

Austin Energy 2010 Annual Report



Table of Contents

- Letter from the General Manager - 02
 - Financial Integrity - 04
 - Energy Resources - 06
 - System Reliability - 08
 - Austin Energy Profile - 10
- Customer Satisfaction - 12
 - Energy Efficiency - 14
- Renewable Energy Development - 16
 - Community Resource - 18



Letter from the General Manager

Having joined Austin Energy in March 2010, I am new to the organization, but was quickly impressed with the quality of this utility and the community it serves. Both have impressive goals and a vision designed to deliver service that excels — from the fundamentals to the most complex future challenges.

The Austin Energy electric system is extremely well built and maintained, delivering exceptional reliability. The utility has excellent generation diversity and is a leader in energy efficiency and transitioning to clean energy resources. Most importantly, utility staff is highly qualified and responds effectively to community priorities and sensitivities.

What is immediately clear is that Austin Energy is a key community resource. That is no surprise when you consider the value and attributes of public power. Local leadership and decision making allow community-owned electric utilities not only to respond quickly to community priorities, but to operate in a manner that complements the community in every way. Public power allows reinvestment of dividends back into the community rather than a distribution to distant stockholders. Public power embraces community by assisting the disadvantaged at levels or in ways not common among investor-owned utilities or by making development of clean energy supplies a major goal that may be found throughout the industry as a whole.

Austin has a very strong quality of life emphasis. This emphasis led the City to develop energy-efficiency programs in the early 1980s — far ahead of most utilities across the nation. It is also why Austin was home to the first green building program in the nation and why today, that program helps the City develop some of the most progressive building codes in the country.

Austin also has a very strong and diversified employment base. In addition to state government, and one of the largest university populations in the nation, it is home to sophisticated industries such as high techs. Austin Energy staff is very proficient in meeting the needs of this diversity and sophistication. The utility has developed tremendous expertise in serving power-sensitive customers and delivers technical know-how through a nationally recognized Key Accounts program.

There is also a culture at this utility of providing the very best in power reliability. Like most utilities, Austin Energy repair crews stand ready 24/7 should outages occur. The difference appears in the response used in identifying and resolving problems. While safety is the first priority in electric system work, Austin Energy crews take pride in a culture of safely working with intensity and speed. This is reflected in delivering a level of system reliability that consistently outperforms industry averages.

So, in joining Austin Energy, I am impressed with the standards, work ethic and accomplishments of this public power utility serving the capital of Texas. Our rates are among the lowest in the state. Our reliability exceeds industry averages. Our attention to energy efficiency helps our customers save money and has delayed the need to build significant additional generation — saving customers even more money. We have an aggressive plan under way to build a clean energy portfolio, and we are in step with cutting-edge technology, such as smart meters and electric transportation.

Austin Energy staff has been charged with identifying and aggressively addressing every opportunity to improve our operation and the quality of service we provide. This is a priority that is especially important in a world with rapidly advancing technology and changing economics. Our goal is to be the best example in the country of the value that public power brings to a community.

Many thanks to our Mayor and City Council, as well as our City Manager and his staff, for their support and assistance during fiscal year 2010, but especially to Austin Energy employees for being the best in the industry.



“What’s immediately clear is that Austin Energy is a key community resource.”



Austin Energy electric rates remain among the lowest in Texas.

Financial Integrity

Standard & Poor's reaffirmed an A+ Positive Outlook in fiscal year 2010 on Austin Energy's electric utility system revenue bonds. The rating allows the utility to issue future debt at a significantly lower interest rate. With the rating, Standard & Poor's noted the diversified generation resource mix of the utility, coupled with competitive rates, strong liquidity and a service area with revenues derived from more than its principle customers. "The positive outlook reflects our view of a long-term trend of strong financial performance," said the rating agency.

Austin Energy electric rates remain among the lowest in Texas. Of special note, about one-third of all residential accounts benefit from a rate structure designed to reward conservation. The base electric rate for energy use of 500 kilowatt-hours (kWh) of electricity or less a month is just 3.55 cents per kWh.

To help reduce customer exposure to natural gas and energy price fluctuations, the utility maintains an energy risk management program of hedging fuel purchases through futures contracts, options and swaps on the New York Mercantile Exchange. The program has hedged more than \$2.7 billion in fuel since its inception in 2003 with a net savings of approximately \$148 million. Austin Energy did not increase its fuel charge in 2010. The fuel charge is a dollar-for-dollar recovery of fuel costs.

