin Energy's load (retail market). Austin Energy incurs certain costs associated with its need to serve retail customers.	\$6.3M
Less: Estimated revenue earned by selling power to ERCOT from our generation facilities and our renewable energy Purchase Power Agreements (wholesale market). The price is based upon competitive market pricing. Actual revenues can fluctuate significantly.	(\$346.3M)
Budget amendment due to actuals exceeding forecasted amounts in May to September 2022	\$111.0M
Net Power Supply Cost	\$519.7M



Operations & Maintenance FY 2023

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

Operations & Maintenance Component	Fiscal Year 2023 Amended Amount
Personnel: Austin Energy is authorized to hire 1,897 positions. An assumption is made that 10% of the positions will be vacant at any one time, reducing the cost of salaries, payroll taxes, and benefits.	\$230.6M
Contractuals: Austin Energy requires support of contractors, consultants and support services to provide for safe, efficient and clean electricity. Austin Energy also requires support to meet certain policy requirements, such as energy efficiency and demand reduction. This represents expenses and payments for those contractual items. <i>(Discussed in more detail later)</i>	\$167.3M
Commodities: Austin Energy requires software, tools, chemicals, safety equipment, replacement materials and parts to operate and maintain the utility. This represents expenses and payments for those commodities. <i>(Discussed in more detail later)</i>	\$15.3M
Total Operations & Maintenance Requirements	\$463.7M



Contractuals: Top Ten Items FY 2023

Austin Energy's Contractuals budget for 2023 is \$292.3M. It is offset with interdepartmental reimbursements and refunds for a net total of \$167.3M. The top-ten items within the Contractuals budget represent \$131.4M, or 45% of the entire Contractuals budget.

Total Value in Contractual Expense Category for Fiscal Year 2023	\$292.3M
Maintenance - Computer Hardware/Software	\$27.1M
Conservation and Solar Rebates	\$26.4M
Line Clearance Services, Distribution & Transmission	\$20.0M
Information Technology Contract Employees	\$14.0M
Information Technology Consulting Services	\$12.0M
Engineering Services	\$7.4M
Temporary Contract Employees in Customer Care	\$7.3M
Maintenance - General Plant Equipment	\$5.9M
Liability Insurance Premiums on Assets	\$5.7M
Building Leasing	\$5.6M
Total Value of Top Ten Items in Contractuals	\$131.4M



Commodities: Top Ten Items FY 2023

Austin Energy's Commodities budget for 2023 is \$15.3M. The top-ten items within the Commodities budget represent \$9.3M, or 61% of the entire Commodities budget.

Total Value in Commodities Expense Category for Fiscal Year 2023	\$15.3M
Inventory Purchase	\$2.1M
Chemicals	\$1.9M
Small Tools/Minor Equipment	\$1.4M
Software	\$1.3M
Minor Computer Hardware	\$0.7M
Clothing Materials	\$0.7M
Safety Equipment	\$0.7M
Meters	\$0.5M
Educational/Promotional Material	\$0.4M
Electrical Conductors - Hardware	\$0.4M
Total Value of Top Ten Items in Commodities	\$9.3M





**Customer Driven.
Community Focused.**



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