



SECOND Quarter REPORT



FISCAL YEAR 2014
www.austinenergy.com



First Six Months in REVIEW

Austin Energy updated its pioneering GreenChoice® program on Jan. 1, 2014.

GreenChoice SmartCents for residential customers, and GreenChoice BusinessCents for most commercial customers, is a simple offering with no expiration date, no contracts to sign, and no penalties for unsubscribing. The price for SmartCents and BusinessCents is 1¢ per kWh added to the prevailing Power Supply Adjustment (PSA) charge. With a 3.71 cent/kWh PSA plus 1 cent, the Green Choice offering currently is 4.71 cent/kWh. This allows customers to easily calculate how much it will cost to be green. Through the GreenChoice Energizer program, businesses can enter into contracts for one year with a 100% renewable energy subscription to qualify for the Environmental Protection Agency's Green Power Partner Program and the City of Austin's Green Business Leaders Program. Commercial customers with 1.2 million kWh of use or more annually can enter into a contract for a fixed rate of 4.9 cents/kWh until December 2016 and purchase a minimum of 100,000 kWh blocks of renewable energy on each account with the Patron program. Since the launch of the new GreenChoice, 29 new commercial customers and 1,675 residential customers are supporting renewable wind energy.

The Value of Solar tariff (VoS) was adopted by the Austin City Council in 2012

and is designed to compensate customers for the value of the power produced by their solar systems. The VoS is designed to reflect the full avoided cost of power, including fuel, deferred generation transmission and distribution costs and an environmental credit. This year's reduction is based on several factors, most significantly, the lower value of energy in today's market due to a 17 percent decline in forward natural gas prices.

The Domain thermal energy storage project began providing service at The Domain development in North Austin. Austin Energy's Domain chiller plant chills water in the storage tank at night during off-peak hours. This allows the

plant to reduce the number of chillers, pumps, and cooling towers in service during the day by pulling cold water from the tank to meet the cooling needs of the Domain campus. This offsets demand during the summer peak window by an estimated 4.3 megawatts, and during winter months it reduces the number of chillers required to carry daytime loads.

Reliability continues its record-setting pace

from the all-time record last year when Austin Energy had the fewest number of outages and shortest duration of outages per customer in history. The 12-month rolling average through March 2014 for SAIDI (duration of outages) was 40.61 minutes and for SAIFI (frequency of outages per customer) was 0.55. Austin Energy finished last fiscal year with its best performance ever with a SAIDI of 46.24 and SAIFI of 0.59.

Public power utilities along the IH-35 corridor banded together in a unique cooperative advertising campaign

to leverage limited dollars to purchase more advertising as a group than individually to prevent scams of Spanish-speaking customers. Austin Energy joined with Georgetown Utility, San Marcos Electric Utility and New Braunfels Utilities to purchase television commercials on Univision and radio spots on LaJefa 104.3.

Monthly peak demand records were set for every month in the first six months of the current fiscal year

except for February due to high fall temperatures and a colder than normal winter. Both January and March, for example, exceeded 2,000 megawatts of peak demand at 2,105 MW and 2,066 MW, respectively for the first time ever.

CUSTOMER ASSISTANCE PROGRAM STATS

Residential Customers Enrolled: > 36,200

Benefits Provided FY 14 through Q2 > \$5.9M

Weatherization Program Referrals: 141

IN THE NEWS

Recurrent Energy Receives Solar Contract — As authorized by the Austin City Council, Austin Energy has negotiated and executed a Power Purchase Agreement for the purchase of 150 megawatts of solar generated electricity. The contract will be with Recurrent Energy, with an expected online date in the fourth quarter of 2016. The project will be located in a solar intensive area of West Texas. This energy acquisition meets affordability goals, helps balance future price risk and allows Austin Energy to meet and exceed the utility-scale solar goal portion of the overall resource plan by 2017.

