



Austin Energy

FY 2010-11 Proposed Budget

Electric Utility Commission

August 16, 2010

Our Mission:

*Deliver Clean, Affordable, Reliable Energy
and Excellent Customer Service*



Budget Facts

(In Millions)

	FY 2009 Actual	FY 2010 Amended	FY 2010 CYE	FY 2011 Proposed
Revenue	\$1,224.3	\$1,244.3	\$1,196.7	\$1,230.3
Expenditures	\$1,300.2	\$1,312.4	\$1,264.7	\$1,276.7
FTEs	1,718.75	1,721.75	1,721.75	1,721.0

- i 9th largest public power electric utility in U.S.
- i Over \$3.6 billion assets
- i Over \$1.0 billion annual revenue
- i 437.06 square mile service territory
 - ✓ City of Austin and parts of Travis & Williamson Counties
- i Electric provider for 400,000+ customers
- i About 11,300 miles of distribution lines
- i 1,721.00 full time employees





FY 2010 Accomplishments



- #1 in voluntary renewable energy sales in U.S. for 8th consecutive year
- ARRA grant recipient \$23.9 million
- Generation Resource plan adopted, subject to development of Affordability Matrix
- Energized the rebuilt Koenig Lane substation
- Replaced over 55 miles of distribution line
- Energized 100 MW peaking units at Sand Hill Energy Center
- Initiated project to replace customer billing system
- Preparation and testing for Nodal market which begins December 2010
- Quality Management (ISO) certification for Customer Care; recertification for Electric Services Delivery
- Completed installation of remaining automated meters
- Austin designated as a pilot electric car city for the Chevy Volt



2011 Budget Highlights

Operating Budget

- No electric base rate increase (since 1994)
- Transmission rider recovers increasing Texas grid costs
- Fuel cost reductions
- Reduced forecast gap from \$83 million to \$46 million
- General Fund transfer rate of 9.1% maintained
- Strategic Reserve sustained

Capital Plan

- \$937.2 million 5-year plan, \$570.3 million debt funded
- \$237.0 million spending plan in FY 2011
- Projects for power supply, reliability and customer service



