Wind Power Contract Recommendations

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Background

- AE issued a Request for Proposals (RFP) for wind offers in March 2013 & received proposals until April 12, 2013

- Goal was to replace wind contracts expiring in near term and make additions if prices were favorable for AE

- RFP timed to take advantage of existing conditions
  - Soft energy prices in general due to lower natural gas pricing
  - Soft wind pricing due to slowing demand
  - Late extension of federal Production Tax Credits (PTCs)
    - PTCs offer a ~$22 MWh credit for projects started in 2013
    - PTC's may not be extended or may be reduced in the future

Response Summary

- Received wind contract proposals representing 44 new or existing wind projects submitted
- 70 proposed variations – typically changes to contract length or project size and associated pricing adjustments
- Received alternative proposals that included
  - Outright purchase of wind projects
  - Non-wind components such as natural gas and solar
    - Solar pricing remains 2 to 2.5 higher than wind

RFP Evaluation

- Proposals evaluated based on:
  - Total Evaluated Cost (70%)
    - Contract price, proposed term and expected revenue
  - Project Concept / Viability (10%)
    - Status of project, leases and plan
  - Proposer's Financial Strength and Structure (10%)
    - Financial capability, corporate structure
  - Proposer's Corporate and Professional experience (10%)
    - Individual and corporate experience delivering projects
- Cost evaluation used nodal market simulation model
  - Considers location and production profile of resource, market supply and demand, transmission system, fuel costs over multi-year periods

AE Recommendation

- Recommend moving forward on 3 proposals, 570 MW total, that represent the best evaluated proposals

- Duke Energy Renewables (400 MW Total)
  - 200 MW Los Vientos 3, December 2014 completion
  - 200 MW Los Vientos 4, mid-2016 completion
    - Both projects located in the Texas Rio Grande Valley, Starr County, about 30 miles northwest of McAllen

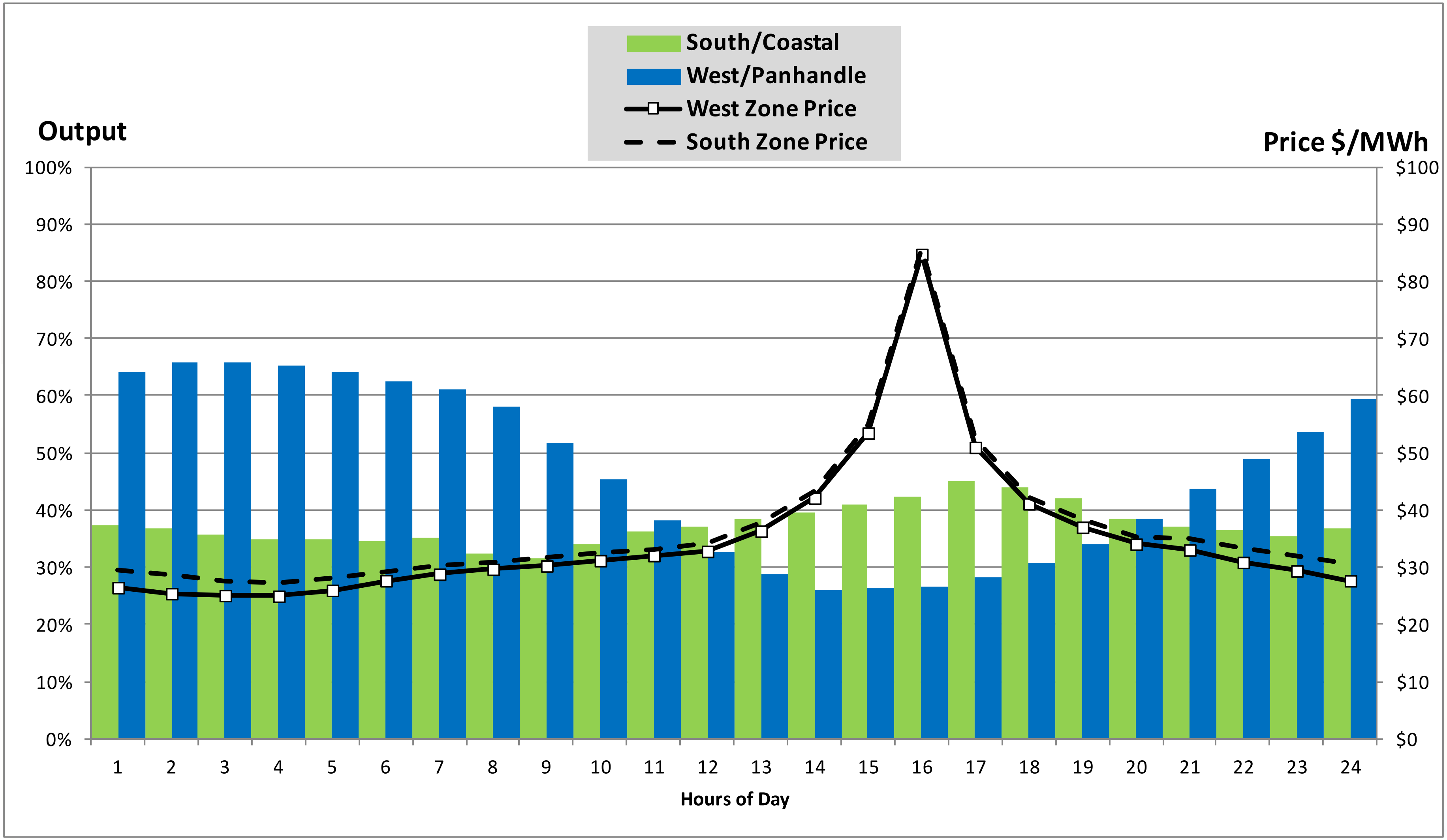
- E.ON Climate and Renewables (170 MW)
  - December 2014 completion
    - Located in Nueces County, about 25 miles southwest of Corpus Christi

