



Mission: *Deliver clean, affordable, reliable energy and excellent customer service.*

Austin Energy

Quarterly Briefing
November 3, 2011



Agenda

- 1 Financial Performance and Key Indicators**
- 2 Rate Review Status**
- 3 Generation Plan Update**



Extreme Weather Impacts Revenue

February 2-4, 2011

As of September 30, 2011 - 90 Days of 100+ Degrees

July 17 to August 12 – 27 consecutive days of 100+ Degrees

1925 Record - 69 Days of 100 or Above Degrees



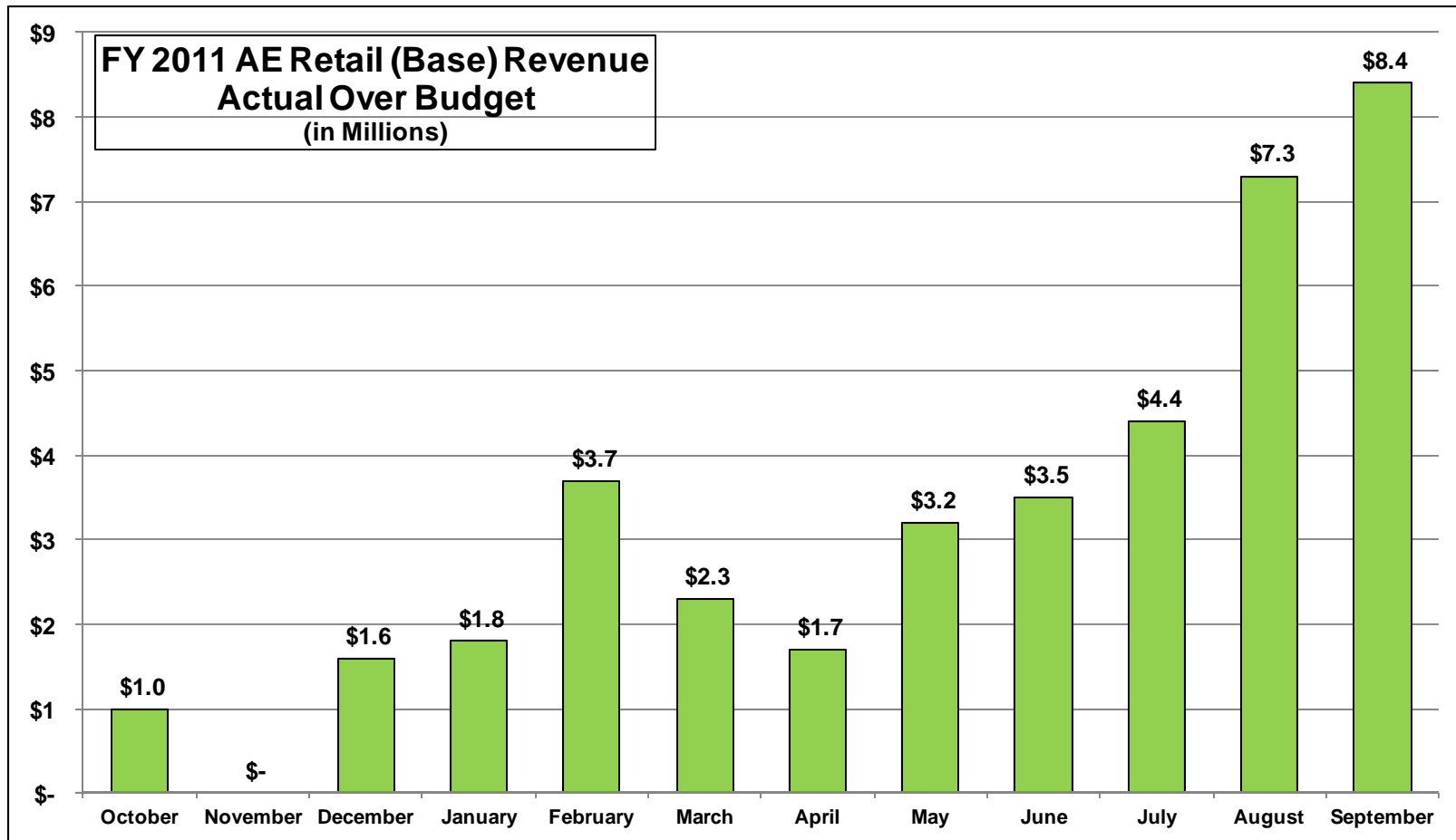
wed	thu	fri	sat	sun	mon	tue	wed	thu	fri
aug 03	aug 04	aug 05	aug 06	aug 07	aug 08	aug 09	aug 10	aug 11	aug 12
M Sunny	Sunny	M Sunny	Sunny	Sunny	Sunny	Sunny	Sunny	Sunny	Sunny
107° 78°	107° 78°	107° 78°	106° 77°	105° 78°	105° 77°	105° 77°	105° 78°	104° 77°	104° 78°

