

City of Austin



Enterprise Funds Financial Forecast Presentation

April 28, 2010

AUSTIN ENERGY FINANCIAL FORECAST



Sand Hill Energy Center



City of Austin, Texas Austin Energy

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

2011-2015 Financial Forecast
April 28, 2010



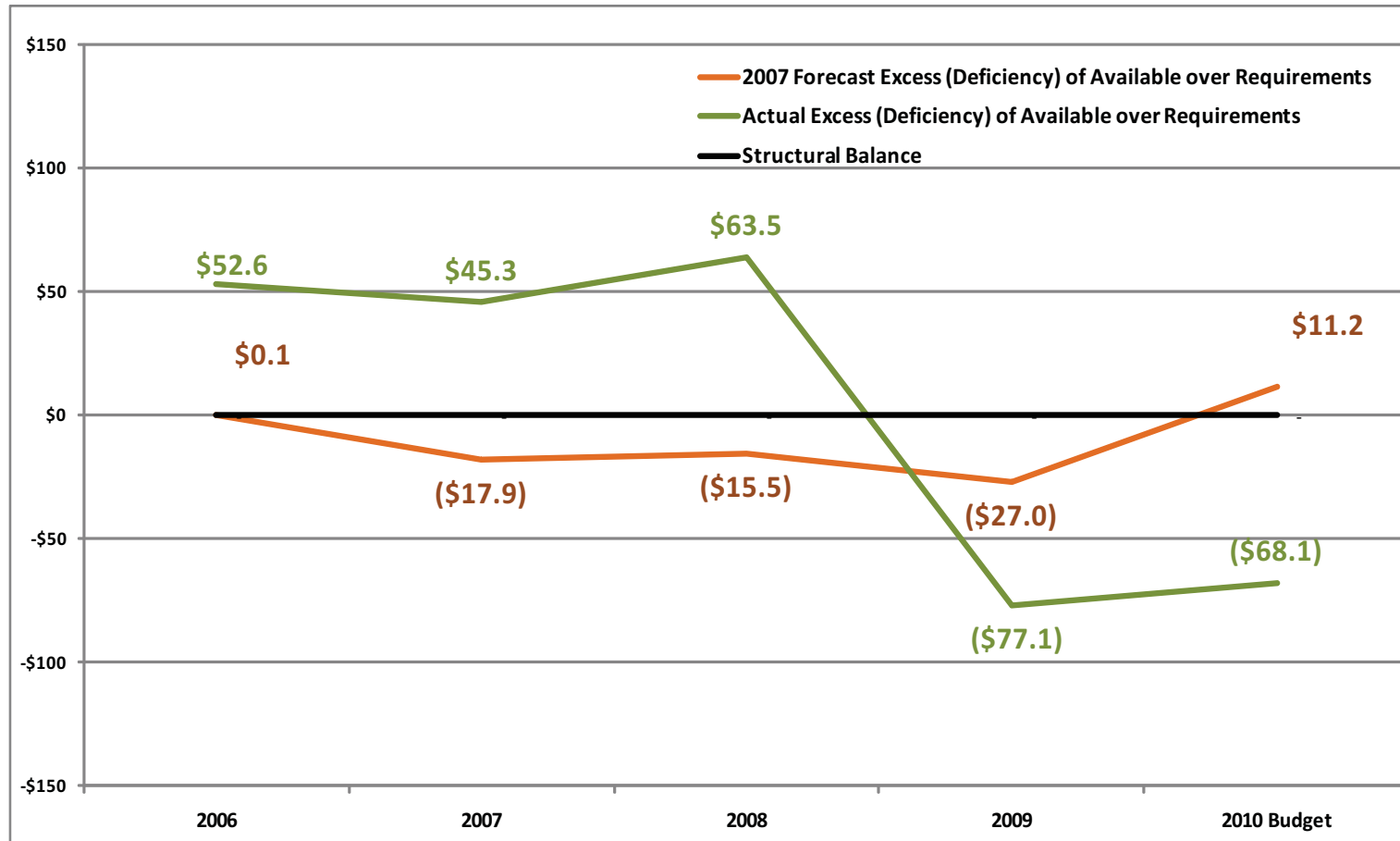
Forecast Summary

- Forecast shows a funding gap in each year
- Priority - protect utility's long-term financial stability & sustainability
- Action plans underway for financial review and rate increase
- Rate increase combined with cost reductions will be needed to close the gap





2007 Forecast vs. Actual (\$ in millions)



- Saw need for rate increase in FY 2006, but able to defer due to better results
- FY 2009 and FY 2010 budgets not balanced; used reserves & ending balance
- Not financially sustainable into the future





History – Residential Rates (1,000 kWh)

Austin Energy

Residential Rate History (1,000 kilowatt hours)

No base rate change since 1994. Prior to 1997, fuel charge changed monthly.

| | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 |
|-----------------------------------|-------|--------|-------|--------|-------|--------|-------|--------|---------|-------|--------|--------|-------|--------|-------|--------|
| Yearly Average Fuel \$ | 15.85 | 13.44 | 14.1 | 13.11 | 14.55 | 13.72 | 15.78 | 26.43 | 17.74 | 19.33 | 27.96 | 27.96 | 36.34 | 31.69 | 36.53 | 36.53 |
| Yearly Average Base \$ | 58.35 | 58.35 | 58.35 | 58.35 | 58.35 | 58.35 | 58.35 | 58.35 | 58.35 | 58.35 | 58.35 | 58.35 | 58.35 | 58.35 | 58.35 | 58.35 |
| Total \$ | 74.20 | 71.79 | 72.45 | 71.46 | 72.90 | 72.07 | 74.13 | 84.78 | 76.09 | 77.68 | 86.31 | 86.31 | 94.69 | 90.04 | 94.88 | 94.88 |
| Annual change | | -3.25% | 0.92% | -1.37% | 2.02% | -1.14% | 2.86% | 14.37% | -10.25% | 2.09% | 11.11% | 0.00% | 9.71% | -4.91% | 5.38% | 0.00% |
| Cumulative change | | | | | | | | | | | | | | | | 27.87% |
| Annual Average Change | | | | | | | | | | | | | | | | 1.65% |
| Consumer Price Index (CPI) | | | | | | | | | | | | | | | | |
| CPI-U All Items | | | | | | | | | | | | | | | | |
| Dec-Dec % | | 2.50% | 3.30% | 1.70% | 1.60% | 2.70% | 3.40% | 1.60% | 2.40% | 1.90% | 3.30% | 3.40% | 2.50% | 4.10% | 1.00% | 2.70% |
| Cumulative Change | | | | | | | | | | | | | | | | 44.25% |
| Annual Average Change | | | | | | | | | | | | | | | | 2.47% |
| CPI-U Electricity | | | | | | | | | | | | | | | | |
| Dec-Dec % | | 2.70% | 0.70% | -1.30% | 3.20% | 0.70% | 0.26% | 6.10% | -1.90% | 2.60% | 2.10% | 10.70% | 7.50% | 5.20% | 8.60% | -5.00% |
| Cumulative Change | | | | | | | | | | | | | | | | 50.63% |
| Annual Average Change | | | | | | | | | | | | | | | | 2.77% |

- No base rate change since FY 1994
- AE's residential annual average change of 1.65% compares favorably
- Annual average change in Consumer Price Index (CPI)
 - All Items - 2.47%
 - Electricity - 2.77%





Forecast Key Assumptions

Revenue

- Travis County economic data
- Base rate increase required, no amount projected
- Transmission rider in FY 2011 and adjusted annually

Expenditures

- No new Full Time Equivalents
- Adds cost for Austin Energy Resource, Generation, and Climate Protection Plan
- Maintains 9.1% General Fund transfer rate in FY 2011 and FY 2012, then evaluate in rate review





External Factors affecting Forecast

- Texas Transmission Construction Program
- National energy legislation's impact on cost structure
- Texas Nodal market begins December 2010
- Uncertain fuel and energy prices, with volatile history
- Capital intensive industry – construction costs
- Changes in electric industry business model expected in long-term

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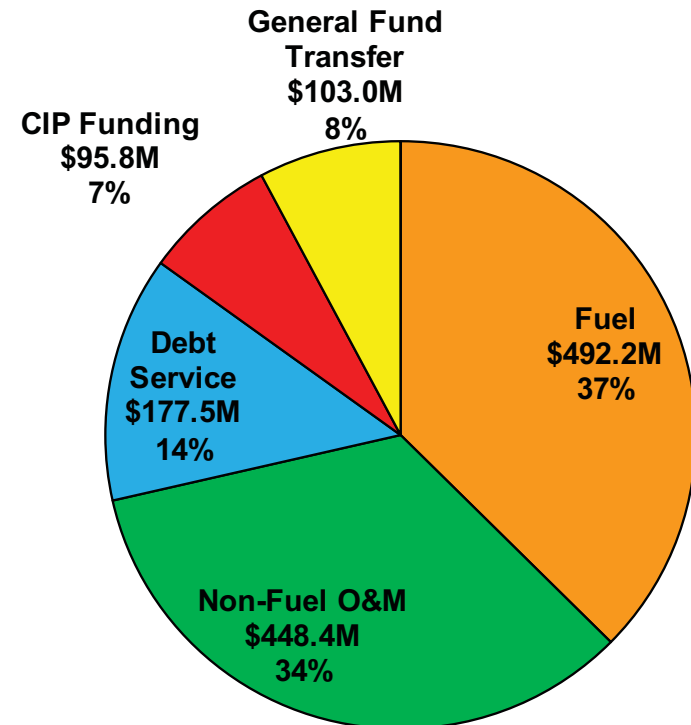




Expenditure Components (\$ in millions)

- Operating & Maintenance
 - *Fuel*
 - *Non-fuel*
- Capital Improvements (CIP)
 - *Debt Service*
 - *CIP Cash Funding*
- General Fund Transfer

FY 2011 Requirements \$1,316.9M





Expenditure Key Assumptions

| Expenditure Assumption | Impact by Utility |
|--|--|
| No new Full Time Equivalents | Controllable |
| Labor expenses increase | Controllable * |
| Contractual and commodity expenses increase | Controllable * |
| Fuel expense based upon anticipated prices for natural gas, coal and purchased power with assumed production schedules and outages | Not controllable |
| Transmission expense increases due to ongoing Texas Transmission Construction Program | Not controllable |
| Capital improvement spending plan <ul style="list-style-type: none"> Carries forward FY 2010-2014 plan updating cash flows Adds estimate for FY 2015 Adds FY 2011-2015 of Austin Energy Resource, Generation, and Climate Protection Plan to FY 2020 | Controllable |
| Debt service requirements <ul style="list-style-type: none"> Principal and interest on existing outstanding debt Interest rate on new debt issued Additional debt issues to support capital program Maintain current bond ratings (long-term interest costs) | Controllable * Interest rates are not controllable. |
| Cash funding for capital projects | Controllable |
| General Fund Transfer <ul style="list-style-type: none"> 9.1% for FY 2011 and FY 2012 Then evaluate in rate review (assume increase at growth rate of base electric revenue after FY 2012) | Controllable |

* Some elements are not controllable.