Revenue



■ Base Electric Revenue

■ Fuel Revenue

■ Other Revenue

⚡ *Transmission*

⚡ *Wholesale Sales*

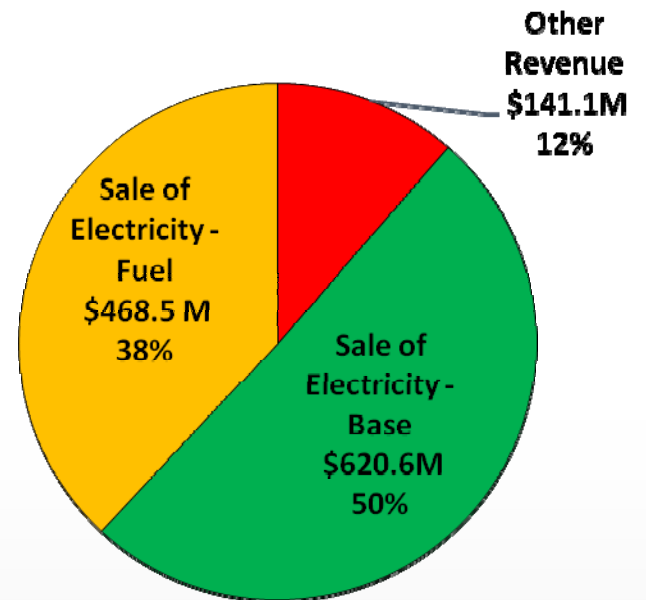
⚡ *Infrastructure Rental*

⚡ *District Cooling*

⚡ *Customer Fees*

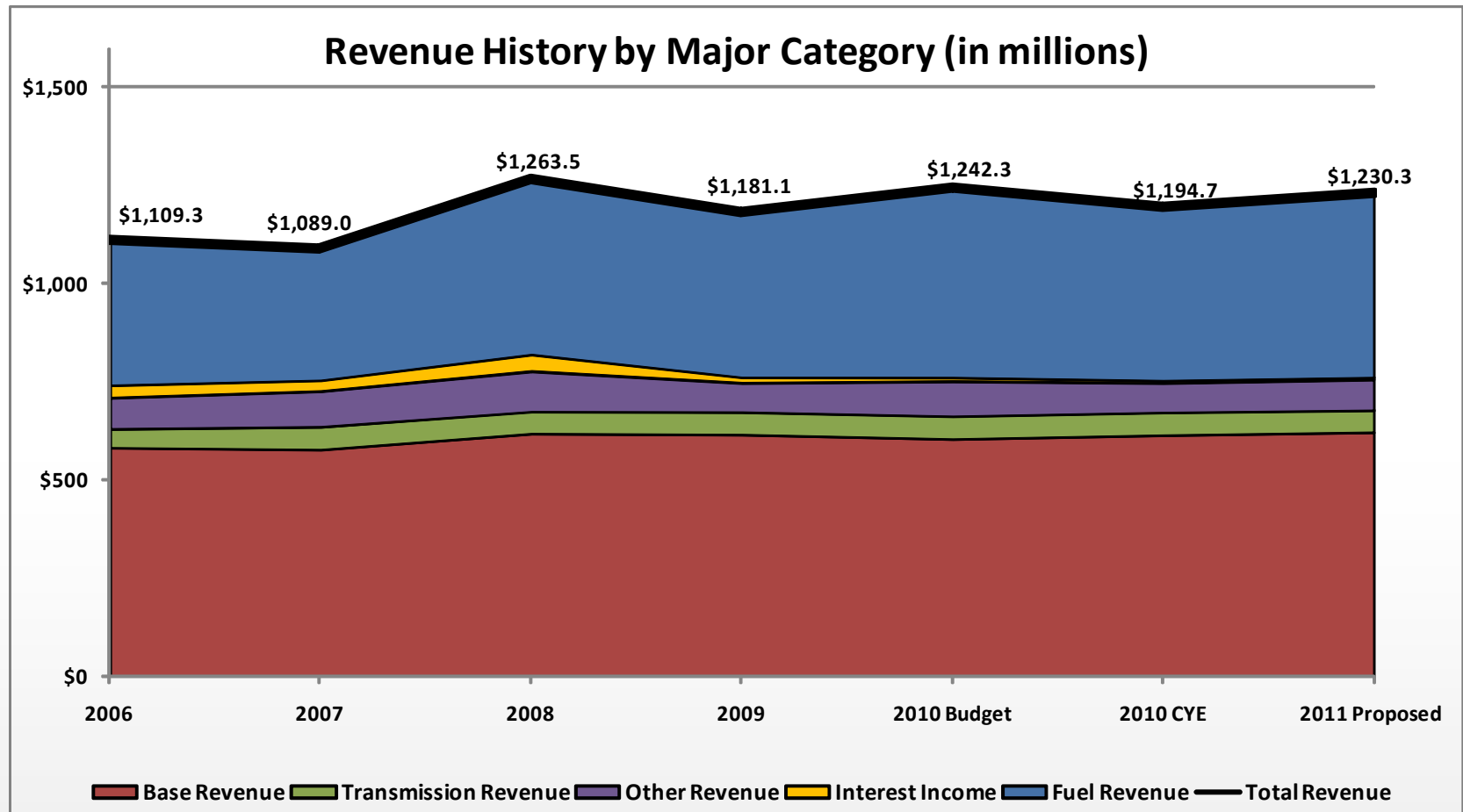
⚡ *Interest Income*

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



