



MEMORANDUM

TO: Mayor and Council Members

FROM: Bob Kahn, General Manager, Austin Energy. *BK*

DATE: February 21, 2024

SUBJECT: **Monthly Update regarding Administrative Authority to Adjust Austin Energy's Power Supply Adjustment Rate**

Austin Energy is implementing a 5% increase to the Power Supply Adjustment (PSA) rate, effective March 1, 2024. For the typical residential customer, the impact of this 5% PSA increase will be approximately \$2 per month. The increase is required to continue making progress on recovering power supply costs in order to position Austin Energy for an anticipated PSA under-recovery during the summer months. We also want to provide you with a status update on the PSA under-recovery balance.

Background

The PSA is a dollar-for-dollar cost pass-through to electric utility customers for the recovery and crediting of Electric Reliability Council of Texas (ERCOT) settlements, fuel costs, and net purchased power costs. The PSA is assessed on all electric customers based on the actual number of kWh consumed. Weather and ERCOT market prices impact the amount of revenue and, therefore, the collection/return of any under/over balance. There is no gain or general fund transfer on PSA charges.

Austin Energy has administrative authority to adjust the PSA in increments not to exceed plus or minus five percent. This seeks to manage the elimination of any over-recovery or under-recovery more smoothly than could be achieved by an annual adjustment. Austin Energy notifies the City Council of the changes and provides monthly written reports on the status of the PSA and any over-recovery or under-recovery. Austin Energy also posts a notice of the adjustment on its website and shows it on customers' bills.

Administrative Adjustment of the PSA

On November 1, 2022, after experiencing extraordinary wholesale power costs, Austin Energy had an under-recovered PSA balance of \$102 million. Since then, Austin Energy has adjusted the PSA rate to recover this balance over a three-year period. Meanwhile, wholesale power costs have continued to rise. The current under-recovered balance that remains is \$61 million as of January 31, 2024.

In addition to upward pressure on overall wholesale power market prices, Austin Energy costs are driven by transmission congestion related to import limitations, renewable generation curtailments, and a lack of sufficient power generation capacity within the Austin Energy load zone.

For the month of January 2024, power supply costs were over-recovered by approximately \$3 million, with the balance of the PSA improving from a \$64 million under-recovery to a \$61 million under-recovery. An over-recovery for the month was anticipated and necessary, along with projected over-recoveries over the next several months, in order to be positioned for an expected summer under-recovery. However, the January over-recovery was not sufficient to stay on-track.

Austin Energy must look at historical PSA results and also project forward to plan for the seasonality of costs. Market prices generally moderate in the fall through the early spring, before increasing again in the late spring and summer. Over the last two summers, the PSA has under-recovered costs by approximately \$80 million to \$100 million, and Austin Energy must be positioned for a similar outcome this coming summer. Therefore, Austin Energy is using its administrative authority to increase the PSA in anticipation of an expected summer under-recovery.

To be on a path for full PSA recovery by November 2025, Austin Energy anticipates the need to be over-recovered by the start of summer 2024. For example, if the PSA balance can improve to a \$25 million over-recovery going into the summer, a \$75 million summer under-recovery would result in a \$50 million under-recovery on November 1, 2024, with one year left to recover the negative balance. The utility will continue to make small, incremental PSA changes as needed to be on schedule.

The following table indicates the PSA rates by voltage level effective March 1, 2024.

Voltage Level	Voltage Level Adjustment Factor	Existing PSA Rate (\$/kWh)	Administrative Adjustment (\$/kWh)
<i>System Average</i>	1.0000	\$0.04567	\$0.00720
<i>Secondary</i>	1.0067	\$0.04598	\$0.00724
<i>Primary</i>	0.9791	\$0.04472	\$0.00705
<i>Transmission</i>	0.9669	\$0.04416	\$0.00696

If you have any questions, please contact me via email at bob.kahn@austinenergy.com or by phone at 512-322-6002.

cc: Jesús Garza, Interim City Manager
 Robert Goode, Assistant City Manager
 Ed Van Eenoo, Chief Financial Officer, City of Austin