Austin Energy also hedges against transmission congestion costs that can result from energy deliveries through the Electric Reliability Council of Texas (ERCOT) statewide electric grid. Municipally-owned utilities are allowed to purchase pre-assigned congestion rights at 15 percent of the standard cost.

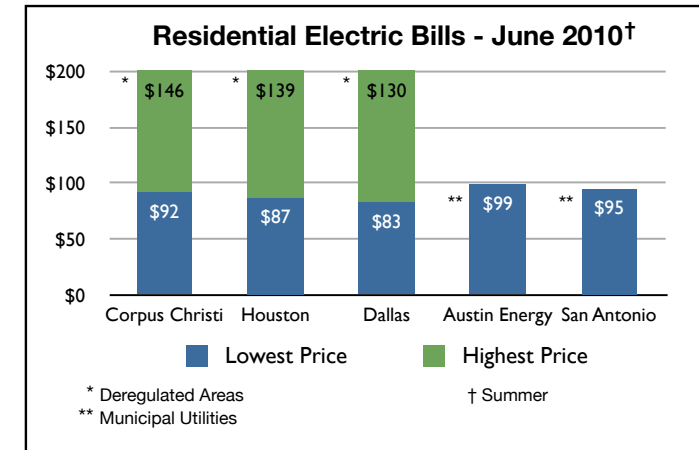
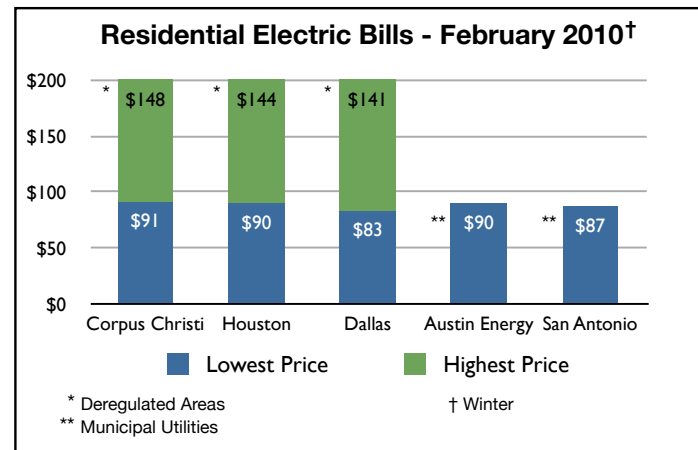
To assist in asset management, Austin Energy's Information Technology and Finance teams successfully moved more than \$4 billion in historical property plant and equipment costs into a new fixed asset system called PowerPlant. The system automates the tracking of associated costs and value of all assets, including depreciation. Implementing the system was important, as Finance staff began the lengthy process to redesign Austin Energy base electric rates for the first time in 17 years.

The Contract Compliance team continued its excellent oversight of Austin Energy contracting, saving the utility \$17.6 million in the past seven years by identifying vendor non-contract charges and by negotiating change orders to best reflect the true cost for services.



Credit Ratings

Description of Debt	Rating
Moody's	
Prior lien	A1-Stable
Subordinate lien	A1-Stable
Separate lien	A1-Positive
Fitch, Inc	
Prior lien	AA-Stable
Subordinate lien	AA-Stable
Separate lien	AA-Stable
Standard and Poor's	
Prior lien	AA-Stable
Subordinate lien	AA-Stable
Separate lien	A+Positive



Energy Resources



The Utility has a diverse generation mix including natural gas, coal, nuclear, renewables and purchased power.

Austin Energy continued implementation of an ambitious generation plan that emphasizes a balance between traditional and renewable generation resources. The utility has a goal that renewable resources provide 35 percent of the energy produced by 2020. Austin Energy has a diverse generation mix including natural gas, nuclear, coal, renewables and purchased power.

Of power produced during the 2010 fiscal year, coal, nuclear and natural gas combined provided more than two-thirds of power. Wind-generated power and landfill methane gas accounted for 10 percent of energy produced.

In 2010, two additional 50 megawatt (MW) peaking units were brought online at the Sand Hill Energy Center, bringing total natural gas-fueled generation capacity for the utility to 1,400 MW. Peaking units account for about 500 MW of that capacity.