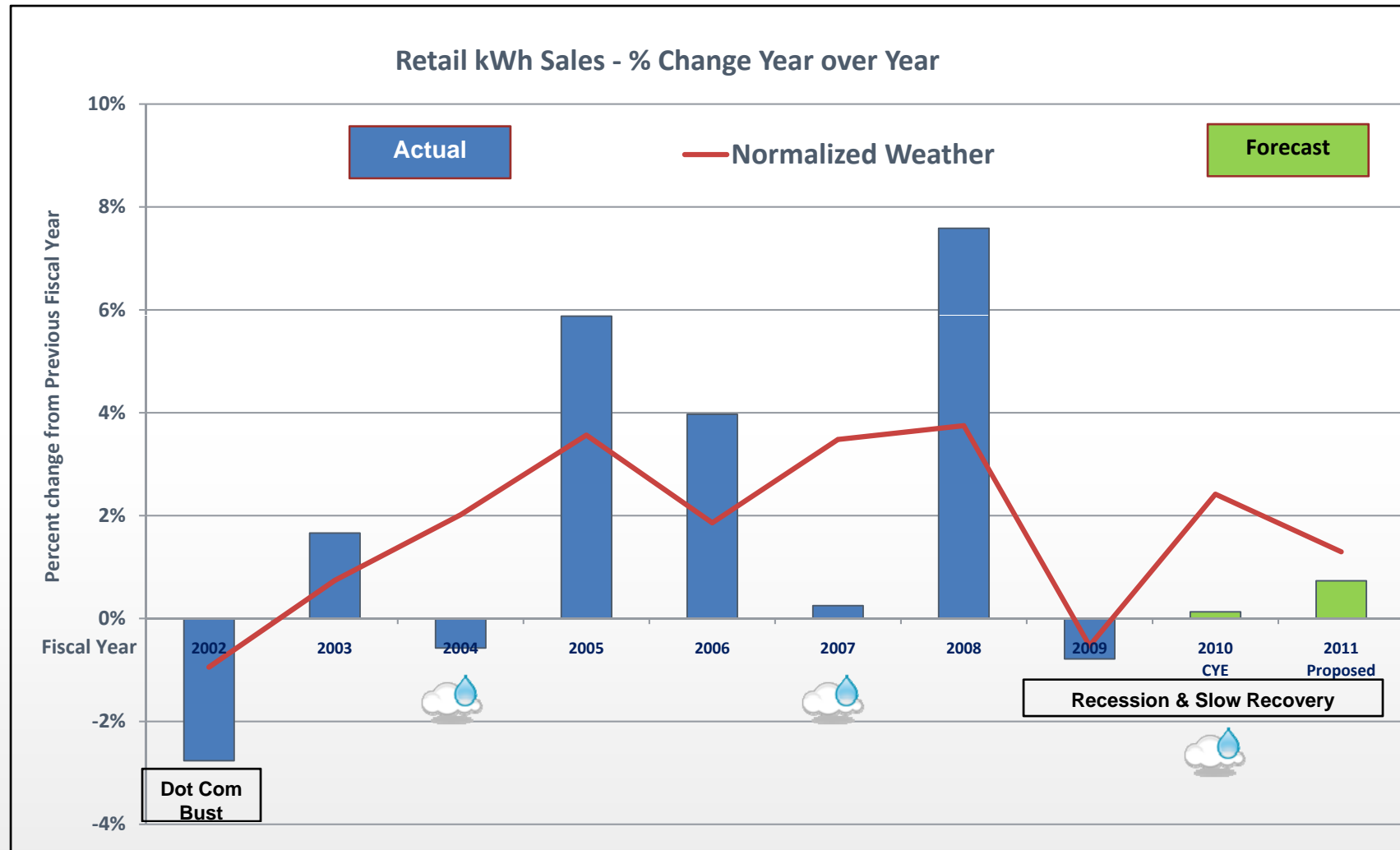


Revenue





Revenue





Fuel Adjustment Tariff



- Recovers fuel cost as pass-through to customers, no profit added
- Annual true-up, no change since January 1, 2008
- Expect fuel rate decrease January 1, 2011
 - ✓ 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

