

City of Austin Financial Forecast

Austin Energy

May 9, 2012

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

Major Accomplishments

- Rate review in progress
- Energy Resource Plan to 2020 adopted with Affordability Goal
- Purchased power contracts for 291 megawatts (MW) of coastal wind power
- 30 MW solar farm at Webberville online December 2011
- Successful conversion from Zonal to Nodal market
- Maintained excellent reliability during record breaking summer heat, setting new peak demand records
- Customer Care & Billing System online October 2011
- New customer service center in North Austin opened
- Maintained bond credit ratings
- Maintained and Improved System Reliability while meeting the needs of our growing service area

Horizon Issues

Challenges:

- Adjustment to Austin Energy's rate structure is needed to competitively position the utility for changes in the electric industry expected in the longer planning horizon
- Funding for power generation and improvements in the utility's infrastructure
- General Fund transfer policy
- Generation resource adequacy and drought conditions
- Aging and evolving workforce, an electric industry wide issue
- Critical infrastructure protection for NERC/CIP and technology changes

Progress:

- Rate review currently in progress with evaluation of financial policies
- Generation Plan continually evaluated and updated
- Investments in cyber security enhancements

FY 2013 Budget Highlights

- No new FTE's added until 2015
  - Vacancies approved by GM before posting to fill
- FY 2012 controllable cost remain fixed until 2014
- Revenue increase of $71M per year assumed September 1, 2012

Proposed Rate Summary

- Plan for short-term & long-term financial stability & sustainability
- Assumes rate proposal in place by Sep 1, 2012 ($7.8M in FY 2012)
- Funding from Reserves is needed to bridge the cash gap

$127M Rate Proposal

Transition Assumption for New Rates	Results	Operating Cash Forecast (in millions)	Reserve Forecast (in millions)
FY 2013 - $71 million rate increase assumed	Non-compliance with Financial Policies	$ 25	$ 79
FY 2015 - $31 million rate increase assumed	Non-compliance with Financial Policies	$ 55	$ 70
FY 2016 - $25 million revenue increase as industrial customers contracts expire	Non-compliance with Financial Policies	$ 55	$ 93

5 Year Revenue Assumptions

Economic data for Travis County

Electric load forecast
• Average annual customer growth – 1.6%
• Energy sales average annual growth
  • Residential sales – 1.6%
  • Commercial sales – 0.9%
  • Industrial sales – 3.6%
  • System – 1.4%
• Average KWh usage per residential customer continues to decline
• Goal of 800 MW demand side management by FY 2020
• Sales forecast is weather normalized

Growth in revenue • Rate increase; revenue requirements increase 12.5% by FY 2016 • Long-term contracts fix large customer rates (non-fuel) until May 2015
Recovery mechanism for rising transmission cost, ERCOT net settlement costs and fuel cost

5 Year Expenditure Assumptions

No new full-time equivalents (FTE) added in FY 2010 – FY 2014 •All vacancies must be approved by General Manager before posting to fill
City-wide labor cost increases (Salaries, health insurance, retirement contribution)
Contractual and commodity expenses • Non personnel cost remain fixed until FY 2014 - then escalation of 3.5%
Transmission expense increases due to ERCOT requirements
Capital Improvement Spending Plan • CIP debt funding increased due to cash constraints • Continue to defer projects
Debt service requirements • Existing debt service declines as new debt for capital program increases • 4% interest rate on new debt, assuming our current bond rating
General Fund Transfer • Proposed 12% on non-fuel revenue with minimum of $105 million
Generation cost and unplanned outages are normalized

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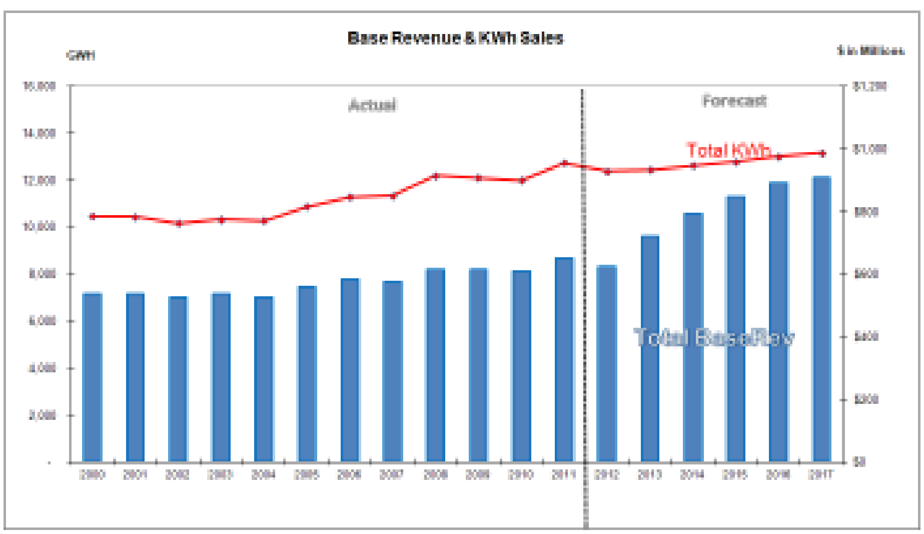
Base Revenue with kWh Sales