FY 2010-11 Cost Drivers

| Category | Estimated Increase | Description |
|--------------------------------------|--------------------|---|
| Fuel expenses | \$33.5M | Increases due to natural gas prices and usage for generation of electricity. |
| Fayette Power Plant Operating (coal) | \$7.5M | Ownership share (50% of Units 1 and 2) of increased plant operating costs related to scrubber system and costs for closing existing ash pond. |
| STP Power Plant Operating (nuclear) | \$3.7M | Ownership share (16%) of increased plant operating costs, primarily due to planned maintenance. |
| Transmission Expense | \$2.0M | Rising costs for Texas Transmission Construction Program |
| Labor Related | \$ 7.8M | City-wide cost increases for Supplemental Pension Contribution, Health Insurance and Salary Adjustments. |
| General Fund Transfer | \$2.0M | Transfer based on transfer rate of 9.1%. |





Capital Improvements Program

\$1.7 Billion Five Year Capital Spending Plan

| \$ in Millions | <u>2010-11</u> | <u>2011-12</u> | <u>2012-13</u> | <u>2013-14</u> | <u>2014-15</u> | <u>Total</u> |
|--|----------------|----------------|----------------|----------------|----------------|------------------|
| Distribution | \$58.5 | \$55.7 | \$55.0 | \$53.9 | \$54.0 | \$277.1 |
| Distribution Substation | 15.2 | 11.0 | 13.2 | 19.7 | 11.0 | 70.1 |
| Transmission | <u>25.8</u> | <u>27.1</u> | <u>28.7</u> | <u>16.0</u> | <u>22.0</u> | <u>119.6</u> |
| Electric Service Delivery | 99.5 | 93.8 | 96.9 | 89.6 | 87.0 | 466.8 |
| Power Production | 79.4 | 26.4 | 384.8 | 268.3 | 313.3 | 1,072.2 |
| Customer Service Billing & Metering | 15.1 | 2.5 | 2.6 | 2.6 | 5.0 | 27.8 |
| Facilities, Technology & Support Services | <u>79.9</u> | <u>12.7</u> | <u>16.3</u> | <u>14.0</u> | <u>24.0</u> | <u>146.9</u> |
| Total | <u>\$273.9</u> | <u>\$135.4</u> | <u>\$500.6</u> | <u>\$374.5</u> | <u>\$429.3</u> | <u>\$1,713.7</u> |





Transmission Rider

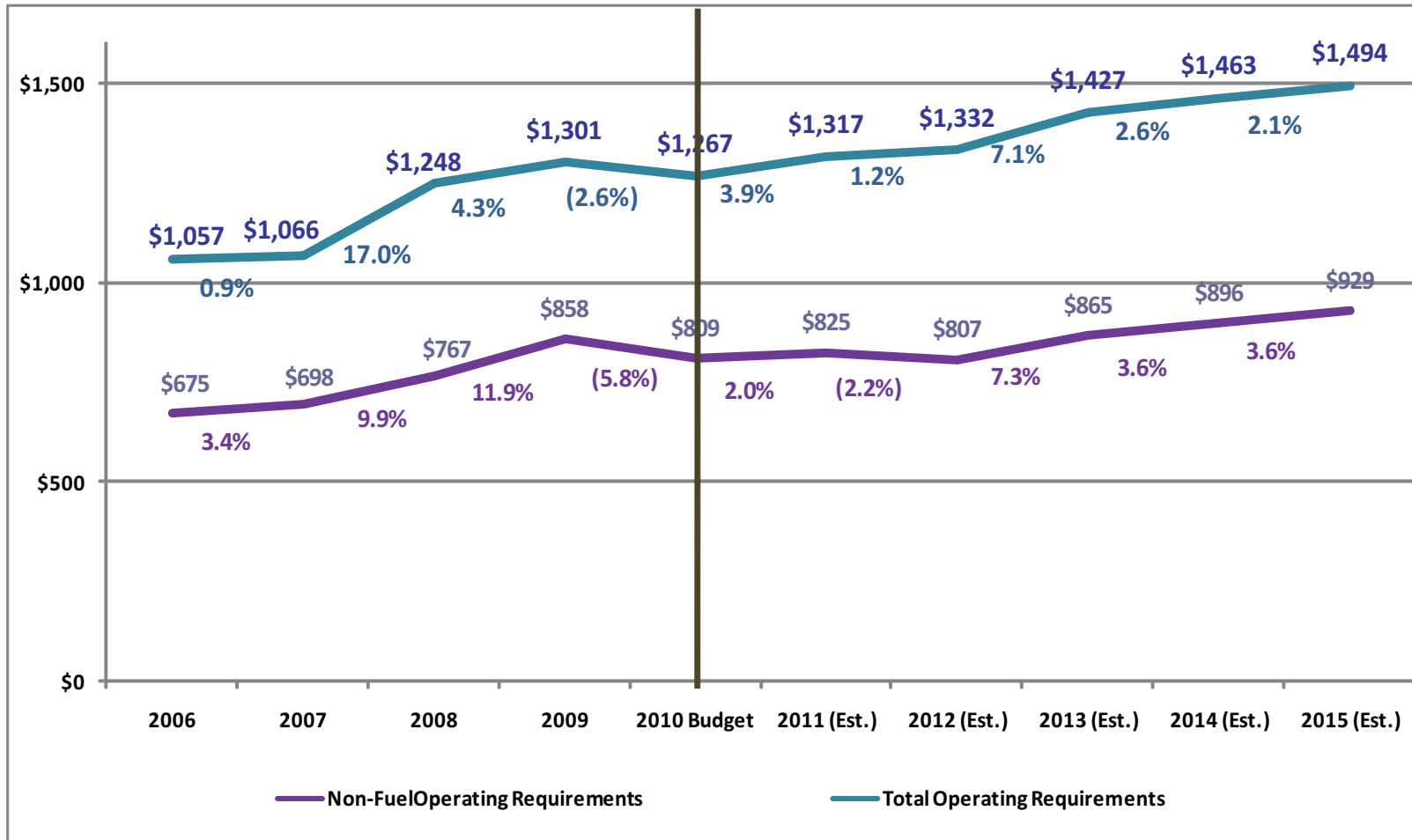
Austin Energy's FY 2011 transmission expense of \$66 million for Texas grid use is expected to double in 5 years

