



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

**City of Austin, Texas
Austin Energy**

*Navigant Report Summary
January 31, 2012*



Financial Position Review

Navigant's Principal Findings:

- "AE's financial performance has been strong for many years."
- "Until 2009, kilowatt hour sales growth and increasing revenues for AE were more than adequate to offset rising system expenses, resulting in no base rate increases since 1994."
- Reviewed Austin Energy's 2011-2015 Financial Forecast
 - "without [expense reductions], AE's financial condition will deteriorate over time. Expense reductions alone will not be sufficient to balance the forecast."
 - "declining financial metrics would not likely support AE's existing bond ratings"



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Financial Position Review

- Rate review fundamental challenge - balancing multiple objectives
 - Ensuring revenue sufficiency to prevent further deterioration of utility's financial condition
 - Financing generation plan and increased energy efficiency
 - Balancing rates across customer classes
 - Maintaining electric rates competitive in Texas market
 - Increased reliance on distributed generation and energy efficiency
- First priority needs to be revenue sufficiency.

- **"Conclusion: Significant action will be required to assure AE's financial health over the next several years."**



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Benchmarking and Program Review

Navigant's Principal Findings:

- "AE facing a series of challenges driven by [several] converging factors:
 - Financial constraints resulting from recent economic downturn and *reduced demand for electricity*
 - Meeting aggressive strategic goals established by City policy makers
 - Higher costs driven by:
 - Increased [cost of] transmission infrastructure throughout the Electric Reliability Council of Texas (ERCOT)
 - Increased complexity in managing the utility due to ERCOT implementation of a Nodal market, Smart Grid initiatives, potential legislative mandates on power plant emissions, and more stringent North American Electric Reliability Corporation (NERC) compliance requirements
 - Implementation of new technologies that will enhance service and reliability
 - Need to increase electric rates and its impact on ratepayers."



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Benchmarking and Program Review

Navigant's Principal Findings:

- "AE [should] take a serious look at its initiatives and perhaps focus on one or two items that are most important to the success of AE, paring down the number of initiatives to manage risk and cost. There needs to be a balance between AE's leadership and its mission of affordability."
- "AE [should] consider establishing a discipline that evaluates the value proposition of [investing] in new initiatives, capital projects, and processes."



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Analysis of Transfers from Municipal Utilities to General Government

Navigant's Principal Findings:

- Utilities surveyed
 - **Texas:** Austin Energy, Georgetown Utility Services, Denton Municipal Electric, College Station Utilities, CPS Energy, Lubbock Power and Light
 - **Non-Texas:** Orlando Utility Commission, City Utilities of Springfield, Gainesville Regional Utilities, Seattle City Light, Los Angeles Department of Water and Power, Memphis Light Gas and Water, Nashville Electric
- "Total transfers compared to the utility's electric revenue ranged in percentage. Weighted average transfer was 9%....Five utilities transferred less than AE and four utilities transferred more on a percentage basis."
- "City of Austin has maintained its transfer policy, both in methodology and percentage, and has consistently budgeted the transfer below the maximum stated in the Financial Policy (12%)."
 - Maintained at 9.1% since 1999, except 8.9% in 2002



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Questions