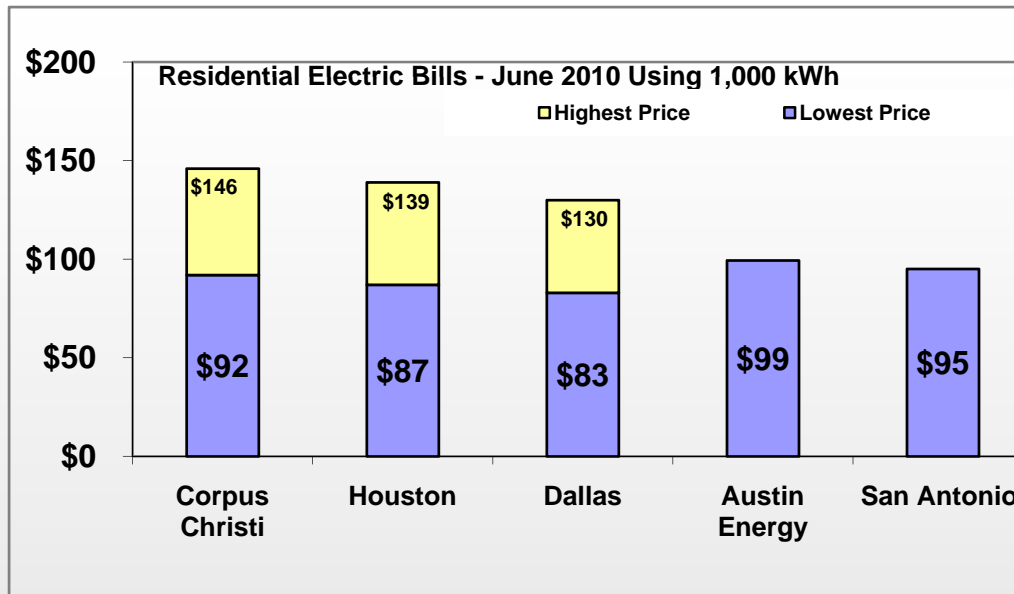
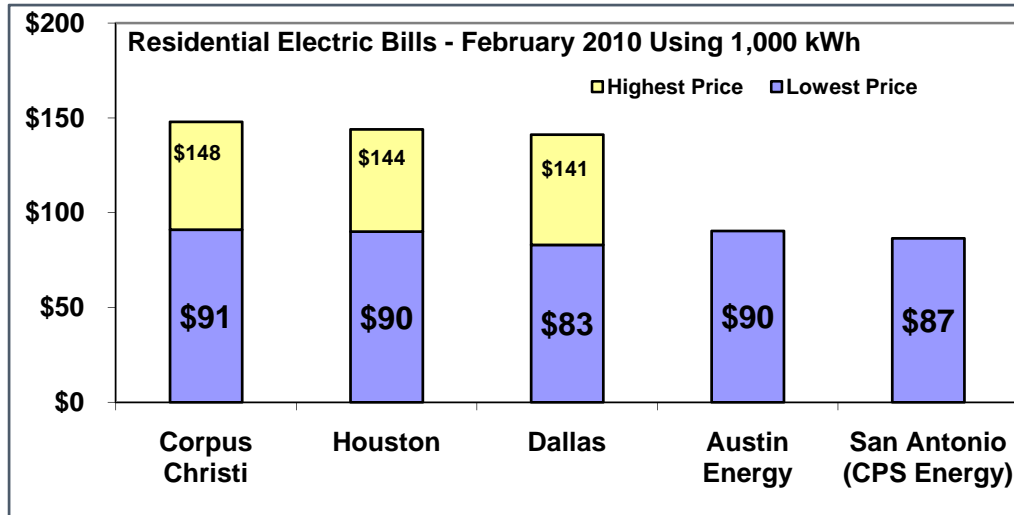


Transmission Rider

- FY 2011 transmission expense of \$66 million for Texas grid use expected to double in 5 years
- Proposed method to recover cost increases (no profit)
- Rider proposed in FY 2010, but withdrawn; utility absorbed \$5 million in lost revenue
- FY 2011 average monthly residential bill impact of 79 cents increasing to \$5.23 in FY 2015 (average usage of 959 kwh)
- 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)



Rates are Competitive



Electric Bills for Major Texas Cities

Retail rates remain competitive compared to other Texas utilities.

