

Differences from Pace

- Addition of wires revenue requirement (T&D, Customer Svc, & Admin)
 - Used \$18.35 per MWh added to all cases
 - This was AE's 2007 actual
 - Pace used 2007 dollars throughout their analysis so this is consistent
- Addition of debt service coverage (DSC) which Pace did not include. Debt Service including coverage is the most common method for municipal utilities to determine revenue requirement

What does AE use Coverage for

- General Fund Transfer
- Internal cash funding for Capital Improvement Funds
- Transfers to the Repair and Replacement Fund
- Transfers to Strategic Reserve Fund

Coverage Requirements

- Bond holders expect rates to include amounts in excess of debt service to protect their payments should something drastic occur to revenue or costs
- Bond covenants require 1.25 times for prior lien bonds
- AE financial policy adopted by Council calls for a minimum of 1.5 times
- AE has earned in excess of 2 times over the last several years
- Rating agencies use DSC as a criteria when rating bonds
- Recent Fitch peer Study shows Median DSC to be 2.44 times for AA- rated public power and 2.6 for ERCOT public power

Coverage Used

- Assumed all scenarios used a DSC of 2.48
 - Actual for 2007 for production
 - In line with Fitch peer review