The South Texas Project (STP), of which Austin Energy owns about 430 MW, was issued a top-performance rating (1) by the World Association of Nuclear Operators and the Institute of Nuclear Power Operations. This is the industry's highest rating (on a 1-5 scale), and the seventh time STP received this honor. In addition, for the sixth year in a row, STP produced more

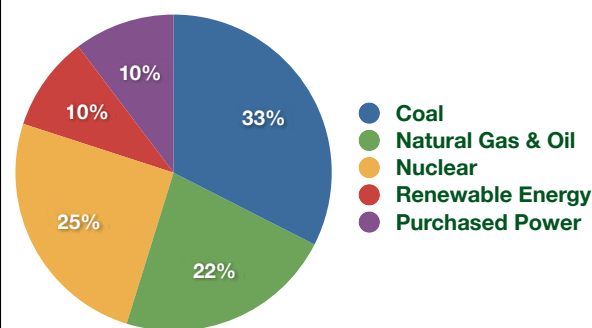
electricity than any of the other 32 two-unit nuclear power plants in the nation.

Austin Energy and the Lower Colorado River Authority (LCRA) also began the \$400 million installation of scrubbers for units 1 and 2 at the Fayette Power Project (FPP). Austin Energy owns 50 percent of the two units that are owned and managed by LCRA. The emissions control equipment will reduce nitrogen oxide and sulfur dioxide emissions from the two units by more than 95 percent.

Austin Energy's Qualified Scheduling Entity (QSE) was one of just two in ERCOT (there are more than 100 registered QSEs statewide) that passed early voluntary testing, certifying Austin Energy to participate in the ERCOT Nodal Market that went live in December 2010. The qualification testing required a successful exchange between the QSE and ERCOT of protocol compliant sets of Web-based market transactions. This information includes generator availability, capability and cost curves used by QSEs to express their willingness to buy and sell amounts of energy at different locations on the grid.



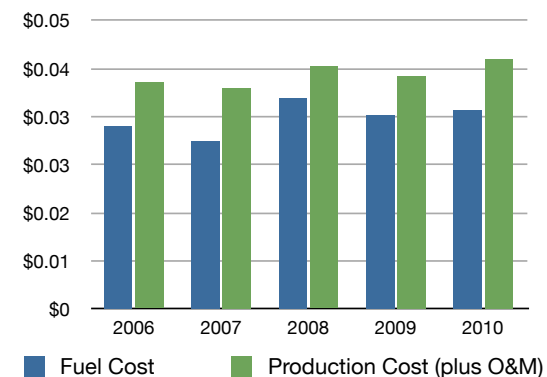
Generation Mix By Fuel Type



Secondary Fuel Charge

January 2008-January 2010	3.105 cents/kWh
June 2007-December 2007	3.044 cents/kWh
January 2007-May 2007	3.343 cents/kWh
January 2006-December 2006	3.634 cents/kWh
January 2004-December 2005	2.796 cents/kWh
November 2003-December 2003	2.265 cents/kWh
July 2003-October 2003	2.004 cents/kWh

System Average Fuel & Production Costs



System Reliability



The distribution system recorded its second lowest number of outages in 15 years.

Austin Energy system reliability excelled in fiscal year 2010. The distribution system (electric system at the neighborhood level) recorded its second lowest number of power outages in the last 15 years. The utility's transmission system significantly outperformed the four faults per 100 miles of transmission industry average with a 1.94 faults per 100 miles average.