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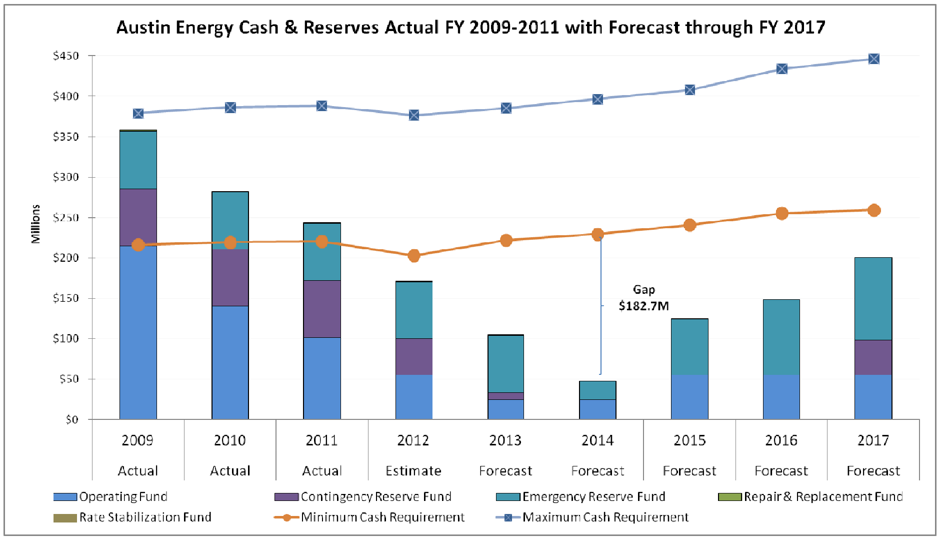
Cash and Reserves



AE uses on average $3 million per day in operations.

Operating Cost Control

- No new FTEs in FY 2010, 2011, 2012, 2013, 2014
- $12 million FY 2012 decreases in non-fuel requirements
  - Elimination of 6 vacant FTE's
  - Reductions to line clearance contracts
  - Reductions to billing costs for printing, supplies, postage
- FY 2013 Controllable Costs
  - Non-fuel operating requirements held flat at FY 2012 level
  - $8.8 million reduction to cash funding of capital plan (increase debt funding ratios)
  - Lower capital plan and use of $660,000 from over-funded Bond Retirement Reserve
- FY 2013 Budget Development
  - Continue work on cost reduction plan
  - Increase monthly cost monitoring to identify additional savings opportunities

FY 2013 Cost Drivers

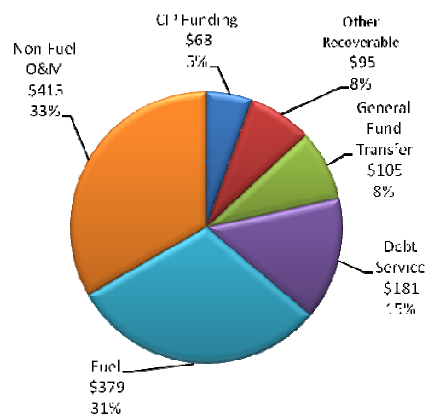
Category	Estimated increase(decrease)	Description
Fuel Expenses	(30.2)	Decrease due to natural gas prices and usage for generation of electricity
Fayette Power Plant (coal)	5.5	Ownership share (50% - Units 1 & 2) of plant operating costs
STP Power Plant (nuclear)	18.4	Ownership share (16%) of plant operating costs, primarily due to planned maintenance
Transmission Expense	14.0	Rising costs for Texas Transmission Construction Program
Labor Related	5.0	City-wide cost increases for Health insurance (7%; $1.2 million) and Salary Adjustments (3%; $3.8 million)
Corporate Expense	2.9	2% retirement contribution ($2.2 million), Communications & Technology Management updated
Administrative Support	1.1	Updated allocation for administrative support
Debt Service	6.1	Increase in debt service for interest on new 2012 debt and planned 2013 new debt
Transfer to Electric Capital Improvement Program	(8.8)	Decrease in cash funded portion of capital program

Modest economic growth and decline in average residential use, compared to recent past. Utility responded with cost management efforts since 2009.

