



Fuel Charge Update Customer Meeting

December 2, 2010

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Energy & Market Operations



Nodal Market

- ERCOT Nodal Market commenced on December 1st.
- One day track record is good – lights still on, pricing reasonable
- Implications for AE: Net result may be a wash
 - Somewhat higher congestion costs for wind resources
 - Offset by access to lower cost spot power due to more efficient market
- New market structure adds uncertainty to projections until a track record is built



Biomass and Solar Updates

- Nacogdoches Biomass
 - Project under construction
 - Slated to come online summer 2012
- Webberville Solar
 - Original site challenged by archeological, environmental and terrain features
 - Relocated project to southern portion of Webberville tract to address site issues
 - Revised design and permitting nearing completion
 - Construction expected to begin in early 2011
 - Expected online December 2011



Fuel Charge

- A cost pass through mechanism
 - Considers over/under collections from the current year and cost forecast expectations of the coming year
 - Designed to minimize over/under collection to +/- 10%
- Fuel Charge includes:
 - Natural Gas supply, hedging, transportation & storage
 - Coal supply, transportation & transport fuel surcharge
 - Nuclear fuel
 - Renewable power supply not sold under Green Choice
 - Purchase Power & Capacity
 - Transmission congestion cost
 - ERCOT administrative fees and charges



Fuel Charge Outlook

- 2011 Outlook and update history
 - December 2009 Est. 5% to 10% increase
 - Q1 2010 Est. 0% to 5% increase
 - Q2 2010 Est. 0% to 5% increase
 - Q3 2010 Est. 0% to 5% *decrease*
 - Q4 Est. (today) 15% to 20% *decrease*Final determination for FY11 in mid-December
- Early Outlook for 2012
 - Up 10 – 15%
 - Reflects Biomass, Solar, slightly higher natural gas

