



Late Backup

Austin Energy – Financial Policies – Reserves

January 31, 2012

Description	Policy #	Date Adopted	Date Revised	Target Amount	Current Amount FY2012 Budget Ending Balance	Target Amount	Test Year Revenue Requirement	# Years to Replenish per Financial Policy	# Years to Replenish in Rate Proposal	Uses	Funding Source
Operating Cash	11	FY1989	N/A	Maintain 45 days of budgeted operations and maintenance expense, less fuel.	\$38,000,000	\$51,668,168	\$-0-	Not specified.	3 years	Working capital for daily operations.	Revenue Requirements.
Repair and Replacement	15	FY2002	FY2012	Maximum of 50% of previous year's electric utility depreciation expense.	\$64,071	\$61,197,672	\$20,399,224	Not specified.	3 years	<p>Providing extensions, additions, replacements and improvements to the Electric System.</p> <p>Transfer of \$7,650,000 in FY2004 to Austin Energy's Operating Fund to fund the first two years of Holly Power Plant decommissioning costs.</p> <p>Transfers of \$30,000,000 in FY2008 and \$35,000,000 in FY2009 were made to the Austin Energy Operating Fund for its Capital Improvements Program to fund additional generation peaking capacity at the Sand Hill Energy Center. Transfers were in the Approved Budget.</p>	Revenue Requirements.
Non-nuclear decommissioning	21	FY2002	N/A	Funding will be set aside over a minimum of four (4) years prior to the expected plant closure.	\$8,000,000	\$55,577,818	\$5,557,782	Funding will be set aside over a minimum of four (4) years prior to the expected plant closure.	10 years	<p>Fund plant retirement and decommissioning.</p> <p>Used to fund the cost of decommissioning the Holly Power Plant.</p>	Revenue Requirements.



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Strategic Reserve – Emergency	16	FY1997	FY2002	Minimum of 60 days of non-power supply operating requirements.	\$68,890,890	\$68,890,890	\$-0-	Not specified.	N/A. Currently fully funded.	Used as a last resort to provide funding in the event of an unanticipated or unforeseen extraordinary need of an emergency nature, such as costs related to a natural disaster, emergency or unexpected costs created by Federal or State legislation. The Emergency Reserve shall be used only after the Contingency Reserve has been exhausted.	Revenue Requirements.
Strategic Reserve – Contingency	16	FY1997	FY2002	Maximum of 60 days of non-power supply operating requirements 60 days.	\$68,701,568	\$68,890,890	\$189,322	Balance will be replenished to the targeted amount within two (2) years.	Currently deficient.	Used for unanticipated or unforeseen events that reduce revenue or increase obligations such as extended unplanned plant outages, insurance deductibles, unexpected costs created by Federal or State legislation, and liquidity support for unexpected changes in fuel costs or purchased power which stabilizes fuel rates for our customers.	Revenue Requirements.
Strategic Reserve – Rate Stabilization. Previously named Competitive Reserve.	16	FY1997	FY2012	Maximum 90 days of non-power supply operating requirements.	\$ -0-	\$98,158,450	\$3,946,811	Not specified.	3 years	Replaced the Strategic Reserve – Competitive Portion Uses include: (1) deferring or minimizing future rate increases, (2) new generation capacity construction and acquisition costs and/or (3) balancing of annual power supply costs (net power supply/energy settlement cost).	Revenue Requirements.
GRAND TOTAL					\$183,656,529	\$404,383,888	\$30,093,139				



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Financial Policy #	Financial Policy	History of Revisions
11	Austin Energy shall maintain operating cash equivalent to 45 days of budgeted operations and maintenance expense, less fuel.	Policy initially adopted June 15, 1989.
15	A Repair and Replacement Fund shall be created and established. Moneys on deposit in the Repair and Replacement Fund shall be used for providing extensions, additions, replacements and improvements to the Electric System. Net revenues available after meeting the General Fund Transfer, capital investment (equity contributions from current revenues) and 45 days of working capital may be deposited in the Repair and Replacement Fund. The targeted balance shall not exceed 50% of the previous year's electric utility depreciation expense which is at a level necessary to keep the electric system in good operating condition or to prevent a loss of revenues.	<p>Added in FY2002.</p> <p>FY2012 Revision – Added target for reserve. The targeted balance shall not exceed 50% of the previous year's electric utility depreciation expense which is at a level necessary to keep the electric system in good operating condition or to prevent a loss of revenues.</p> <p>Transfer of \$7,650,000 in FY2004 to Austin Energy's Operating Fund to fund the first two years of Holly Power Plant decommissioning costs.</p> <p>Transfers of \$30,000,000 in FY2008 and \$35,000,000 in FY2009 were made to the Austin Energy Operating Fund for its Capital Improvements Program to fund additional generation peaking capacity at the Sand Hill Energy Center. Transfers were in the Approved Budget.</p>
21	A Non-Nuclear Plant Decommissioning Fund shall be established to fund plant retirement. The amount set aside will be based on a decommissioning study of the plant site. Funding will be set aside over a minimum of four (4) years prior to the expected plant closure.	<p>Policy initially adopted FY2004.</p> <p>Holly Power Plant was the first facility affected by this policy. A decommissioning cost study was completed in 2003 and funding began in the FY 2005 budget.</p>