FY 2013 Total Requirements

- Operating & Maintenance (O&M)
  - *Fuel & Purchased Power (31%)*
  - *ERCOT , Transmission fees (8%)*
  - ***Non-fuel O&M (33%)***
- Capital Improvements (CIP)
  - *Debt Service (15%)*
  - *CIP Cash Funding (5%)*
- General Fund Transfer (8%)

FY 2013 Forecast
$1,241 M
(in millions)



Capital Expenditure Deferrals

- FY 2010 CIP Plan reduced from prior 5-year plan
  - $63 million defer Electric Service Delivery projects
- FY 2011 CIP Plan reduced from prior 5-year plan
  - $24 million defer Electric Service Delivery projects
  - $10 million eliminated contingency on Fayette scrubber project, as project nears completion
  - $35 million fewer District Cooling projects due to economy
  - $5 million reduction in solar PV for large rooftop lease
- FY 2012 CIP Plan
  - Deferred 200 MW expansion at Sand Hill Energy Center two years to FY 2015-2017 due to lower load forecast
  - Deferred building and/or buying renewable assets
- FY 2013 CIP Forecast Plan
  - $1.15 billion five-year plan defers $14 million in FY 2013 for Electric Service Delivery
  - Continue deferral of Generation construction or acquisitions

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Forecast CIP 5-year Plan

$1.1 Billion Five Year Capital Spending Plan

$ in Millions	Estimate 2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2013-2017 Total
Distribution	$ 56	$ 63	$ 61	$ 63	$ 64	$ 75	$ 326
Distribution Substation	10	14	14	17	23	14	82
Transmission	22	43	65	15	15	65	203
Electric Service Delivery	88	120	140	95	102	154	611
Power Production	38	65	52	98	180	42	437
Customer Service Billing & Metering	4	4	4	4	4	4	20
Facilities, Technology & Support Services	59	31	16	10	17	17	91
Total	$ 189	$ 220	$ 212	$ 207	$ 303	$ 217	$ 1,159

- Projects for power supply, reliability and customer service
- $1,159 million 5-year plan with $220 million in FY 2013
  - Electric Service Delivery - 53% of 5-year plan
  - Power Production - 38% of 5-year plan & includes 200 MW expansion at Sand Hill Energy Center in FY 2015-2017

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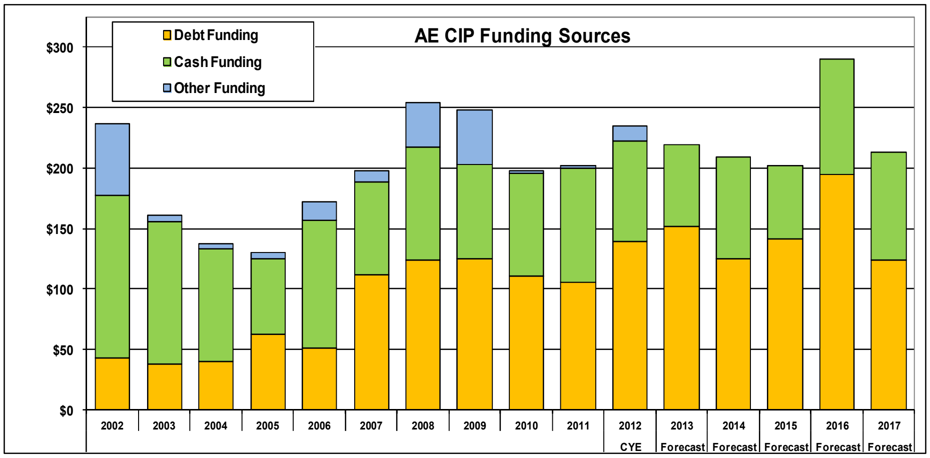
AE CIP Funding Sources



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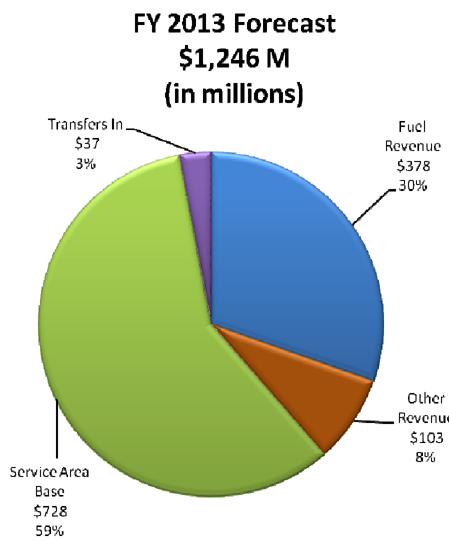
FY 2013 Total Available Funds