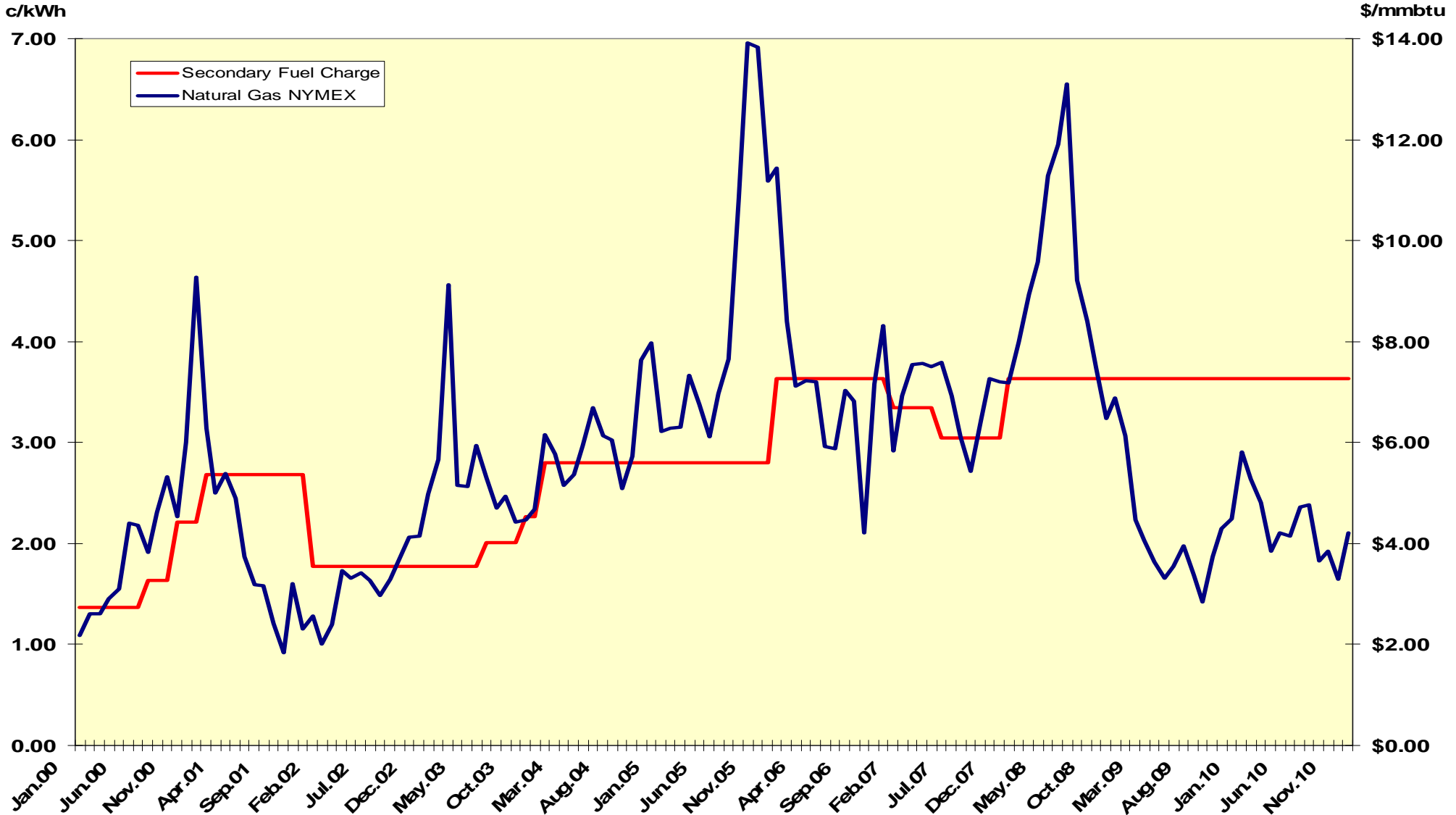


2011 Key Fuel Charge Drivers

- Natural Gas
- Recent Unplanned/Extended Outages at Nuclear and Coal Plants
- Congestion Costs for Wind Power
 - Congestion costs for both Green Choice and unsubscribed renewable power will flow through the fuel charge starting FY11
- New Nodal Market
 - Without market history projections have a higher degree of uncertainty



Natural Gas Market Price versus Austin Energy Fuel Charge



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2011 Natural Gas Price Drivers