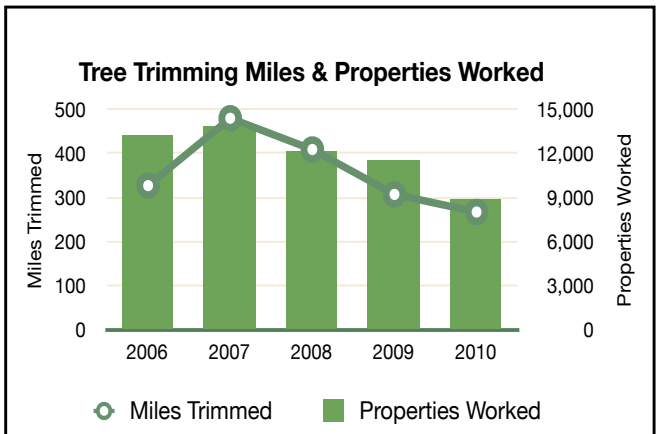
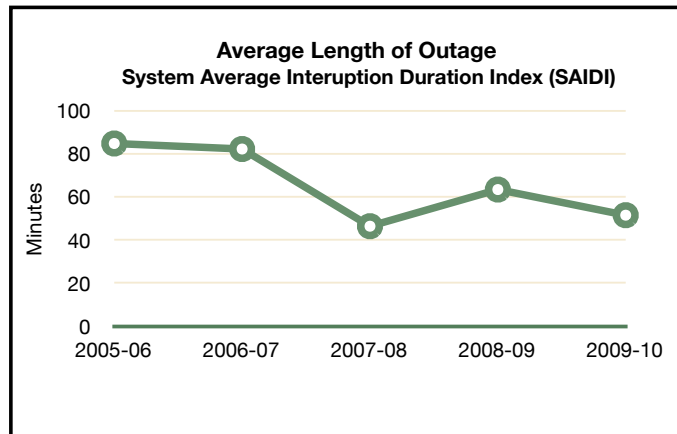
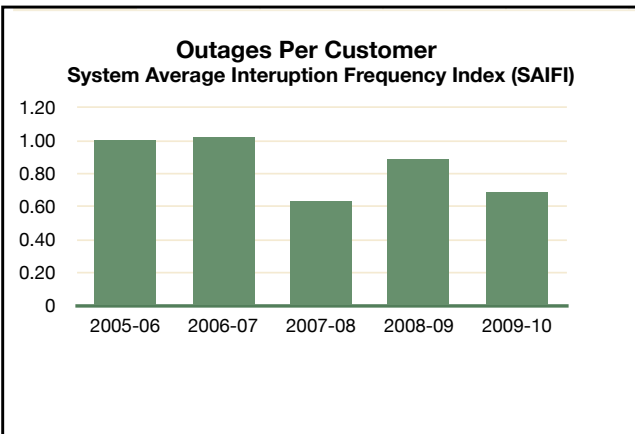
At the neighborhood level, the number of outages per customer was 0.69 with an average duration of 51.57 minutes. In a benchmark study conducted the previous year among 28 utilities across the country including Austin Energy, utilities in the top quartile averaged 1.34 outages per customer with outages lasting 164.97 minutes on average. In that study, conducted by Maryland-based First Quartile Consulting, Austin Energy ranked first, outperforming participating utilities in Seattle, Dallas, Houston and San Antonio, among others.

The excellent level of reliability is due in large part to ongoing preventive maintenance efforts by Austin Energy crews. This includes patrolling and inspecting the more than 600 miles of transmission and almost 7,000 miles of distribution lines, regular upgrades and use of the highest construction standards.

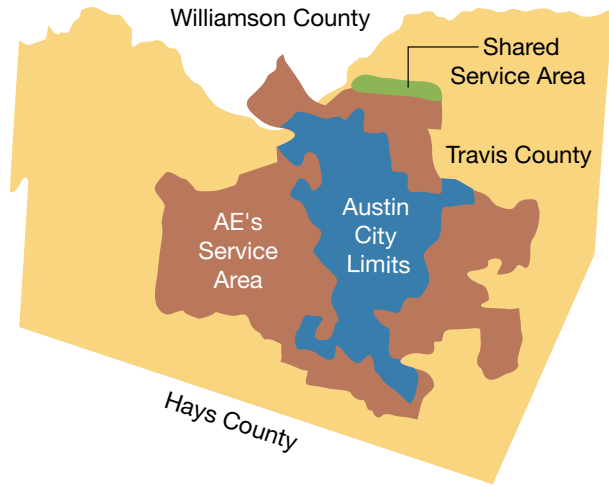
Austin Energy invests \$80 to \$90 million a year on average to keep the electric system in top form, including \$10 million a year on tree trimming to keep limbs from making contact with power lines and electrical equipment.

Tree trimming (line clearance) was completed along 324 miles of lines, involving 13,223 properties in fiscal year 2010. Austin Energy is one of the few utilities nationwide that meets with customers prior to trimming to review the work needed on each property. The utility was designated a Tree Line USA utility for the ninth year in a row by the respected Arbor Day Foundation for following best tree trimming practices and maintaining an annual training program.

The outstanding work of the Austin Energy Electric Service Delivery division was recognized when it received recertification of its ISO 9001 registration for the use of quality management standards accepted and followed by some of the best managed companies in the world. In 2007, the utility's distribution and transmission operations became the first in the nation to receive the certification from the International Organization for Standardization.