Financial Performance and Key Indicators

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Retail (Base) Revenue Exceeds Budget

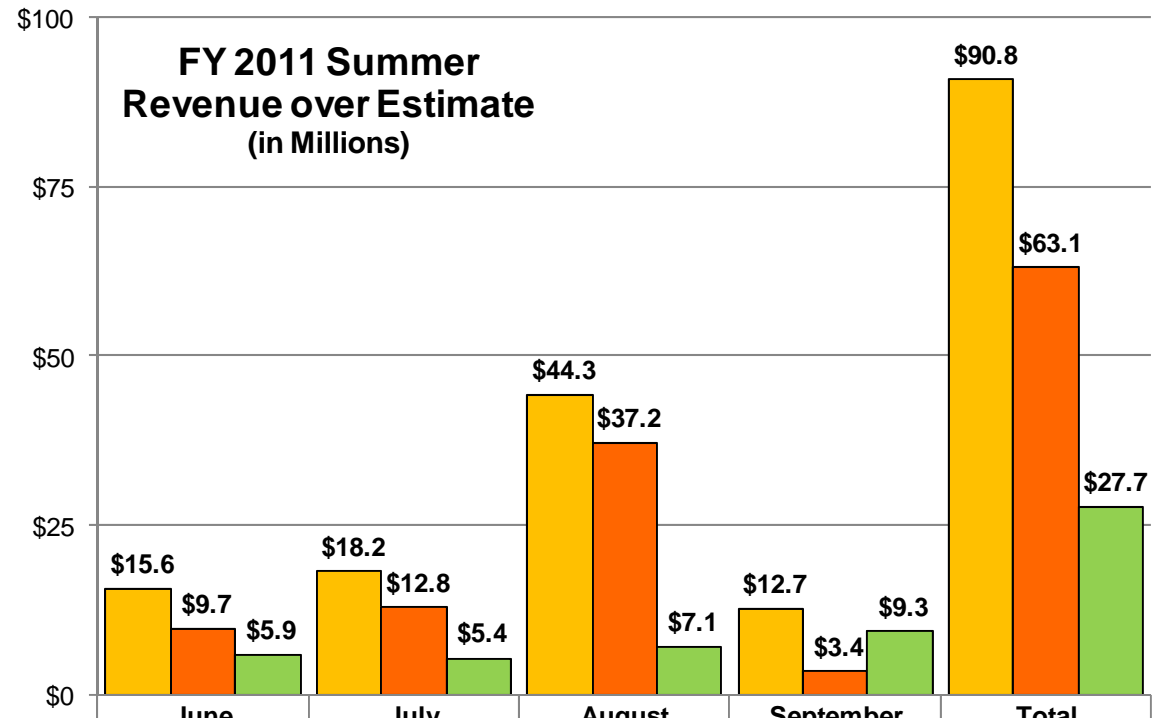


- Actual exceeded budget every month except November
- Primarily due to extreme weather conditions
- \$38.9 million additional retail revenue





Retail Revenue Exceeds Estimate



	June	July	August	September	Total
Actual Sales over Estimate	\$15.6	\$18.2	\$44.3	\$12.7	\$90.8
Additional Power Supply Revenue/Cost over Estimate	\$9.7	\$12.8	\$37.2	\$3.4	\$63.1
Net Retail Sales over Estimate	\$5.9	\$5.4	\$7.1	\$9.3	\$27.7

- Summer revenue less power supply cost reduced budget deficiency \$28 M
- August & September - \$57.0 M additional revenue less increased power supply cost reduced budget deficiency \$16.4 M
- August unplanned outages for base load generation increased cost