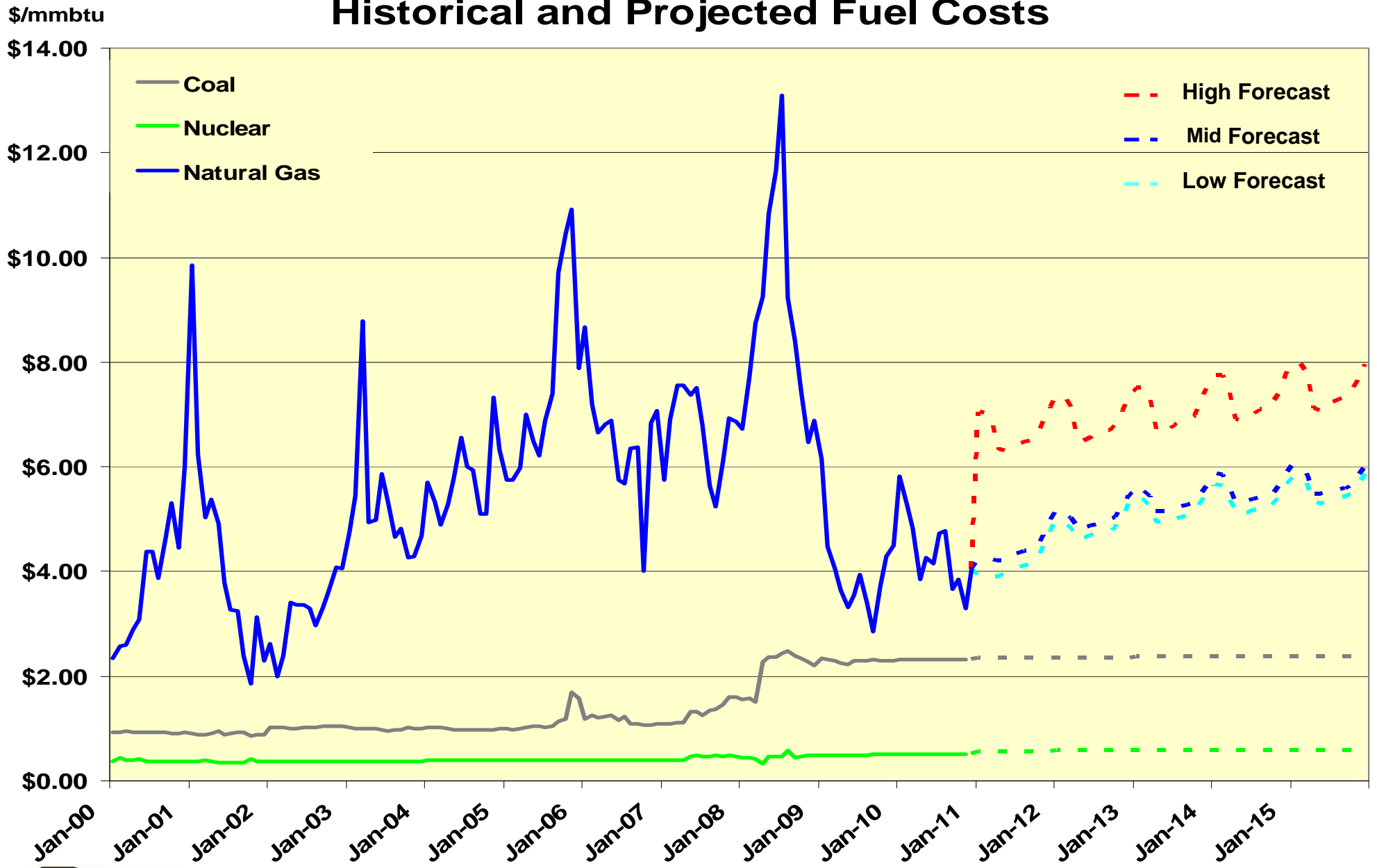
- Market down
 - Natural Gas supply/demand affects prices
 - Shale gas/Rig counts
- Natural Gas Hedges
 - 2011 Hedges reflect the higher forecasted prices for 2011 that occurred in previous years
 - ~ 50% hedged – remainder trending down with market
 - Hedge plan structure
 - Designed to provide predictable fuel costs
 - Rolling 5 year hedge horizon
 - Hedge levels decrease over time
 - Less hedged in outer periods, more in near-term
 - Average hedge level over 5 year horizon = 65%