- Proposed recovery method (no profit) to recover cost increases
- Rider proposed in FY 2010, but withdrawn, resulting in utility absorbing \$5 million in lost revenue
- FY 2011 average monthly residential bill impact of 82 cents increasing to \$5.45 in FY 2015
- Delay in Texas transmission construction schedule and costs kept rider lower than expected
- Adjust annually and based on utility's allocation of Texas transmission costs (4% of grid)





Expenditure Summary (\$ in millions)



- Average annual increase for non-fuel of 2.8% in forecast

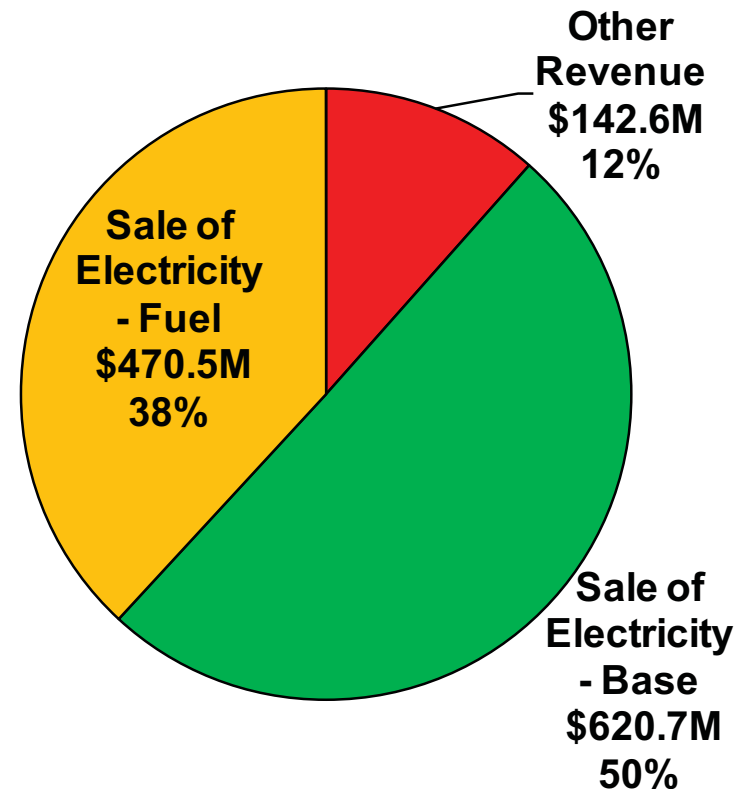




Revenue Components (\$ in millions)

- Base Electric Revenue
- Fuel Revenue
- Other Revenue
 - *Transmission*
 - *Wholesale Sales*
 - *Infrastructure Rental*
 - *District Cooling*
 - *Customer Fees*
 - *Interest Income*

FY 2011 Revenue \$1,233.8M





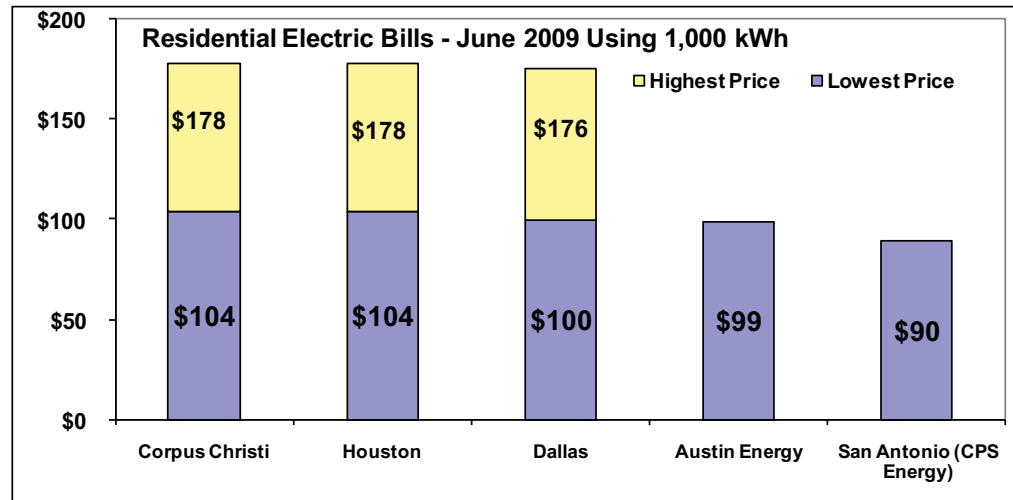
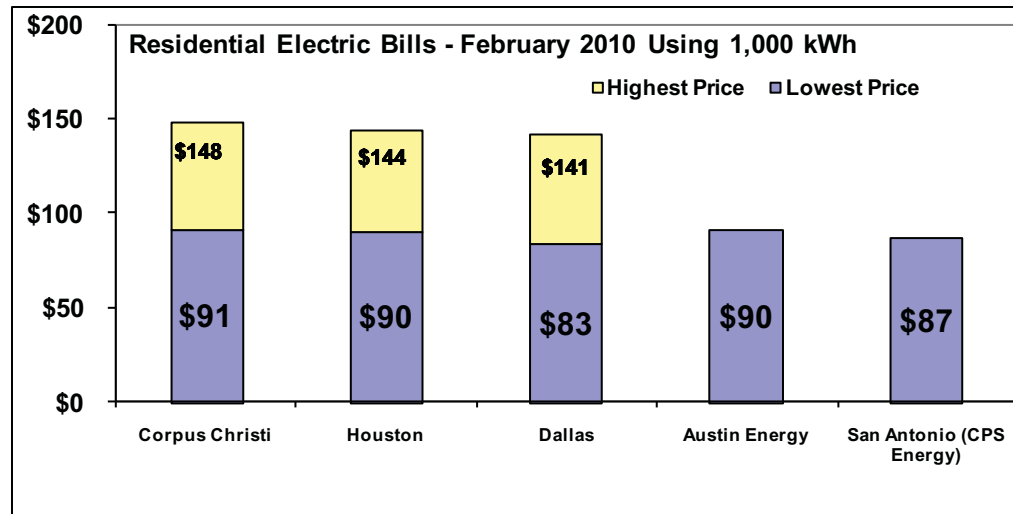
Revenue Key Assumptions