Summer 2010 and Winter 2010 bill comparison.

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 2010 at 1,098 kWh.
February 2010 at 808 kWh.



Requirements



i Operating & Maintenance

⚡ *Fuel*

⚡ *Non-fuel*

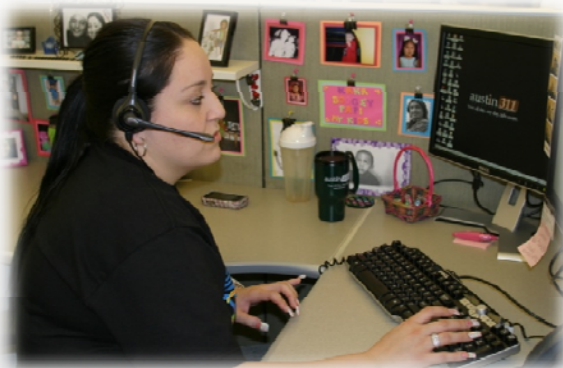
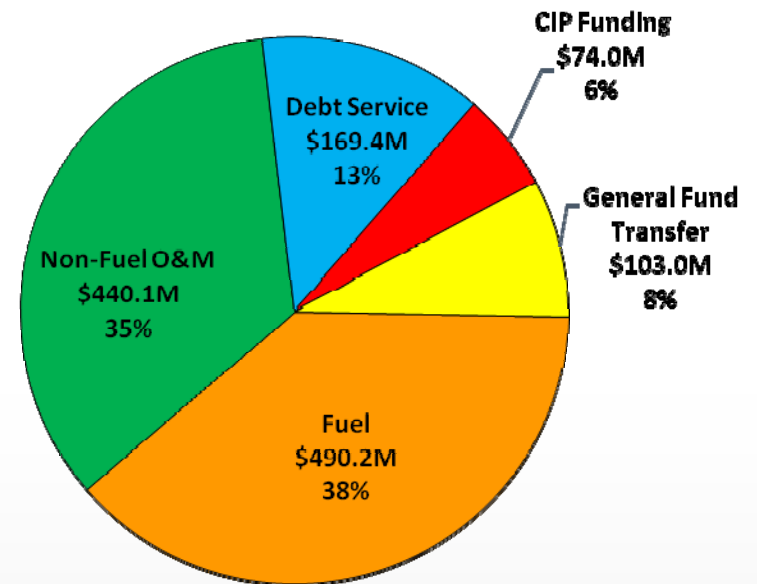
i Capital Improvements (CIP)