Austin Energy Profile

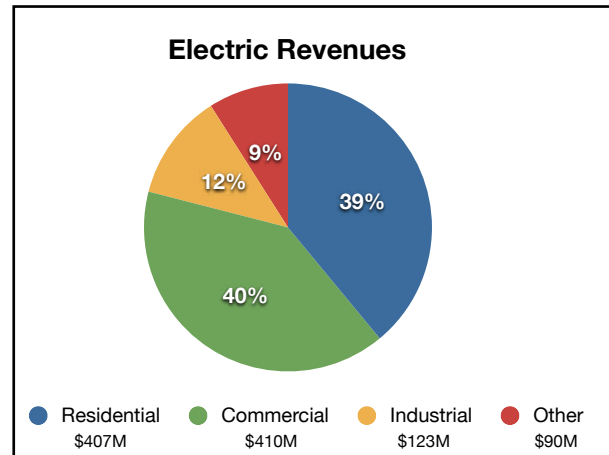


Austin Energy 2010 Customer Profile

Customer Type	Customer Total	Customer Percentage
Residential	368,700	89.10%
Commercial	43,489	10.40%
Industrial	80	0.10%
Other	1,601	0.40%
Total	413,870	100.00%

Rated Generation Capacity

Project	Installation	Rating
Decker (Gas/Oil) 2 Units	1970-1977	730MW
Decker (Gas Turbine) 4 Units	1988	200MW
Fayette (Coal) 2 Units	1979-1980	570MW
South Texas Project (Nuclear)	1988-1989	400MW
Renewables (Wind/Landfill/Solar)	1986-2007	455MW
Sand Hill (Gas Turbine) 4 Units	2001	180MW
Sand Hill (Combined Cycle)	2003	300MW
Sand Hill (Gas Turbine) 2 Units	2010	100MW
Domain CHP	2004	4.5MW
Mueller Energy Center	2006	4.6MW
Total		2,944.1 MW



Distribution Infrastructure

Electric Delivery Statistics	
Overhead Primary Conductor	2,370 miles
Overhead Secondary Conductor	931 miles
Underground Primary Conductor	2,898 miles
Underground Secondary Conductor	787 miles
Total	6,986 miles

Transmission Line Mileage	
69/138/345 kV	619.14 miles
Substations	
Distribution	56
Transmission	12
Total	68

Distribution Transformers	
Overhead	42,757
Pad Mount	34,285
Total	77,042

Poles	
Austin Energy-Owned Poles	148,516

System Peak Demand	
FY 2010	2,628 MW
FY 2009	2,602 MW
FY 2008	2,514 MW
FY 2007	2,391 MW
FY 2006	2,430 MW



Fuel Cost

	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Gas	258,452,424	235,403,993	250,721,680	214,711,985	203,976,741
Coal	49,519,262	50,360,624	87,063,860	84,635,000	91,590,706
Nuclear	13,485,443	14,197,169	15,823,059	16,866,183	16,655,851
Fuel Oil	525,532	1,382,440	420,142	566,981	2,405,166
Purchase Power	34,748,961	42,158,639	90,621,318	54,863,996	53,409,677
ERCOT	5,830,181	-10,294,675	10,165,180	21,889,298	21,617,196
Renewable	18,858,277	18,559,209	26,183,662	49,567,759	48,631,116
Total	\$381,390,080	\$351,767,399	\$480,998,901	\$443,101,202	\$438,286,453

Plant Performance Equivalent Availability Factor

Plant	FY 2010
South Texas Project	90.50%
Fayette Power Project	83.78%
Sand Hill Unit 5A	99.17%
Sand Hill Units 1-4	98.17%
Decker GT 1-4	90.49%
Decker D 1-2	82.63%



Customer Care became the first electric utility business unit of its type in the country to earn ISO 9001 registration.

Quality, consistency and innovation in serving customers were enhanced through a number of achievements in 2010. Customer Care became the first electric utility business unit of its type in the country to earn ISO 9001 registration which requires implementation of a quality management system. This involves extensive documentation and ensuring staff consistently follows all work processes, such as customer service orders, payments and the steps followed in addressing customer issues. Auditors for the international quality assurance program noted Customer Care had “a real focus on both internal and external customers.” Customer Care manages billing and customer account service for City of Austin electric, water and solid waste services.

All City of Austin utility payments continue to be posted the same day received, exceeding the industry average of three days. This requires the daily posting of some 24,000 checks and payment stubs. This goal is assisted through the electronic transfer of utility bill payments accepted at more than 50 locations throughout the community, such as grocery stores, as well as easy online bill payment options through a City of Austin

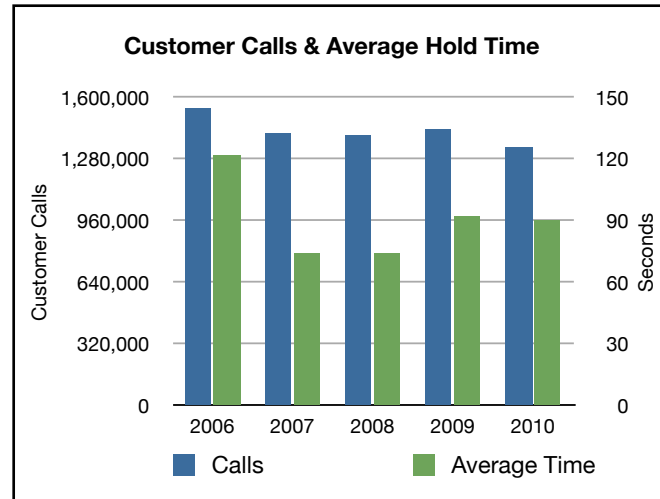
Customer Satisfaction

website. Almost half of all customer bill payments are received electronically.