| Assumption |
|--|
| Economic data for Travis County used for electric demand <ul style="list-style-type: none">• Population growth• Employment growth |
| Historical patterns of customer mix and usage patterns |
| Achieve 800 MW demand side management by FY 2020 |
| kWh sales growth of 1.7% derived from normalized weather |
| Electric base revenue compounded average growth of 1.5% |
| Base rate increase required, no amount projected |
| Transmission rider in FY 2011 begins to recover rising transmission costs and adjusted annually |
| No growth in wholesale sales |
| Lower cash balances and interest rates reduce interest income |
| No use of Strategic Reserve Fund to balance |
| Maintain \$44 million Revenue Bond Retirement Reserve |





Electric Bills in Major Texas Cities



- Tiered rates help keep electric bills affordable for the disadvantaged (residential 1st 500 kWh at 3.55 cents per kWh)
- Levelized billing, deferred payment agreements, Customer Assistance Program

Charts provided for informational purposes only.
Average usage will vary by city.
Prices may vary by season and usage.

Source: Public Utility Commission of Texas.
Additional information on Texas providers can be found at www.puc.state.tx.us.

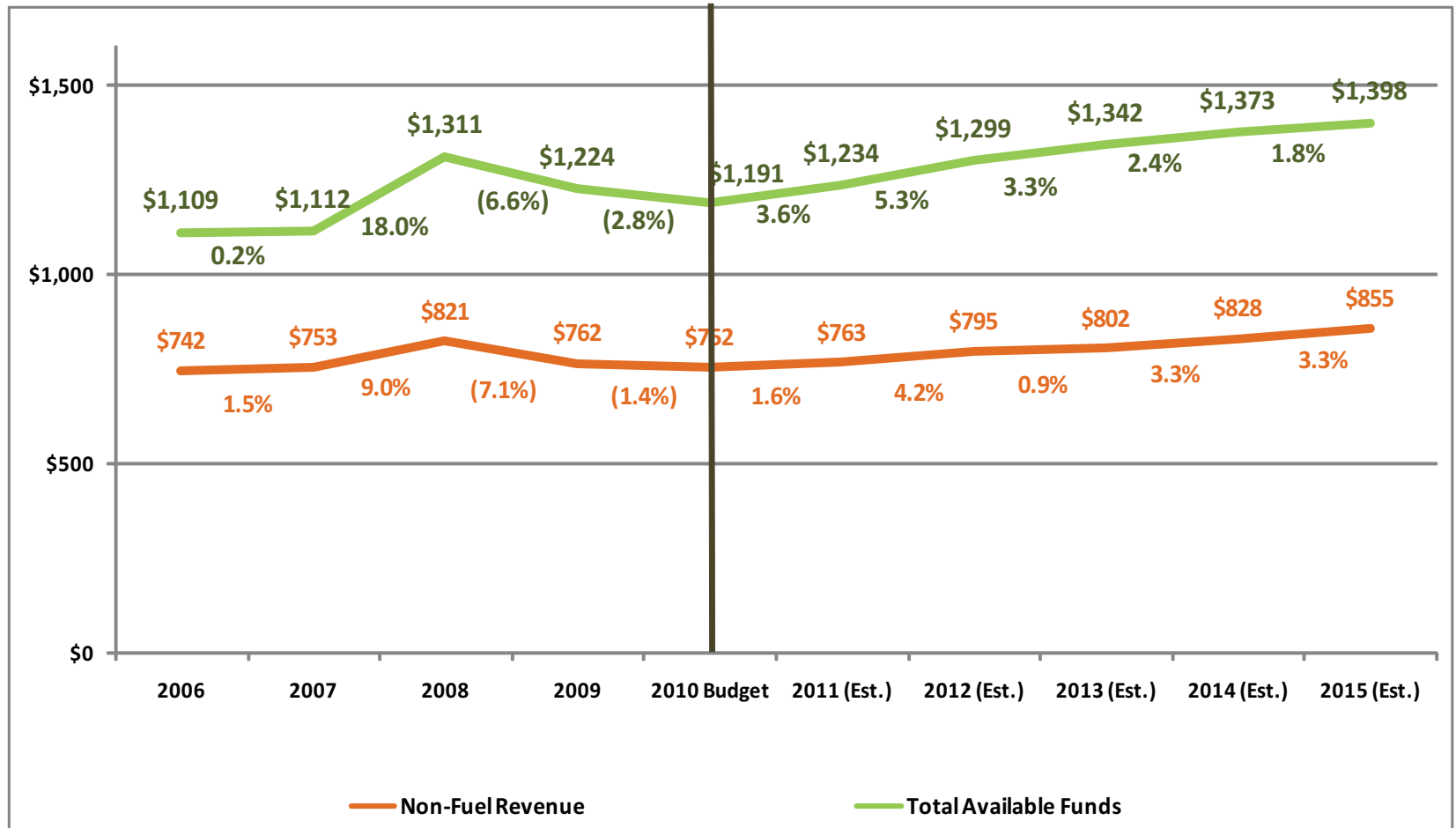
Average residential customer usage in Austin
June 2009 at 1,115 kWh.
February 2010 at 808 kWh.