⚡ *Debt Service*

⚡ *CIP Cash Funding*

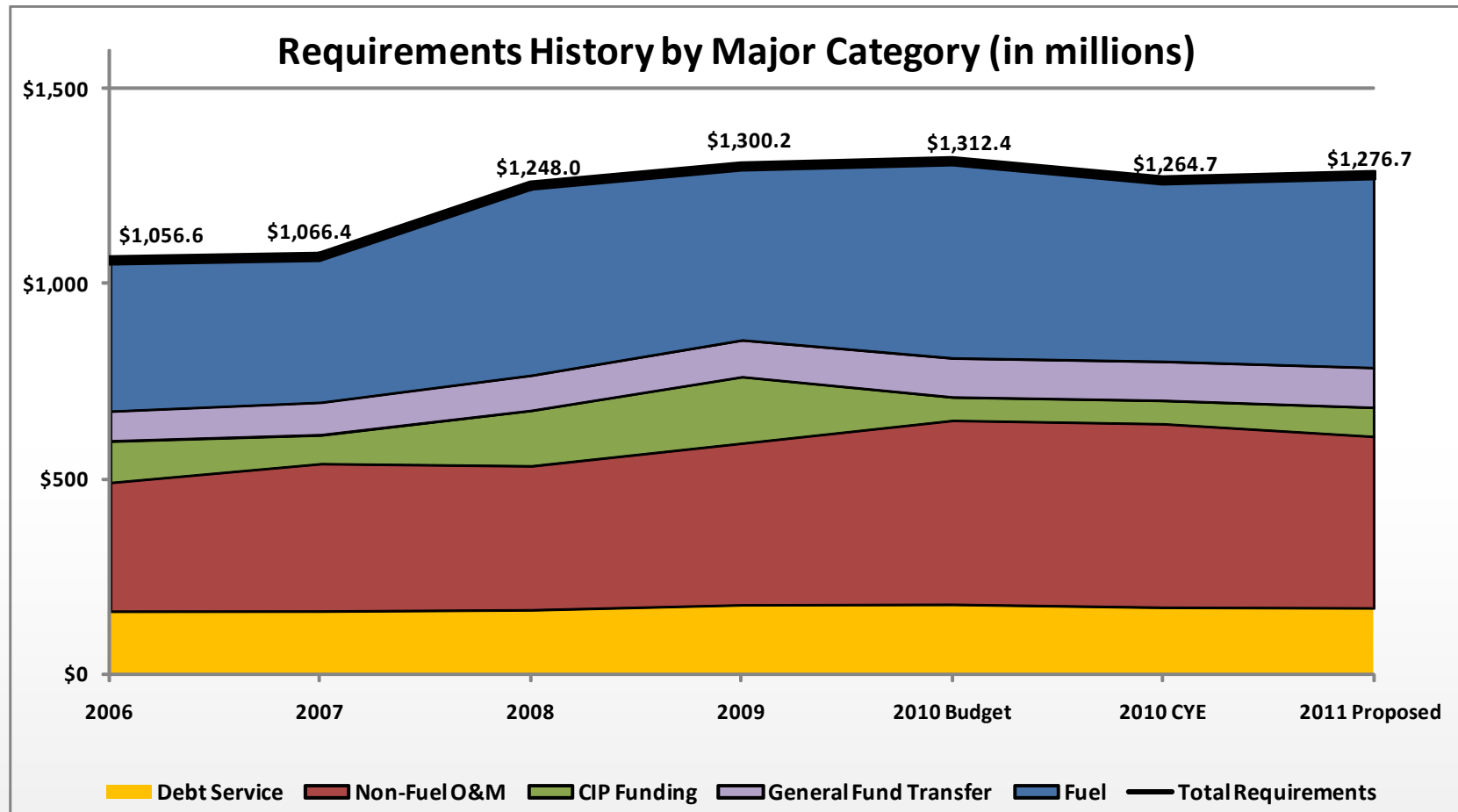
i General Fund Transfer

FY 2011 Requirements **\$1,316.9M**





Requirements





Budget Additions

- \$7.5 million for personnel city-wide initiatives
 - ⚡ \$2.9 million for salary adjustments of 2.5%
 - ⚡ \$1.4 million for Health/Life/Dental Insurance
 - ⚡ \$2.1 million for additional contributions for Retirement System
 - ⚡ \$0.9 million to remove furloughs
- \$4.2 million operating cost increase for South Texas Nuclear Plant and Fayette Power Plant
- \$5.9 million for non-fuel operating expenses due to increased contract and commodity costs
- \$0.5 million increase in property and equipment insurance
- \$1.0 million increase in Bad Debt expense due to economy
- \$16.1 million increase in cash funding of capital improvements
- \$2.0 million increase in General Fund Transfer maintaining current policy



Budget Reductions

- No new full time equivalents (FTEs)
- \$3.2 million decrease in maintenance for plant boiler, turbine and other equipment by adjusting maintenance schedules
- \$1.7 million decrease in Software Maintenance agreements
- \$9.1 million decrease in debt service requirements due to lower Capital Improvements Spending Plan
- AE net cost of 311 call center at \$2.1 million, a \$3.5 million decrease from FY 2010
 - ⚡ Reimbursement based upon allocating costs for disaster recovery, then allocation by service levels

Closed \$37.0 million of forecast FY 2011 funding gap.