AE Wind Projects - Recommended & Existing

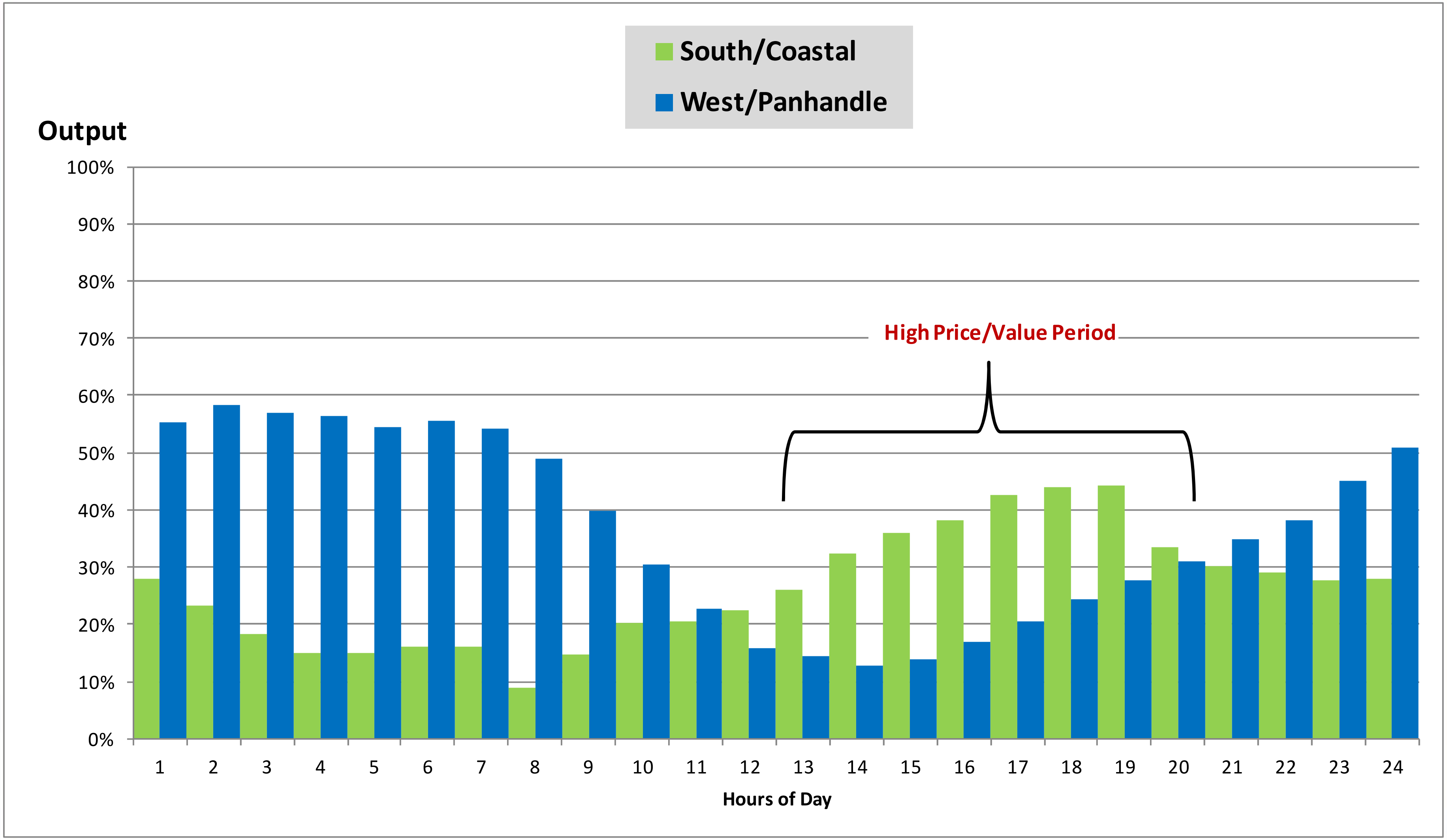
Considerations

- Timing of production is very important in determining value to Austin Energy
  - South/Coastal locations produce more energy during higher value periods of the day (on peak)
- ERCOT considering adoption of proposed wind capacity credits: South/Coastal proposed at 36%, West 14%
- These additions move AE wind production mix close to 50/50 south/coastal and west
- Recommended proposers both have substantial development and operational track records

Comparing Output and Market Prices - Annual



Comparing Output and Timing - Summer



Impact to Goals

- AE expects the projects will support the Affordability Goal
  - Projects offer a neutral to slightly reduced PSA in forecast
- With these additions AE will be at or near the 2020 goal for 35% renewable in 2016
  - Solar additions and wind additions for future expiring contracts will be needed to ensure the goal is sustained
- Takes advantage of current market conditions
  - Prices offered are comparable to 10+ years ago
  - Future of the generous federal wind PTC is in doubt beyond this year

Achieving Renewable Goals

MEGAWATT CAPACITY

Year	Coal	Nuclear	Gas	Biomass	Wind Add/(Expire)	Solar[3]	Renewable Portfolio
2013	602	436	1497	112	849.4	48.0	22.9%
2014							23.8%
2015					370	25.0	34.9%
2016					200 / (195.6)		35.2%
2017			200		(91.5)	25.0	33.4%
2018			800[2]		100 / (35)	25.0	34.8%
2019						30.0	35.0%
2020						47.0	35.4%
2021							35.0%
2022							34.6%
Capacity 2020	**367[1]**	**436**	**2,497**	**112**	**1,197**	**200**	**Total 4,809**

Notes:

1) Capacity equivalent to meet CO2 reduction goal
2) Potential natural gas combined cycle additions up to 1,000 MW by 2019, subject to change
3) Includes distributed solar
4) Additional note: Plan assumes achievement of DSM goals

Summary

- Takes advantage of favorable market conditions
- Represents a significant step towards AE's Renewable Goal
- Helps Balance Affordability and Renewable Goals

Questions