2011 Budget & Revised Estimate

(\$ millions)	Amended Budget 2010-11	Estimated 2010-11 *	Revised Estimated 2010-11	Difference Estimate to Revised Estimate
Beginning Balance	\$169.4	\$152.8	\$152.8	\$0
Base and Other Revenue	740.1	750.2	779.1	28.9
Fuel Revenue	490.2	390.2	469.4	79.2
Total Available Funds	\$1,230.3	\$1,140.4	\$1,248.5	\$108.1
Fuel Cost	490.2	390.2	469.4	79.2
Non-Fuel Operating Expense	444.5	442.0	442.0	0.0
Debt Service	169.4	167.5	165.5	(2.0)
Transfers	178.1	178.1	178.1	0.0
Total Requirements	\$1,282.2	\$1,177.8	\$1,253.6	\$77.2
Excess(Deficiency)	(51.9)	(37.4)	(6.5)	30.9
Ending Balance	\$117.5	\$115.4	\$146.3	\$30.9

* Estimate for Fiscal Year (FY) 2011 in FY 2012 Proposed Budget

- Performance \$30.9 million better than expected; results in deficiency of **\$(6.5)** million rather than previous estimate of **\$(37.4)** million
- Deficiency of **\$(75.0)** million in FY 2012 without rate increase





Financial Policies

- Originally adopted by City Council in 1989
- Reviewed annually for compliance
- Changes approved by Council in budget process
- Financial Policies include targets to achieve credit ratings and key industry benchmarks
 - Bondholder Protections (Covenants)
 - Debt
 - Liquidity and Reserves





Financial Policies – Debt

Last Revised	Policy #	Policy
2002 Policy began in 1989.	14	Finance capital projects through combination of cash or pay-as-you-go financing (equity contributions from current revenues) and debt. Ratio between 35% and 60% equity contribution is desirable.

Moody’s Investor’s Service “U.S. Public Power Electric Utility Medians”, April 7, 2011

“Over the past five years, leverage levels for public power electric utility have also been relatively stable, as measured by the utility’s debt ratio that has hovered around 55%.”

Largest 35 Municipally-owned Electric Utilities	2005	2006	2007	2008	2009
Median Debt Ratios (%)	55.1	55.0	54.3	55.3	52.3
Austin Energy Debt Ratio (%)	51.3	49.1	47.6	47.8	48.1

NOTE: Austin Energy’s Debt Ratio (%) was 49.5 for FY 2010.





Financial Policies – Liquidity

**Key Indicator
Liquidity is key to
Credit Quality**

Last Revised	Policy #	Policy
1989	11	Maintain operating cash of 45 days of budgeted operations and maintenance expense, less fuel
2012 Policy began in 1997.	16	<p>Strategic Reserve Fund</p> <ul style="list-style-type: none">• \$137.6 million current balance<ul style="list-style-type: none">○ Emergency Reserve – minimum 60 days.○ Contingency Reserve – maximum 60 days. Replenish within two years.• Funds over 120 days in Rate Stabilization Reserve to stabilize rates in future periods. Currently not funded.<ul style="list-style-type: none">○ Deferring or minimizing future rate increases, new generation capacity construction and acquisition costs and/or balancing of annual power supply cost○ Maximum of 90 days net power supply costs





Days Cash on Hand (DCOH)

**Key Indicator
Liquidity is key to
Credit Quality**

- **Fitch Ratings “U.S. PUBLIC POWER Peer Study”, June 2011**
 - Days Cash on Hand Median for AA Rating for 2010 of 118 days
 - Austin Energy at 55 days for 2010, down from 91 days for 2008
- **Moody’s Investor’s Service “U.S. Public Power Electric Utilities Rating Methodology”, April 2008**
 - Days Cash on Hand Metric – trend stable at about 100-115 days
 - Aaa – Greater than 125 days
 - Aa – Greater than 125 days
 - A – Between 125 days & 60 days
 - Baa – Less than 60 days



A photograph of the Austin skyline at night, featuring several illuminated skyscrapers and a bridge over water. The sky is dark blue, and a full moon is visible on the right side. The lights from the buildings and bridge are reflected in the water below.

Austin has changed in the 17 years
since our last rate review.

Our commitment to our customers remains unchanged.