Program Highlights



- Rate and Business Model review
- National Energy Regulatory Commission (NERC) reliability compliance program
- Reliability improvements
 - ⚡ Mueller substation
 - ⚡ Ongoing construction on electric service delivery system
- Customer Information and Billing system replacement
- Additional walk-in customer service center North
- Energy Efficiency programs funded at a historic high; solar program maintained at \$4.0 million
 - ⚡ \$14.5 million for energy efficiency programs, an increase of \$2.5 million (21%) over FY 2010 Budget
- Economic Growth and Redevelopment Services Office funded at \$9.9 million



2011-2015 Capital Spending Plan

\$937.2 Million 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	\$55.5	\$53.2	\$54.9	\$53.5	\$53.5	\$270.6
Distribution Substation	5.0	9.9	8.8	18.2	14.0	55.9
Transmission	<u>21.0</u>	<u>22.5</u>	<u>25.0</u>	<u>15.5</u>	<u>23.4</u>	<u>107.4</u>
Electric Service Delivery	81.5	85.6	88.7	87.2	90.9	433.9
Power Production	75.6	34.9	77.0	104.8	65.7	358.0
Customer Service Billing & Metering	16.9	4.0	3.8	3.1	3.5	31.3
Facilities, Technology & Support Services	<u>63.0</u>	<u>26.5</u>	<u>6.0</u>	<u>9.9</u>	<u>8.6</u>	<u>114.0</u>
Total	<u>\$237.0</u>	<u>\$151.0</u>	<u>\$175.5</u>	<u>\$205.0</u>	<u>\$168.7</u>	<u>\$937.2</u>

- \$570.3 million debt funded
- \$ 776.4 million lower than forecast – Build scenario - \$1,713.6 million
- Generation Plan includes Sand Hill Energy Center 200 MW - \$166.6 M