NOTE: kWh is kilowatt hours.





Revenue Summary (\$ in millions)



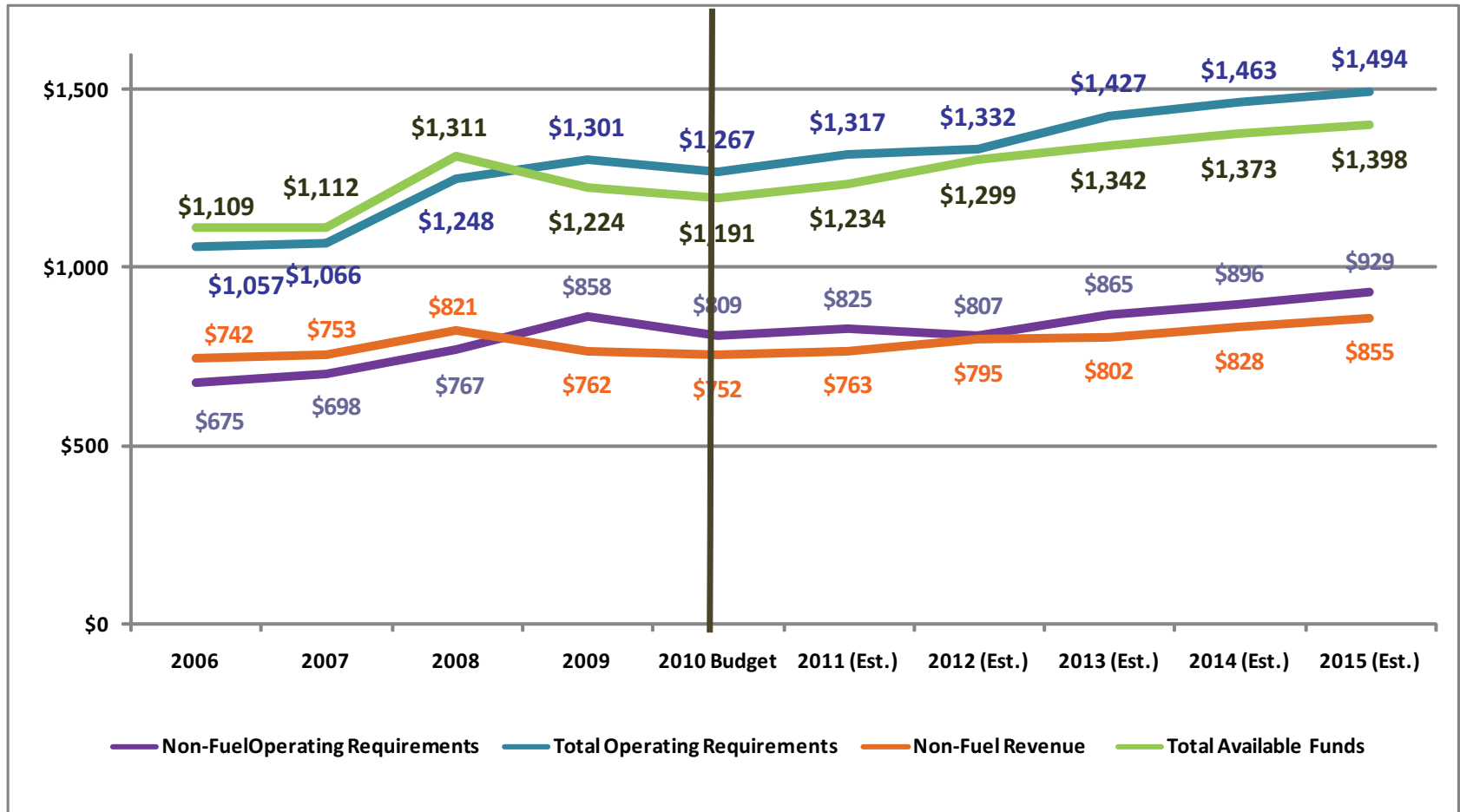
- Transmission Rider implemented FY 2011





Gap in Revenue and Expenditures

(\$ in millions)



- Forecast shows “Unbalanced” or unsustainable financial picture
- Base rate increase required, no amount projected