History of 2011 Natural Gas Prices

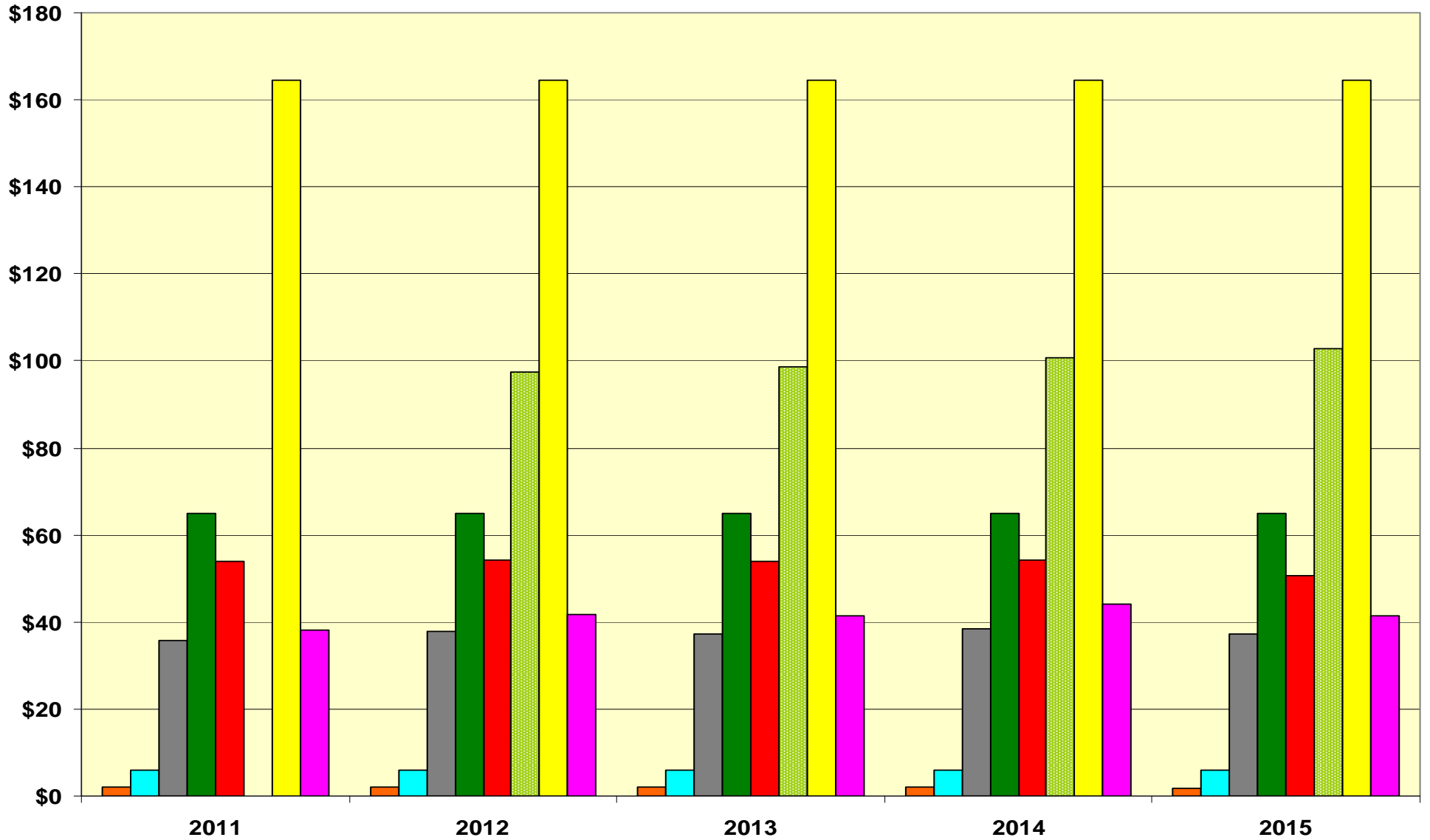


Historical and Projected Fuel Costs



Fuel Charge Approximate Cost per MWH by Source

\$/MWH



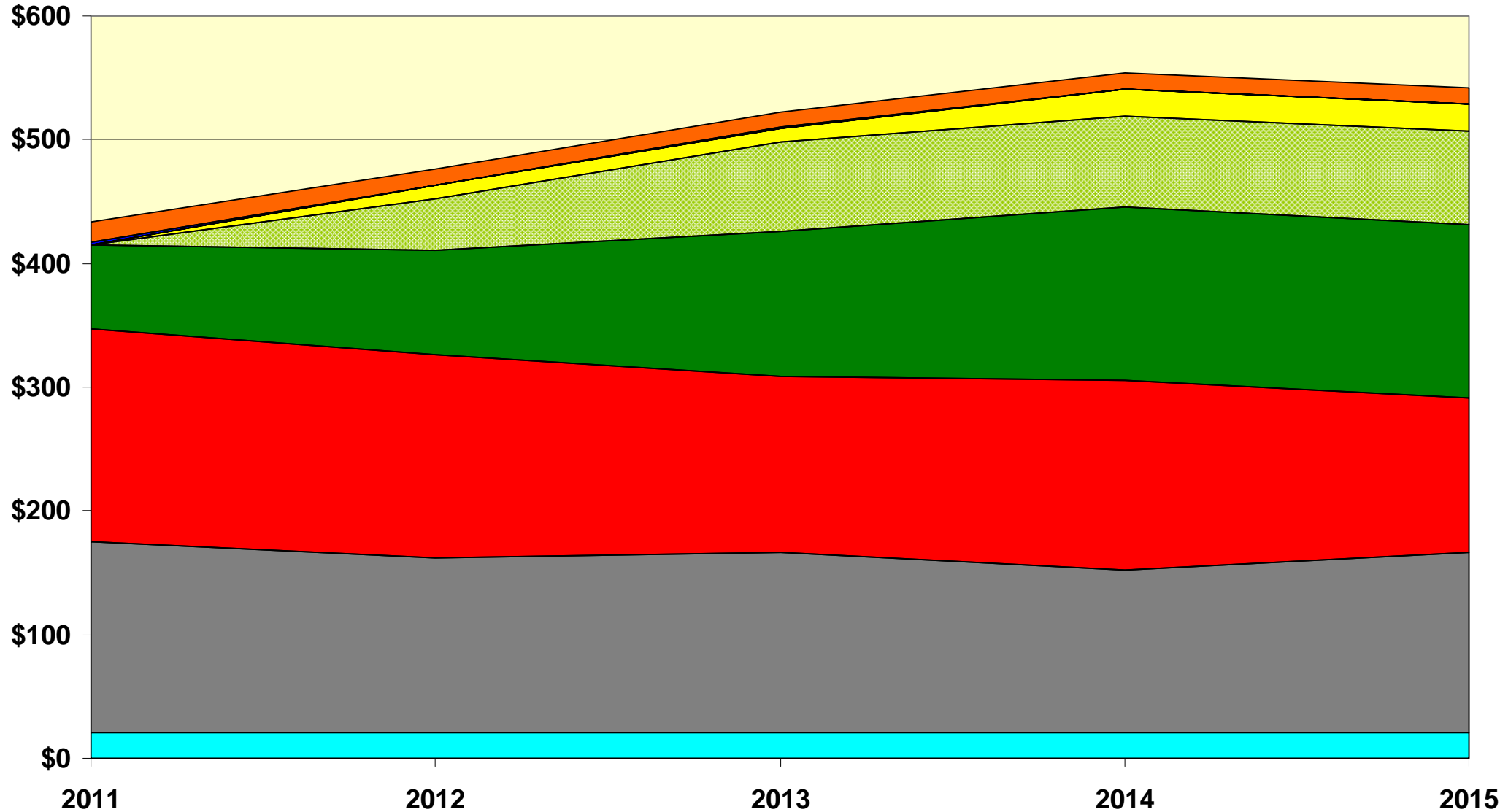
■ ERCOT Fees
 ■ Nuclear
 ■ Coal
 ■ Wind
 ■ Natural Gas
 ■ Biomass
 ■ Solar
 ■ Weighted Average



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Fuel and Purchase Power Costs By Source