The number of disadvantaged customers receiving utility bill discounts more than doubled to almost 10,000. This was achieved by partnering with the state Medicaid program and the Travis County energy assistance program to automatically enroll eligible customers. Discounts, which average about \$400 a year, per household, are among the most generous in the nation.

Austin Energy also replaced temperature with heat index as the trigger for moratoriums on service cuts due to non-payment of utility bills. Heat index, which factors in humidity, is a better measure of potential health impacts during hot weather.

Residential customer satisfaction performed well with a score of 650 (1,000-point scale) versus a 630 national average in a J.D. Power and Associates survey. The utility tied for first in customer satisfaction among business customers within southern region midsize utilities. Of 90 utilities nationwide of all sizes included in the survey, only 12 scored higher than Austin Energy.



Bill Payments

	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Manual	72.57%	64.76%	59.27%	54.79%	49.83%
Electric	27.43%	35.24%	40.73%	45.21%	50.17%

Utility Bill Discount Program

	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Customers Served (average)	4,959	5,134	4,005	5,137	8,599
Customer Savings	\$1.4M	\$1.3M	\$1.0M	\$1.5M	\$2.4M





Austin Energy's nearly 30 years of leadership in energy efficiency was rewarded with \$23 million in federal stimulus funds.

Energy Efficiency

Austin Energy's nearly 30 years of leadership in energy efficiency was rewarded in fiscal year 2010 through the receipt of more than \$23 million in competitive federal stimulus grants to weatherize homes, increase the energy efficiency of municipal buildings and develop new financing options to facilitate home-efficiency improvements.

The utility received \$5.8 million to weatherize more than 1,000 homes of residents at 200 percent or below the federal poverty level. Austin Energy provided the most comprehensive energy improvements in the state under the program, including new air conditioning and heating, new refrigerators, solar screens, additional insulation, duct sealing and more. Austin Energy is the only electric utility in the country administering a federal weatherization program on behalf of a local government.

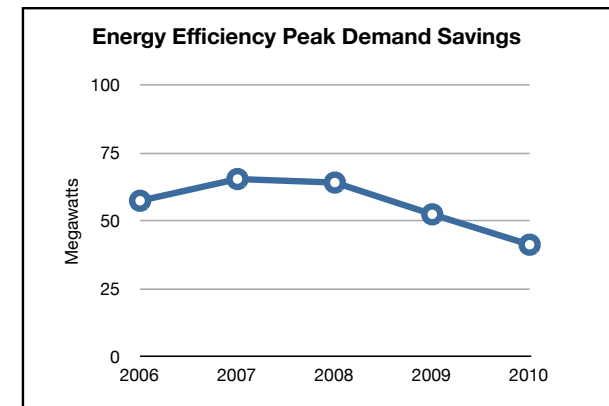
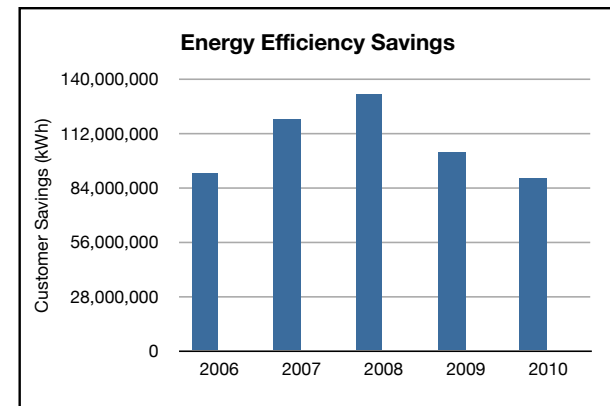
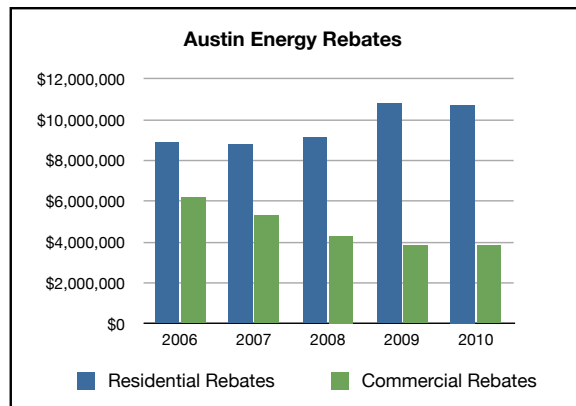
The utility was awarded \$7.5 million in stimulus funds to improve the energy efficiency of City of Austin municipal buildings. Efficiency improvements include installation of lighting upgrades and building insulation, duct sealing and optimization of energy management system performance. The resulting savings will be significant. For example, the replacement of standard lighting with fluorescent lighting at a