Fund Summary (\$ in millions)

| | | 2010 CYE | 2011 | 2012 | 2013 | 2014 | 2015 |
|-------------------------------|----|----------------|----------------|----------------|----------------|----------------|----------------|
| Beginning Balance | \$ | 237.1 | 160.3 | 77.1 | 43.9 | (41.4) | (131.4) |
| Revenue | \$ | 1,188.6 | 1,233.7 | 1,299.0 | 1,341.5 | 1,373.2 | 1,398.2 |
| Transfers In | \$ | 2.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Available Funds | \$ | 1,190.6 | 1,233.7 | 1,299.0 | 1,341.6 | 1,373.2 | 1,398.2 |
| Operating Requirements | \$ | 864.7 | 919.5 | 967.7 | 1,031.9 | 1,061.4 | 1,088.5 |
| Debt Service | \$ | 179.1 | 177.3 | 184.0 | 214.2 | 223.7 | 210.9 |
| Transfers Out | \$ | 205.3 | 199.3 | 159.1 | 158.8 | 155.6 | 171.5 |
| Other Requirements | \$ | 18.3 | 20.8 | 21.4 | 22.0 | 22.5 | 23.1 |
| Total Requirements | \$ | 1,267.4 | 1,316.9 | 1,332.2 | 1,426.9 | 1,463.2 | 1,494.0 |
| Excess (Deficiency) | \$ | (76.8) | (83.2) | (33.2) | (85.3) | (90.0) | (95.8) |
| Ending Balance | \$ | 160.3 | 77.1 | 43.9 | (41.4) | (131.4) | (227.2) |
| | | | | | | | |
| Strategic Reserve Fund | \$ | 138.1 | 138.1 | 138.1 | 138.1 | 138.1 | 138.1 |
| Debt Service Coverage | | 1.71 | 1.66 | 1.69 | 1.35 | 1.29 | 1.36 |
| FTEs | | 1,722 | 1,722 | 1,722 | 1,722 | 1,722 | 1,722 |

ASSUMPTION: Renewable in 2013-2015 as Construction of Plant

Ending Balance includes working capital reserve in accordance with City Financial Policy.





Fund Summary (\$ in millions)

| | | 2010 CYE | 2011 | 2012 | 2013 | 2014 | 2015 |
|-------------------------------|----|----------------|----------------|----------------|----------------|----------------|----------------|
| Beginning Balance | \$ | 237.1 | 160.3 | 77.1 | 43.9 | (16.8) | (77.4) |
| Revenue | \$ | 1,188.6 | 1,233.7 | 1,301.6 | 1,374.3 | 1,423.5 | 1,467.5 |
| Transfers In | \$ | 2.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Available Funds | \$ | 1,190.6 | 1,233.7 | 1,301.6 | 1,374.3 | 1,423.5 | 1,467.5 |
| Operating Requirements | \$ | 864.7 | 919.5 | 970.3 | 1,064.6 | 1,111.7 | 1,157.8 |
| Debt Service | \$ | 179.1 | 177.3 | 184.0 | 189.6 | 194.3 | 144.7 |
| Transfers Out | \$ | 205.3 | 199.3 | 159.1 | 158.8 | 155.6 | 171.5 |
| Other Requirements | \$ | 18.3 | 20.8 | 21.4 | 22.0 | 22.5 | 23.1 |
| Total Requirements | \$ | 1,267.4 | 1,316.9 | 1,334.8 | 1,435.0 | 1,484.1 | 1,497.1 |
| Excess (Deficiency) | \$ | (76.8) | (83.2) | (33.2) | (60.7) | (60.6) | (29.6) |
| Ending Balance | \$ | 160.3 | 77.1 | 43.9 | (16.8) | (77.4) | (107.0) |
| | | | | | | | |
| Strategic Reserve Fund | \$ | 138.1 | 138.1 | 138.1 | 138.1 | 138.1 | 138.1 |
| Debt Service Coverage | | 1.71 | 1.66 | 1.69 | 1.52 | 1.49 | 1.98 |
| FTEs | | 1,722 | 1,722 | 1,722 | 1,722 | 1,722 | 1,722 |

ASSUMPTION: Renewable in 2013-2015 as Purchased Power Agreements

Ending Balance includes working capital reserve in accordance with City Financial Policy.





Forecast Conclusions

- **Ongoing projected budget shortfall in each year of forecast**
 - \$83 million shortfall in FY 2011
 - FY 2011 Transmission Rider begins recovery of rising transmission costs
 - Base rate increase required by FY 2013, no amount projected
- **FY 2011 proposed budget development**
 - Maintain existing services and reliability
 - “Hold the line” on cost, although some increases will be required
- **Correct structural imbalance to ensure long-term financial sustainability**
 - Combination of revenue enhancements, cost reductions, rate increase
 - Action plans underway for financial review and rate increase



FUND PROJECTIONS

AUSTIN ENERGY

Austin Energy is the City of Austin's municipally owned and operated electric utility that provides retail electric service to its customers. Its service territory totals 437.06 square miles including 206.41 square miles in the City of Austin and 230.65 square miles in Travis and Williamson counties.

REVENUE

Austin Energy receives about 88% of its revenue from sales of electric service to retail customers in its service territory. Sales of electricity include two components – base (non-fuel) and fuel revenue. Base revenue is derived from the number of customers, usage levels and price. Fuel revenue, collected through the Fuel Adjustment Clause, is a cost pass-through to customers (no profit added). Other revenue includes transmission revenue, infrastructure rental, product and chilled water sales, customer fees, wholesale electric sales and interest income.