Capital Spending Plan



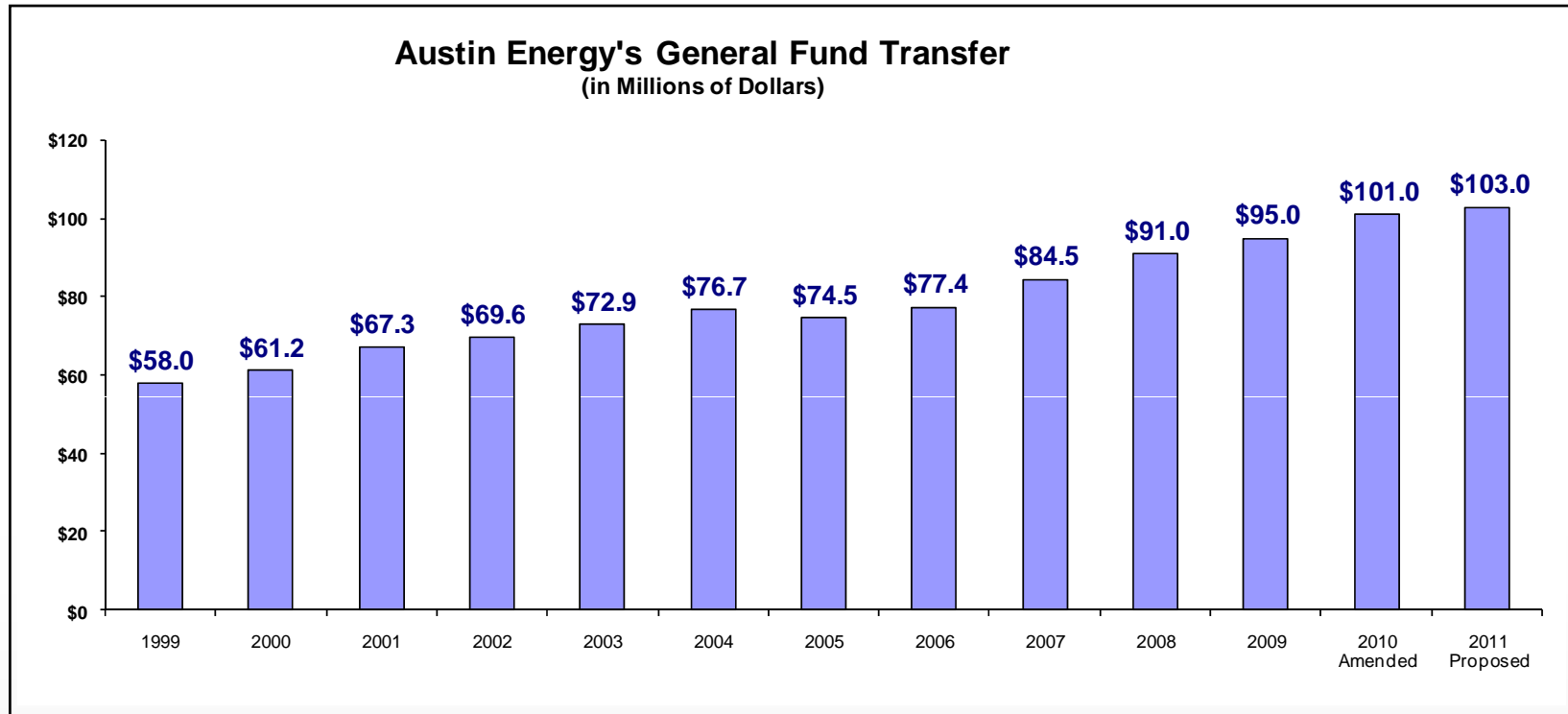
5 Year Plan - \$937.2 Million



- i Distribution improvements \$326.4M
- i Transmission improvements \$107.5M
- i Overall \$32.9 million reduction in electric service delivery
- i Sand Hill Energy Center - Total cost \$166.6 M Build-out Combined Cycle Gas Turbine 200 MW (FY 2013-2015)
- i Fayette Power Project Scrubbers - \$32.5M in Plan - Total cost \$201.8M - Complete by 2012
- i Customer Information System replacement - \$12.6M in Plan - Total cost \$36.4M – Complete mid-year 2011 - Multi-department project
- i Relocate System Control Center - \$63.1M in Plan - Total cost \$90.6M - Complete 2012
- i Emerging Transportation Technologies (PHEV) – \$361k in Plan - Total cost \$27.2 million
- i May need to accelerate some projects to FY 2011



General Fund Transfer



- i Maintained at 9.1% since 1999, except 8.9% in 2002
- i Transfer % of Gross Revenue
 - ⚡ Three year average of two prior years & current year estimate



Challenges

- 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
- Rate review process





Best Managed City



- National leader
 - ⚡ Energy Efficiency, Green Building and renewable energy
 - ⚡ Quality management certification for electric service delivery, customer care and environmental protection
 - ⚡ Partner in Pecan Street project
- Customer Information and Billing System replacement
- National Energy Regulatory Commission (NERC) reliability compliance program
- General Fund Transfer
- Rates remain competitive
- Strong safety focus
- Workforce development – partner with Austin Community College for Utility Lineman Certification



Funding Issues

- Continue to work with City Hall on cost allocations for EGRSO, 311 Call Center and Administrative Support
- 311 Call Center allocation revised in FY 2011
- City plans to begin addressing EGRSO in FY 2012
- Administrative Support

Department	FY 2010	FY 2011
Airport	\$ 1,698,060	\$ 1,697,020
Austin Energy	14,523,426	15,189,559
Austin Water	6,476,539	7,088,728
Capital Projects	1,874,259	1,768,800
Convention Ctr.	1,888,740	1,878,178
Drainage	2,132,664	1,920,109
General Fund	27,018,738	28,731,228
Solid Waste Services	2,309,847	2,290,490
Transportation	2,304,826	2,133,408
Total	\$ 60,227,099	\$ 62,697,520

- General Fund Transfer policy re-evaluated as part of rate review



Next Steps

- August 16, 2010 - EUC Recommendation to City Council on AE's Budget
- August 25, 2010 – Council Budget Presentation
- August 26, 2010 – Public Hearing on Transmission Rider and Fee Schedule
- September 13, 14, and 15, 2010 – Council Budget Approval Readings



August 16, 2010