large City events center will reduce City energy costs by more than \$21,000 annually.

Austin Energy also received \$10 million to develop an enhanced loan program for home energy-efficiency improvements. At the end of the fiscal year, the utility announced its first financing product combining a low-interest loan, rebates and eligible federal tax credits that in total offset as much as 44 percent of improvement costs.

Our traditional Home Performance with ENERGY STAR® whole house program continued to shine. More than 3,000 customers made efficiency improvements in 2010 that will save 5.8 million kilowatt-hours (kWh) of electricity annually. Over the last five years, some 11,800 residents have participated for combined energy savings of 24 million kWh annually and \$2.4 million each year on their electric bills.

Our Green Building program delivered the second in a series of energy code amendments at City Council request. Amendments approved in 2010 will increase the efficiency of new homes built by 31 percent over 2007 standards, marching toward a City building code goal that homes built in 2015 be zero-energy capable.





Austin Energy led all utility-sponsored programs in the country for sales of renewable energy for the ninth year in a row.

Renewable Energy Development

For the ninth year in a row, Austin Energy led all 850 utility-sponsored programs in the country for renewable energy sales in 2010, according to the Department of Energy's National Renewable Energy Laboratory. Austin Energy's 754.2 million kilowatt-hours of renewable energy sold nudged out second-place Portland General Electric's 735.7 million kWh. Portland General Electric has about twice the number of total customers in its service area at 815,000 compared to Austin Energy's 417,000.

In 2010, Austin Energy signed contracts to purchase all of the energy produced annually by a 30-megawatt solar farm to be built in Travis County and all of the energy produced by a 100-MW biomass plant to be built in East Texas. The solar farm will be in operation by December 2011 and the biomass in summer 2012.

The utility also began an innovative solar incentive program in 2010 for commercial, multifamily and non-profit customers. Rather than provide an upfront rebate on the installation of solar systems, Austin Energy now pays for each kilowatt-hour of electricity produced over a 10-year period. Over the next five years, this performance-based incentive approach is expected to pay, on average, 8 cents per kWh of solar energy produced with

program funding sufficient for almost 260 solar systems, each up to 20 kW in size.

The utility has offered traditional upfront solar rebates since 2004. Since then, \$12.8 million in rebates have been issued to residential customers and \$6.3 million to commercial customers. Today there are more than 1,050 customer-owned solar systems and over 50 municipal and school installations, totaling more than 4 MW of solar capacity in Austin.

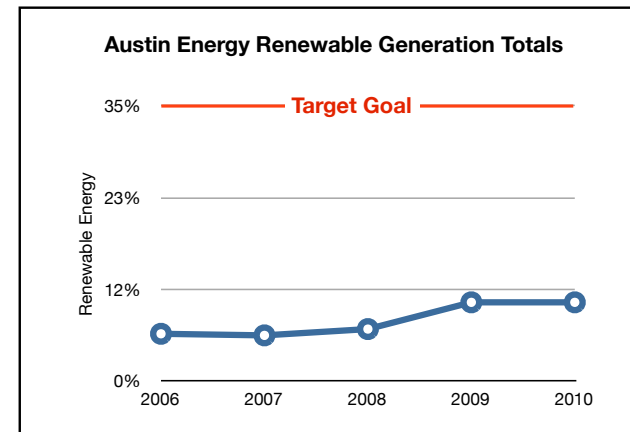
Austin Energy also unveiled a plan with the Austin Independent School District (AISD) in 2010 to establish solar outdoor learning centers at up to 15 AISD schools. Each school will have a fully functioning solar installation allowing for highly visual and interactive lessons on solar energy.

The utility built the city's largest solar roof top installation, using a new thin-film solar product. One thousand solar panels now cover more than 23,000 square feet of roof space at the Austin Water Utility's Glen Bell Service Center. The 136-kW system will save the Water Utility about 167,000 kWh annually; that is power sufficient for 17 average-sized homes in Austin for an entire year. The panels are a lightweight thin film that peels and sticks directly onto the roof top, compared to traditional modules mounted on racks.