- Electricity Sales 59%
- Fuel Charge 30%
- Other Revenue 8%
  - *Transmission*
  - *Infrastructure Rental*
  - *District Cooling*
  - *Customer Fees*
  - *Interest Income*
- Transfers from Reserve Funds 3%



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Fund Summary Forecast

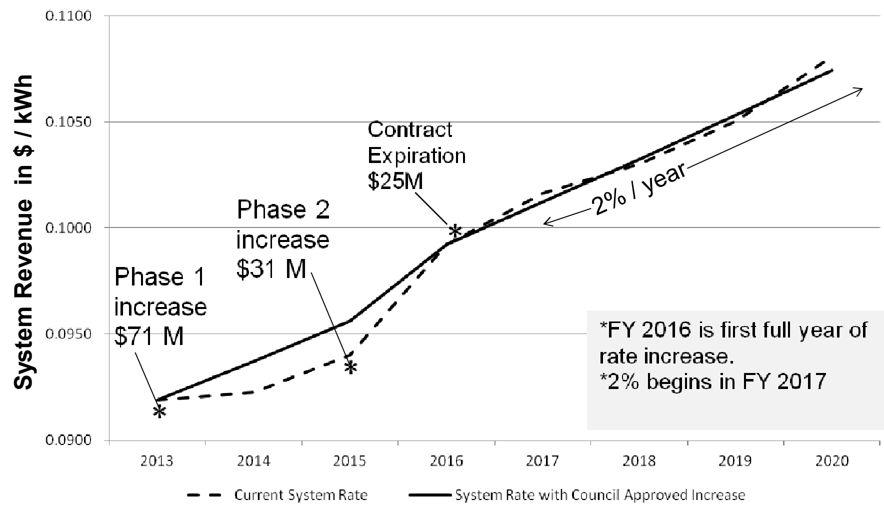
Fund Summary (Millions)	2011-12 Amended	2011-12 CYE *	2012-13	2013-14	2014-15	2015-16	2016-17
Beginning Balance	$ 115	$ 144	$ 99	$ 103	$ 110	$ 137	$ 146
Revenue	1,139	1,147	1,210	1,236	1,313	1,404	1,456
Transfers In ***		25	37	56			
Available Funds	1,139	1,172	1,246	1,293	1,313	1,404	1,456
Fuel and Purchased Power	409	409	379	379	365	401	420
Other Recoverable	70	70	95	113	135	144	150
Operating Requirements	353	353	387	385	390	415	413
Debt Service	175	175	181	186	141	155	147
GFT	105	105	105	105	105	109	116
Transfers Out to Reserves	-	-	-	-	48	23	52
Other Transfers Out	1	1	0	0	0	0	0
Transfer to CIP	77	77	68	84	60	96	90
Other Requirements	28	28	26	34	42	51	60
Total Requirements	1,217	1,217	1,241	1,286	1,286	1,395	1,449
Excess (Deficiency)	(78)	(45)	5	7	27	9	8
Ending Balance	38	99	103	110	137	146	154
Strategic Reserve Fund	141	116	79	23	70	93	146
Total full-time equivalents **	1,706	1,706	1,706	1,706	1,715	1,723	1,732

*Budget 2012 + one month of rate increase ($7.8M)
**FTEs include 47 for EGRSO
***Transfers in from Strategic Reserve

AE Financial Forecast Ratios

Austin Energy Financial Forecast Ratios	2013	2014	2015	2016	2017
Debt Service Coverage (DSC)					
Net Income before Depreciation & GFT	$ 322,895,493	$ 325,654,742	$ 381,209,050	$ 393,691,938	$ 414,425,877
Debt Service	$ 181,193,952	$ 185,807,873	$ 140,909,935	$ 154,878,780	$ 147,419,276
Traditional Debt Service Coverage	1.78	1.75	2.71	2.54	2.81
Debt / Equity Ratio					
Total Long-Term Debt	$ 1,516,814,203	$ 1,512,727,600	$ 1,567,447,308	$ 1,698,707,810	$ 1,759,215,590
Total Equity	$ 1,577,138,655	$ 1,576,141,820	$ 1,634,812,180	$ 1,670,922,207	$ 1,709,420,038
Debt / Equity Ratio	49%	49%	49%	50%	51%
Annual CIP Debt Funding	69%	60%	70%	67%	58%
Operating Funds - Days Cash on Hand					
Average Operating Fund Balance	$ 40,086,243	$ 25,000,000	$ 40,000,000	$ 55,000,000	$ 55,000,000
Days Operating Funds on Hand	29	17	26	33	32

Affordability Graph



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Questions or Comments

more information available at:

www.ci.austin.tx.us/financeonline/finance/financial_docs.cfm?ws=1&pg=1

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