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Financial Policy #	Financial Policy	History of Revisions
16	<p>A fund named Strategic Reserve Fund shall be created and established, replacing the Debt Management Fund. It will have three components:</p> <ul style="list-style-type: none"> • An Emergency Reserve with a minimum of 60 days of non-power supply operating requirements. • Up to a maximum of 60 days additional non-power supply operating requirements set aside as a Contingency Reserve. • Any additional funds over the maximum 90 days of non-power supply operating requirements may be set aside in a Competitive Reserve. <p>The Emergency Reserve shall only be used as a last resort to provide funding in the event of an unanticipated or unforeseen extraordinary need of an emergency nature, such as costs related to a natural disaster, emergency or unexpected costs created by Federal or State legislation. The Emergency Reserve shall be used only after the Contingency Reserve has been exhausted.</p> <p>The Contingency Reserve shall be used for unanticipated or unforeseen events that reduce revenue or increase obligations such as extended unplanned plant outages, insurance deductibles, unexpected costs created by Federal or State legislation, and liquidity support for unexpected changes in fuel costs or purchased power which stabilizes fuel rates for our customers.</p> <p>In the event any portion of the Contingency Reserve is used, the balance will be replenished to the targeted amount within two (2) years.</p> <p>A Rate Stabilization Reserve shall be created and established, replacing the Competitive Reserve in FY 2012, for the purpose of stabilizing electric utility rates in future periods. The Rate Stabilization Reserve may provide funding for: (1) deferring or minimizing future rate increases, (2) new generation capacity construction and acquisition costs and/or (3) balancing of annual power supply costs (net power supply/energy settlement cost). The balance shall not exceed 90 days of net power supply costs.</p> <p>Funding may be provided from net revenue available after meeting the General Fund Transfer, capital investment (equity contributions from current revenue), Repair and Replacement Fund, and 45 days of working capital.</p>	<p>FY1997 – 12/12/1996 Council Resolution to establish a strategic policy necessary to ensure the competitive position and to preserve the value of the Electric Utility. The City Manager will provide a detailed analysis of the utility's projected competitive position and recommend, based on this analysis, the annual allocation of utility revenue to its debt defeasance fund.</p> <p>FY2002 – Added Policy for Debt Management Fund. A Debt Management Fund shall be created and established. Net revenues available after meeting the General Fund Transfer, capital investment (equity contributions from current revenues, Repair and Replacement Fund, and 45 days of working capital may be deposited in the Debt Management Fund. Moneys in the Debt Management Fund will be used to improve the competitive position of the Electric Utility including, but not limited to, funding capital needs in lieu of debt issuance reduction of outstanding debt, improving the debt to capital ratio, and other competitive strategies such as rate reductions and new technologies.</p> <p>FY2004 – Policy change to rename the Debt Management Fund as the Strategic Reserve and established the Emergency Reserve, Contingency Reserve and Competitive Reserve.</p> <p>FY2012 Revision - A Rate Stabilization Reserve shall be created and established, replacing the Competitive Reserve in FY 2012, for the purpose of stabilizing electric utility rates in future periods. The Rate Stabilization Reserve may provide funding for: (1) deferring or minimizing future rate increases, (2) new generation capacity construction and acquisition costs and/or (3) balancing of annual power supply costs (net power supply/energy settlement cost). The balance shall not exceed 90 days of net power supply costs.</p> <p>The Rate Stabilization Reserve replaced the Competitive Reserve portion of the Strategic Reserve which was fully depleted.</p>