Green Pricing Program Sales

Rank	Utility	Resources Used	Sales (kWh/year)	Sales (aMW)
1	Austin Energy	Wind • Landfill Gas	754,203,479	86.10
2	Portland General Electric	Wind • Biomass • Geothermal	735,745,202	84
3	PacifiCorp	Wind • Biomass • Landfill Gas • Solar	587,373,391	67.10
4	Sacramento Municipal Utility District	Wind • Hydro • Biomass • Solar	395,537,564	45.20
5	Xcel Energy	Wind • Solar	388,837,429	44.40
6	Puget Sound Energy	Wind • Landfill Gas • Biomass • Small Hydro • Solar	314,892,507	35.90
7	Connecticut Light & Power/United Illuminating	Wind • Hydro	229,408,999	26.20
8	CPS Energy	Wind	186,880,675	21.30
9	National Grid	Biomass • Wind • Small Hydro	167,149,902	19.10





Austin Energy's annual dividend to the community was \$101 million.

As a community-owned electric utility, Austin Energy provides an annual dividend that is reinvested in the community rather than distributed to distant stockholders. In 2010, this dividend totaled \$101 million which was used to help pay for City of Austin services, such as police, fire and emergency medical services, as well as parks, libraries, recreation centers and other services that increase the quality of life in Austin. Austin Energy also works with and provides funding to the City's Economic Growth and Redevelopment Services Office to help recruit and retain businesses.

These economic development efforts paid major dividends in 2010 when several high profile companies announced plans to locate in Austin. LegalZoom.com, for example, is creating a regional office in Austin and will add 650 jobs over the next five years. SunPower Corporation, a manufacturer of solar products, will create 450 jobs over four years by locating a manufacturing facility in the capital city.

Samsung announced a \$3.6 billion expansion of its facilities in Austin, creating 500 new jobs and 1,000 construction jobs. This expansion is the largest construction project in the history of the Austin area. Samsung is a Key Account customer of Austin Energy and one of the largest energy users.

Community Resource

Austin Energy also helps the economy by providing funding to community partners dedicated to improving the quality of life in the area. For example, the Clean Air Force of Central Texas works with businesses and governmental agencies to reduce ozone pollution in the region, helping keep the Austin area in compliance with federal clean air standards.

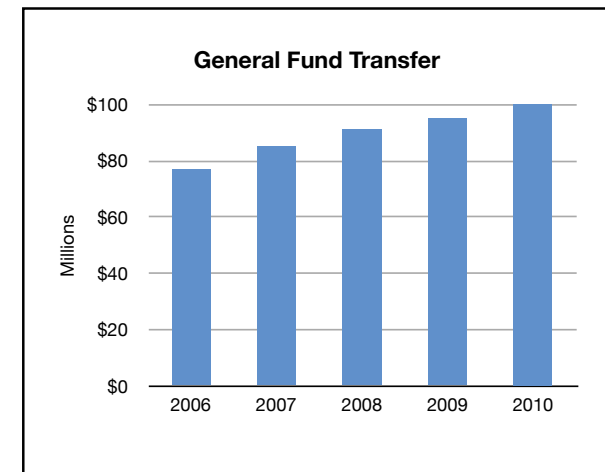
The utility annually plans and executes one of the largest regional science fairs in Texas. Science fair winners from Central Texas middle and high schools compete in the Austin Energy event to advance to state and international science competitions.

Austin Energy employees also pitch in to help the community. As a group, Austin Energy employees are routinely some of the largest contributors in the region to the annual City of Austin Combined Charities Campaign and have donated more than \$1 million over the last 10 years alone.

Utility staff also manage the City of Austin's tutor/mentor program, which in 2010 had almost 400 City employee participants. The program won four distinguished awards in the past year, including Best in Texas from the Texas Association of Partners in Education and the Employers for Education Excellence Gold Award from the Texas Education Agency.

Major 2010 Sponsorships

Clean Air Force of Central Texas	\$90,000
African American Men & Boy Conference	\$75,000
Long Center for Performing Arts	\$50,000
Austin Parks Foundation	\$26,000
Austin Public Library Summer Reading Program	\$18,000
Zilker Tree Installation	\$17,000
Pan American Festival	\$15,000





 This annual report was produced with 100 percent post consumer fiber.



www.austinenergy.com
721 Barton Springs Road
Austin, Texas 78704