



Sand Hill Energy Center



City of Austin, Texas Austin Energy

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

*Electric Utility Commission
Update on FY2011 Proposed Budget
June 21, 2010*



FY 2011 Budget Calendar

- November-January Departmental Business Planning
- February-March Develop Horizon Issues & Forecast
- April 21 Economic Outlook, General Fund Forecast and Horizon Issues
- April 28 Enterprise Fund's Forecast
- March - June AE Budget Development
- May 17 Electric Utility Commission (EUC) Meeting for Budget Input
- June 7 Departments submit proposed budgets to City Budget Office
- June 15 Public Forum on FY2011 Budget www.cityofaustin.org/citymgr/budget_input.htm
- June 21 and July 19 EUC Agenda Items
 - Budget update with continued input from EUC and community
- July 28 City Manager presents Proposed Budget to City Council
- August 4, 18 and 25 Budget Work Sessions
- August 5, 19 and 26 Budget Public Hearings at Council Meetings
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Forecast Overview

- Forecast shows a funding gap in each year
- Correct structural imbalance to ensure long-term financial sustainability
 - Combination of revenue increases and cost reductions
 - Action plans underway for financial review and base rate increase in FY2013
- Base rate increase required by FY 2013, no amount currently projected
- FY 2011 proposed budget development
 - \$83 million shortfall in FY 2011
 - Maintain existing services and reliability
 - “Hold the line” on cost, although some increases will be required
 - Interim revenue relief in FY 2011 from Transmission Rider that begins recovery of rising transmission costs
- Balance budget needs against Austin Energy’s mission of clean, affordable and reliable energy with excellent customer service





Budget Development – Upfront Decisions

- Emphasize need to close forecast gap
- No use of Strategic Reserve for balancing
- Primary focus on controllable forecast factors
- Allow and encourage repurposing or reallocation between functions
- No new Full Time Equivalents or employees
- Evaluate vacant positions and repurpose to fill new needs
- Evaluate forecast generation plan related capital improvement projects
- Focus on capital improvement project funding sources in reductions
- Work first on capital improvements program (CIP), then concurrently on CIP and operating budget (O&M) allowing trade-offs between CIP and O&M





Budget Development – Capital improvements

- Generation plan – evaluate short-term impact on affordability and develop/evaluate alternative scenario
- Non-generation projects
 - Deferral of non-critical projects
 - Re-evaluate projects driven by economy
- Focus on project's funding sources in considering reductions
 - Cash funding for short-term savings in Transfers to Electric CIP
 - Debt funding for long-term savings in debt service





Capital Improvement Program

2011-2015 Proposed totals \$937.2 million, with \$570.3 million debt funded

- Generation Plan - PPAs plus \$166.6 million Sand Hill Energy Center (200 MW)
- \$25.4 million for Emerging Transportation Technologies (PHEV) in later years
- \$13.8 million for Support Services, Facilities & Technology includes billing system replacement and System Control Center in 2011
- (\$32.9 million) reduction in electric service delivery projects
- (\$10.5 million) elimination of contingency on Fayette scrubber project
- (\$30.8 million) reduction in district cooling projects due to economic conditions

| Austin Energy Capital Improvement Spending Plan Forecast FY 2011-2015 Spending Plan Summary | | | |
|--|----------------------------------|----------------------------|---|
| Capital Improvement Spending Plan (in \$000s) | Forecast Build Total FY2011-2015 | Proposed Total FY2011-2015 | Difference Proposed vs. Forecast Build Scenario |
| Distribution | 277,154 | 270,605 | (6,549) |
| Distribution Substation | 70,061 | 55,827 | (14,234) |
| Transmission | 119,547 | 107,463 | (12,084) |
| Subtotal Electric Service Delivery | 466,762 | 433,895 | (32,867) |
| Power Production | 1,058,706 | 329,329 | (729,377) |
| Customer Service Billing & Metering | 27,795 | 31,337 | 3,542 |
| Support Services, Facilities & Technology | 160,344 | 142,644 | (17,700) |
| Total | 1,713,607 | 937,205 | (776,402) |

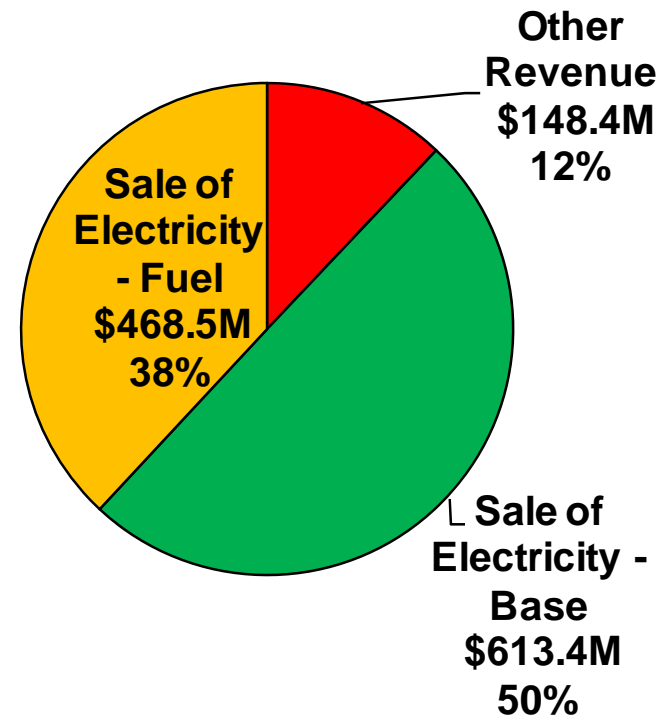




Sources of Funds

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

FY 2011 Revenue **\$1,230.3M**





Revenue - Fuel Charge

- Recovers cost of fuel as pass-through to the customer, no profit added
- Cost-recovery allows annual true-up, but no change since January 1, 2008
- Expecting fuel rate to decrease January 1, 2011 based on estimates
 - Natural gas price decline is primary driver
- Items included in fuel charge
 - Average fuel and purchased power cost
 - Projected generation requirements and combination of plants used
 - Fees from Electric Reliability Council of Texas (ERCOT)
 - Renewable energy and congestion costs
 - Adjustment for previous over- or under-recovery