Rate Review Status

Mission: *Deliver clean, affordable, reliable energy and excellent customer service.*



Completed work on Rate Review

Date	Task
August 26, 2010	Retained utility consultants to assist in rate review (R.W. Beck, Inc. & J. Stowe & Co., LLC)
January 2011	Preliminary Revenue Requirements & Cost of Service
January – June 2011	Public Involvement Committee Process
September 1, 2011	Rate Analysis and Recommendations Report including Proposed Revenue Requirement, Cost of Service and Rate Redesign
September 1 – October 17, 2011	Electric Utility Commission (EUC) Rate Review Process and Public Hearings <ul style="list-style-type: none">• September 1 - special meeting at Town Lake Center• September 19 - regular meeting• October 3 - special meeting at Town Lake Center• October 17 - regular meeting• October 20 - special meeting at Town Lake Center
November 2011	Staff finalizes recommendation



Rate Review website www.rates.austinenergy.com



Council Rate Review – Proposed Timeline

Date	Task
2011	
December 13 or 14	Council Work Session <ul style="list-style-type: none">• Austin Energy’s Rate Recommendations Report and Rate Benchmarking• Independent Residential Rate Advisor’s Final Report• Process for Request for Information (RFIs)• Website updated with Reports, Briefing and Process
December 15	Council Action <ul style="list-style-type: none">• Set a public hearing on electric rates for January 12, 2012
2012	
January 3-17	Time period for accepting Requests for Information (RFIs)
January 12	Council Action <ul style="list-style-type: none">• Conduct a public hearing on electric rates• Set a public hearing on electric rates for January 26
January 26	AE Quarterly Briefing for Council Council Action <ul style="list-style-type: none">• Conduct a public hearing on electric rates• Approve new electric rates and related budget amendment to amend FY2012 Operating Budget and Fee Schedule
April	New rates effective with first billing cycle in April



Rate Review website www.rates.austinenergy.com



Public Feedback – EUC Rate Review Meetings

- EUC held 5 public meetings
 - September 1 and 19; October 3, 7 and 20
- About 60 public attendees at each meeting
- 10 to 20 speakers in Citizen Communications each meeting
- 33 Speakers on Panels representing various customers
 - Residential
 - Low Income Residential
 - Solar Residential
 - Independent School Districts
 - Worship
 - Small Commercial
 - Large Commercial
 - Industrial



EUC = Electric Utility Commission



Requests for Information (RFIs)

- RFIs similar to budget question process
- Questions, comments, and requests for documents submitted via email ratereview@austinenergy.com
- Current status as of October 3, 2011
 - 3,335 visits to rate website (January 1 – October 24)
 - 210 RFIs received from September 1 – October 3
 - 79 from Electric Utility Commissioners
 - 131 from the public
 - RFIs with responses posted at www.rates.austinenergy.com





Independent Residential Rate Advisor

Review of Rate Design and Revenue Requirements

- Concur with AE
 - Customer service charges
 - Fixed electric delivery charges
 - 5-tier rate structure
 - Community benefit charges
 - Regulatory charges
 - AE's recommended rate option (Option A)
- Recommend change
 - Production Cost Allocation Method (Prefer BIP vs. AED)
 - \$1/month Community Assistance Program Charge on residential bills
 - Electric delivery charge split into fixed and variable
 - Continue fuel and energy cost recovery as separate bill item
 - Continue current GreenChoice less complex tariff

ResidentialAdvisorRateReview@gmail.com

BIP = Base load Intermediate Peaking. AED = Average and Excess Demand

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Rate Review Policy Goals & Metrics

Policy Goals	Metrics
Achieve Revenue Requirement	<ul style="list-style-type: none"> Revenues sufficient to fund core functions and strategic objectives.
Align with Cost of Service (minimize subsidies across customer classes)	<ul style="list-style-type: none"> No customer class pays greater than 105% or less than 95% of its cost of service.
Provide Affordable Energy (mitigate impacts within customer classes)	<ul style="list-style-type: none"> No residential customer electric bill below 1,500 kWh to increase by more than \$20 per month on average. Transition non-demand secondary commercial customers to demand rates.
Affordability Forecast Goal	<ul style="list-style-type: none"> System average rate increases of no more than 2% annually, after implementation of new rates and rate design.
Rate Benchmarking	<ul style="list-style-type: none"> Customer bills within the lowest 50% of comparable Texas utilities.
Customer Assistance Program	<ul style="list-style-type: none"> Increase funding by at least 100 percent to assist more customers. Provide a Customer Assistance Program discount.
Achieve Long-Term Financial Stability	<ul style="list-style-type: none"> New rate design ensures utility's long-term financial strength and is in compliance with Financial Policies. Improve recovery of Customer and Distribution fixed costs through fixed charge collection to at least 60%. Maintains or improves credit ratings.
Maintain Renewable Energy Program Excellence (GreenChoice® and Solar)	<ul style="list-style-type: none"> Rate redesign retains national leadership position of GreenChoice®. Continue solar incentives coupled with net metering rate redesign.