Revenue assumptions for the FY 2011-15 Financial Forecast include:

- Electric sales (non-fuel) increase over the five years at a compounded annual growth of 1.5%. An electric base (non-fuel) rate increase is required by FY 2013; however, no amount is projected or included in the forecast pending completion of a planned rate study. The base rate has not changed since 1994.
- Fuel charges are expected to increase over the forecast as are fuel costs.
- A Transmission Rider in 2011, a cost pass-through to customers (no profit added), begins recovery of rising costs for ongoing Texas Transmission Construction Program. The rider is adjusted annually in the forecast.

EXPENDITURES

The forecast shows that cost drivers continue to exceed revenue growth. Major expenditure categories include operating and maintenance (including fuel) and transfers. Transfers include funding for capital improvements (debt service and cash funded capital) and the General Fund Transfer.

Expenditure assumptions for the FY 2011-15 Financial Forecast include:

- Transmission expense increases from \$66 million to \$124 million over the five years due to ongoing Texas Transmission Construction Program, including Competitive Renewable Energy Zones (CREZ - \$5+ billion).
- The five year Capital Improvements Spending program (CIP) totals \$1.71 billion and is the cost driver for debt service and cash funded capital.
- The General Fund Transfer rate remains at 9.1% for FY 2011 and 2012. The rate has been 9.1% since 1999, except for 2002 (8.9%). The transfer policy will be evaluated as part of the planned rate study. The forecast assumes the transfer increases after FY 2012 at the growth rate of base electric revenue.

Enterprise Fund Projections

Austin Energy Department Five Year Forecast

(millions)

| | Amended 2009-10 | Estimated 2009-10 | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 |
|--|--------------------|----------------------|----------|----------|----------|----------|----------|
| BEGINNING BALANCE | 320.8 | 237.1 | 160.3 | 77.1 | 43.9 | (41.4) | (131.4) |
| REVENUE | | | | | | | |
| Base Revenue | 603.6 | 608.0 | 613.4 | 626.0 | 632.7 | 641.1 | 651.2 |
| Fuel Revenue | 480.3 | 437.0 | 470.5 | 504.0 | 539.8 | 545.3 | 543.4 |
| Transmission Revenue | 57.6 | 57.6 | 56.1 | 56.3 | 57.1 | 57.7 | 58.4 |
| Transmission Rider | 0.0 | 0.0 | 7.3 | 12.0 | 21.4 | 35.6 | 49.6 |
| Other Revenue | 90.3 | 75.4 | 77.6 | 93.7 | 82.7 | 84.7 | 85.9 |
| Interest Income | 10.5 | 10.6 | 8.8 | 7.0 | 7.9 | 8.8 | 9.7 |
| Repair and Replacement Fund Transfer | 2.0 | 2.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| TOTAL AVAILABLE FUNDS | 1,244.3 | 1,190.6 | 1,233.7 | 1,299.0 | 1,341.6 | 1,373.2 | 1,398.2 |
| PROGRAM REQUIREMENTS | | | | | | | |
| Fuel Expenses | 501.3 | 458.7 | 492.2 | 525.7 | 561.5 | 567.0 | 565.1 |
| Non-Fuel Operations & Maintenance | 264.2 | 261.1 | 269.0 | 275.7 | 285.8 | 292.1 | 301.0 |
| Transmission Expenses | 63.9 | 63.9 | 66.0 | 75.3 | 89.9 | 105.8 | 123.5 |
| Nuclear and Coal Plants Operating | 81.1 | 81.0 | 92.3 | 91.0 | 94.7 | 96.5 | 98.9 |
| TOTAL PROGRAM REQUIREMENTS | 910.5 | 864.7 | 919.5 | 967.7 | 1,031.9 | 1,061.4 | 1,088.5 |
| TRANSFERS OUT | | | | | | | |
| Debt Service | 178.3 | 179.1 | 177.3 | 184.0 | 214.2 | 223.7 | 210.9 |
| Capital Improvement Program | 59.7 | 59.7 | 95.8 | 58.1 | 55.7 | 51.4 | 66.0 |
| General Fund | 101.0 | 101.0 | 103.0 | 100.5 | 102.6 | 103.7 | 105.1 |
| All Other Transfers | 44.6 | 44.6 | 0.5 | 0.5 | 0.5 | 0.5 | 0.4 |
| TOTAL TRANSFERS OUT | 383.6 | 384.4 | 376.6 | 343.1 | 373.0 | 379.3 | 382.4 |
| TOTAL OTHER REQUIREMENTS | 18.3 | 18.3 | 20.8 | 21.4 | 22.0 | 22.5 | 23.1 |
| TOTAL REQUIREMENTS | 1,312.4 | 1,267.4 | 1,316.9 | 1,332.2 | 1,426.9 | 1,463.2 | 1,494.0 |
| EXCESS (DEFICIENCY) OF TOTAL AVAILABLE FUNDS OVER TOTAL REQUIREMENTS | (68.1) | (76.8) | (83.2) | (33.2) | (85.3) | (90.0) | (95.8) |
| ENDING BALANCE | 252.7 | 160.3 | 77.1 | 43.9 | (41.4) | (131.4) | (227.2) |
| 45 Days Reserve Requirement | 52.7 | 52.3 | 55.2 | 57.1 | 60.7 | 63.7 | 67.4 |
| Strategic Reserve Fund | 138.1 | 138.1 | 138.1 | 138.1 | 138.1 | 138.1 | 138.1 |
| FTEs | 1,721.75 | 1,721.75 | 1,721.75 | 1,721.75 | 1,721.75 | 1,721.75 | 1,721.75 |