SECONDARY SERVICE

Rates provided in cents per kilowatt-hour (kWh) of electricity usage
(For Rates: E01, E02, E03, E04, E05, E06, E10, E13, E14, E23, ENW)

| | |
|---|------------------|
| January 1, 2004 - December 31, 2005 | 2.796 cents /kWh |
| January 1, 2006 - December 31, 2006 | 3.634 cents /kWh |
| January 1, 2007 - May 31, 2007 | 3.343 cents /kWh |
| June 1, 2007 - December 31, 2007 | 3.044 cents /kWh |
| For electric bills received beginning January 1, 2008 | 3.653 cents /kWh |





Revenue – 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)

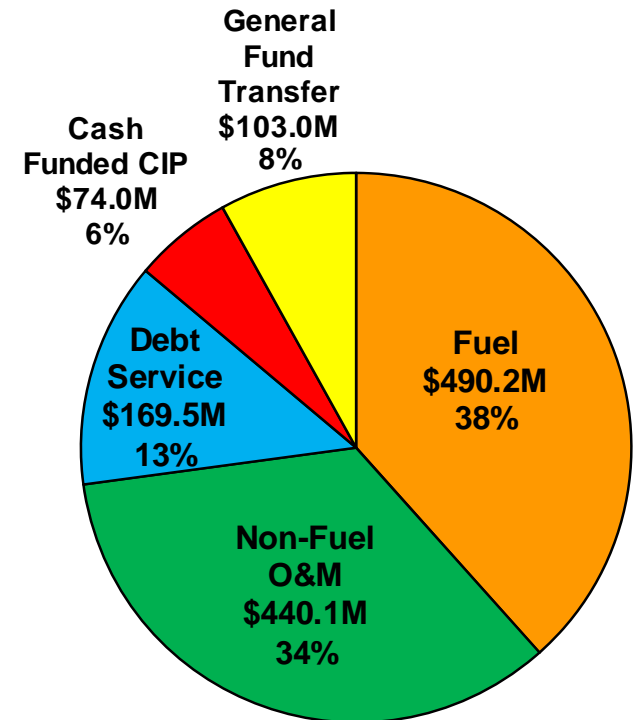




Uses of Funds

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

FY 2011 Requirements \$1,276.8M





Budget Additions

- Added \$7.5 million for personnel city-wide initiatives
 - \$2.9 million for salary adjustments
 - \$1.4 million for Health/Life/Dental Insurance premiums
 - \$2.1 million for additional contributions to Employee's Retirement System
 - \$0.9 million to remove furloughs for non-civil service employees
- \$4.2 million operating cost increase for South Texas Nuclear Plant and Fayette Power Plant
- \$5.9 million for non-fuel and other operating expenses due to increased contractual and commodity requirements
- \$0.5 million increase in property and equipment insurance premiums
- \$1.0 million increase in Bad Debt expense due to economic conditions
- \$16.1 million increase in cash funded electric Capital Improvement Program
- \$0.3 million for Economic Incentives Program
- \$2.0 million increase in General Fund Transfer maintaining current policy





Budget Reductions

- No new FTEs
- Repurposing 2 FTEs (1 for rate review, 1 for web design)
- \$1.5 million decrease in travel and training
- Eliminated \$500,000 in terminal pay for expected employee retirements
- \$3.2 million decrease in plant boiler/turbine maintenance and maintenance of various other equipment due to scheduling cycle adjustments
- \$1.7 million decrease in Software Maintenance agreements
- Eliminated \$44.0 million for FY2010 one-time transfer to establish Revenue Bond Retirement Reserve





Budget Update

- Eliminated Legal Services City-wide \$500,000
- 311 Call Center \$8.2 million total budget
 - Serves as disaster recovery and backup call center for utility services
 - \$2.0 million reimbursement from other funds historically
 - Proposed funding based upon first allocating cost of disaster recovery, then cost allocation by service levels
- Economic Growth and Redevelopment Services Office \$9.3 million
- Street Lighting \$6.1 million





Compare Forecast to Proposed

- Forecast FY2011 \$83.2 million shortfall
- Proposed FY2011 \$46.5 million shortfall
- Closed gap by about \$36.7 million
 - Capital – reductions of \$36.9 million FY2011 and FY2011-2015 \$776.4 million
 - Operating Revenue net reduction of \$3.4 million
 - Increase of \$2.1 million for Chilled Water revenue
 - Operating Requirements net reduction of \$40.1 million from forecast
 - Net reduction of \$12.4 million in non-fuel operating requirements
 - \$7.8 million lower debt service requirements
 - Net reduction of \$21.6 million transfers out, primarily cash funded capital improvements





Feedback Items

- Energy efficiency rebate programs
 - Current Budget \$16.4 million
 - FY2011 proposed at \$17.2 million may be insufficient to meet demand
- 24 Hour Door Hanger Notification for Disconnect
 - \$500,000 per year savings
 - Current process in place since 1972 includes phone call and door hanger
- Tree Trimming Customer Notification Process
 - \$500,000 - \$1,000,000 per year savings
 - Current process - in place since 2000
 - Increased tree trimming \$2.0 M after 1997 ice storm and customer notification processes in 1998 and 1999, with current process adopted 2000





Next Steps

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