Wind Generation - Penascal Wind Farm, Texas, USA



Generation Plan Update

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Generation Plan Update

Resource, Generation & Climate Protection Plan

- Plan to ensure operations reduce greenhouse gas emissions as required by Austin's Climate Protection Plan
- Initially adopted April 2010 and approved with an Affordability Goal on February 17, 2011
- Review annually and report on performance against goals
- Reassess Plan every two years
- Update Plan and report to the public in Fall 2012





Wind Acquisitions – 491 Megawatts (MW)

Generator	MW	# Turbines	Term	Online	Annual Cost	Total Contract Amount	Location (Project Name)	Option to Purchase at Future Date
Duke Energy Generation Services	200	84	Up to 25 years	Dec-12	\$ 27,000,000	\$ 675,000,000	Willacy County near Harlingen, TX (Los Vientos)	Yes
MAP Royalty Inc.	91	57	Up to 25 years	Dec-12	\$ 15,000,000	\$ 375,000,000	Webb County, TX. (Whitetail)	Yes
Iberdrola Renewables, Inc.	200	84	Up to 25 years	Dec-12	\$ 29,000,000	\$ 725,000,000	Kenedy County near Sarita, TX (Penascal III)	Potential
Total	491	225			\$ 71,000,000	\$1,775,000,000		

MW = Megawatt. MWh = Megawatt hour.

Pricing: Non-escalating fixed price between \$35 and \$45 per megawatt-hour of energy produced, quantity will vary with actual availability of wind resources.

- Purchase Power Agreements approved September 2011
 - Recent wind contracts from 3.5 to 4.5 cents per kilowatt hour
- South Texas or Coastal compared to West Texas wind
 - More consistent production over the year
 - More production during on-peak hours
 - Better transmission access





Solar Acquisitions – About 36 Megawatts (MW)

- Consumer Solar Installations
 - 1,000+ residential and commercial systems with total installed capacity about 5 MW
 - Residential Rebate – capacity rebates (dollars per installed watt of generating capacity)
 - Commercial – energy based incentives (cents per kilowatt hour of solar energy produced)
- Public Facilities (Municipal & School) about 1 MW
- Utility-Scale Solar
 - 30 MW Webberville Project online December 2011

Capacity goal of 200 MW by 2020





Solar Goal – 200 MW by 2020

Strategy and timing

- Evaluate Webberville 30 MW solar project once operational
- Competitive Renewable Energy Zone (CREZ) transmission grid build-out complete in 2013
- Federal tax credits for solar expire 2015
- Current solar pricing under 10 cents per kilowatt hour is higher than other renewable energy
 - Recent wind contracts from 3.5 to 4.5 cents per kilowatt hour
- Report on long term plan to reach 200 MW solar capacity goal in November 2011





Generation Plan Goals

Year	Coal & Nuclear	Gas	Biomass	Wind	Solar	Total MW	Renewable Portfolio
2009	1,029	1,444	12	439	1	2,925	10%
2010		100			30	130	10%
2011				(77)* 200		123	15%
2012			100			100	17%
2013				150		150	25%
2014					30	30	25%
2015		200		100		300	28%
2016			50		20	70	30%
2017				(126)* 200	30	104	33%
2018					20	20	32%
2019					30	30	32%
2020				115	40	155	35%
TOTAL	1,029	1,744	162	1,001	201	4,137	

Generation Plan Goals approved by Council February 17, 2011.

* Contract expires.

Generation Plan Actual

Year	Coal & Nuclear	Gas	Biomass	Wind	Solar	Total MW	Renewable Portfolio
2009	1,029	1,444	12	439	1	2,925	10%
2010		100			3	103	10%
2011				(77)* 277	32	232	11%
2012			100			100	19%
2013				(277)* 491		214	30%
2014							
2015							
2016							
2017				(126)*		(126)	
2018							
2019							
2020							
TOTAL	1,029	1,544	112	727	36	3,448	

Generation Plan Actual updated for known contracts through September 2011. * Contract expires.



- Report on long term plan to reach 200 MW solar capacity goal in November 2011
- Update Generation Plan and report to the public in Fall 2012



Questions