Millions



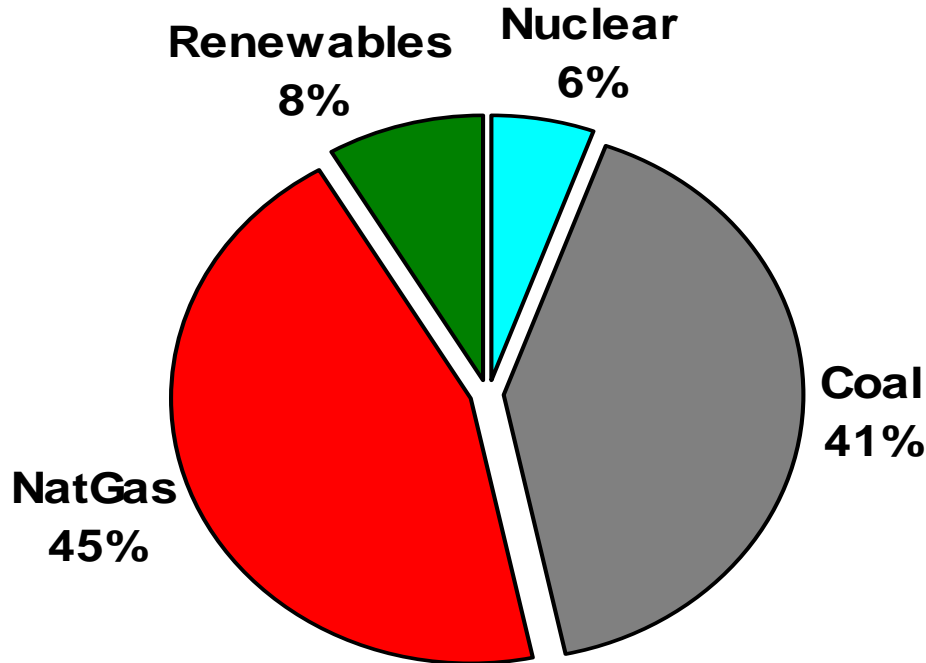
■ Nuclear
 ■ Coal
 ■ Natural Gas
 ■ Wind
 ■ Biomass
 ■ Solar
 ■ ERCOT Fees



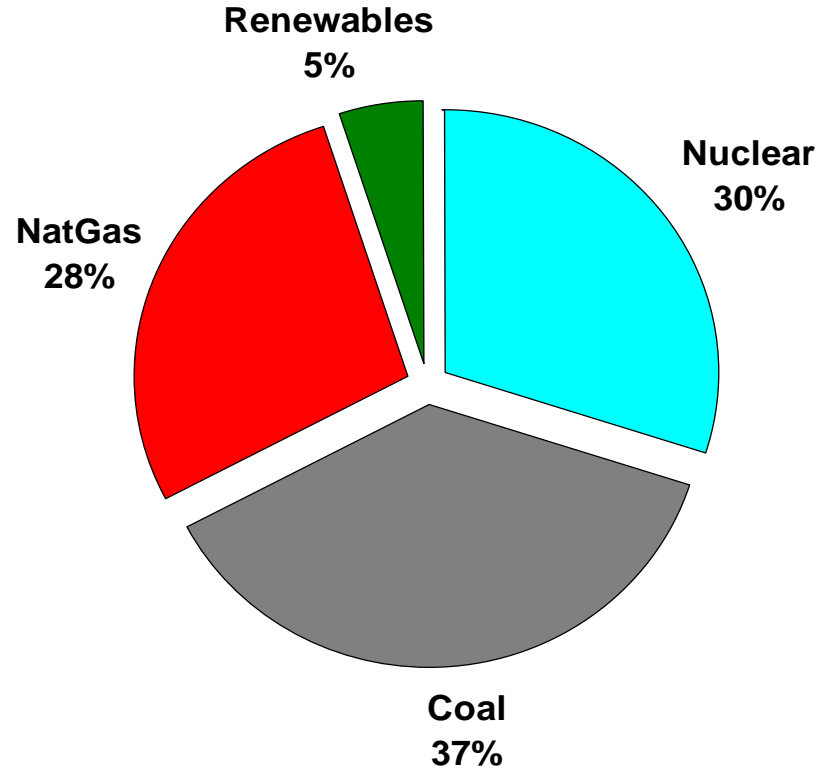
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Projected 2011 Energy Mix – Fuel Charge

COST



SUPPLY



* These Renewables represent unsubscribed GreenChoice®



Questions?