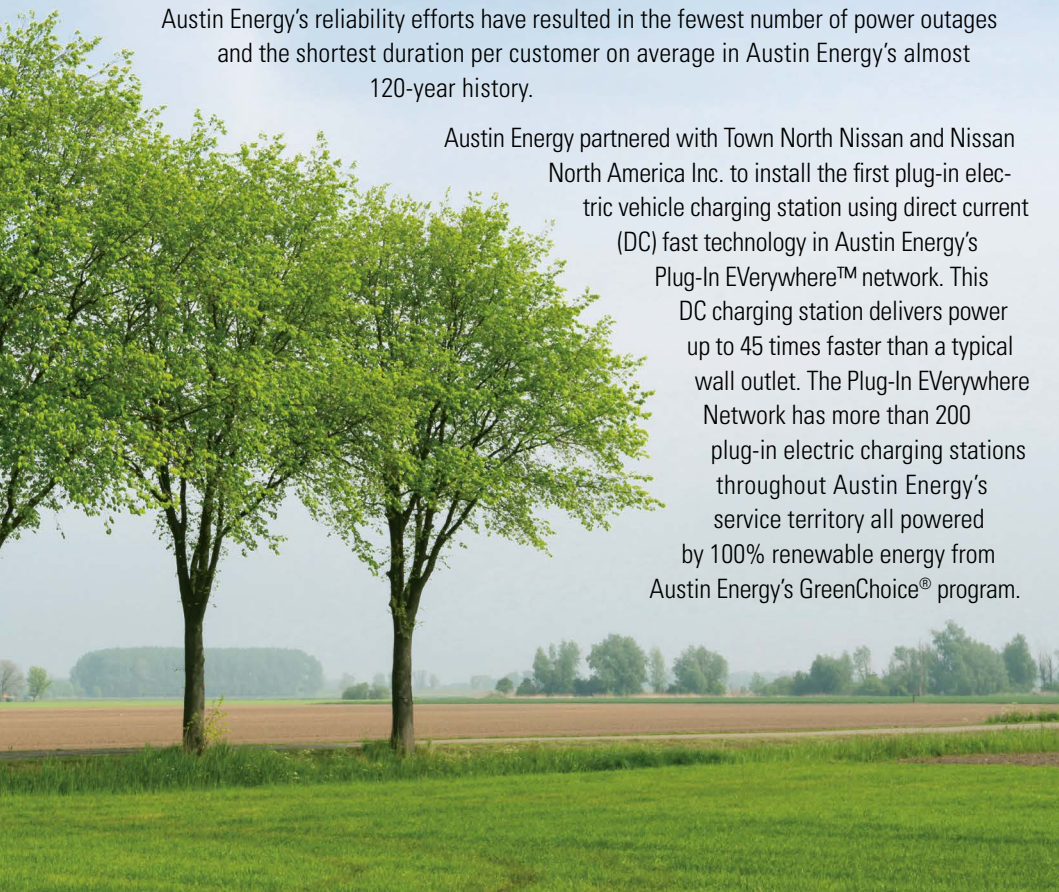
The U.S. Environmental Protection Agency (EPA) recognized Austin Energy with a 2014 ENERGY STAR® Partner of the Year— Sustained Excellence Award for its continued leadership in protecting the environment through superior energy efficiency.

Austin Energy received its 10th ENERGY STAR Partner of the Year award and was honored for its long-term commitment to energy efficiency. Austin Energy completed its first energy conservation plant in 2006 by offsetting 700 megawatts of traditional generation through energy efficiency programs since 1982. The Utility is almost halfway through offsetting another 800 MW to complete its goal of a second conservation power plant by 2020.

Austin Energy also was recognized by the Arbor Day Foundation as a Tree Line USA utility for the 13th year in a row for embracing practices and policies that enhance America's urban forests. The honor recognizes the Utility's commitment to proper tree pruning, tree planting, and care in the Austin Energy service area.

Austin Energy's reliability efforts have resulted in the fewest number of power outages and the shortest duration per customer on average in Austin Energy's almost 120-year history.

Austin Energy partnered with Town North Nissan and Nissan North America Inc. to install the first plug-in electric vehicle charging station using direct current (DC) fast technology in Austin Energy's Plug-In EVerywhere™ network. This DC charging station delivers power up to 45 times faster than a typical wall outlet. The Plug-In EVerywhere Network has more than 200 plug-in electric charging stations throughout Austin Energy's service territory all powered by 100% renewable energy from Austin Energy's GreenChoice® program.

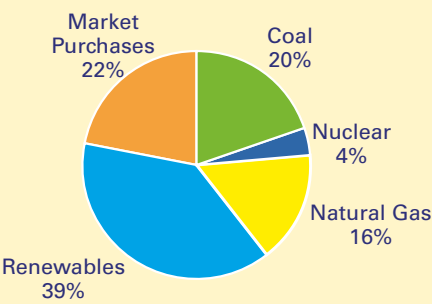


FINANCIAL RESULTS - Six Months Ended March 31, 2014

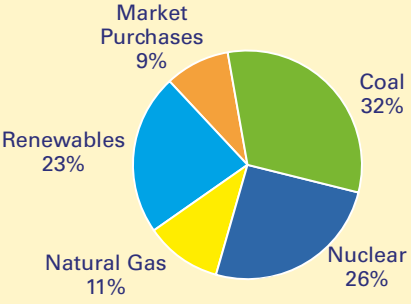
Austin Energy's financial results through the second quarter of fiscal year 2014 ending March 31 were consistent with expectations. Operating revenue continued to grow from the same time period last year by \$16 million mainly due to increased base revenue driven by colder winter temperatures and an increase in the number of billed customers of more than 1.8% from the prior year due to growth in the Austin area.

- Approximately \$71 million of infrastructure investments were made in the first six months of the fiscal year out of the \$207 million fiscal budget. The spring and summer months generally see higher construction spending.
- Austin Energy's unaudited net loss for FY 2014 through the second quarter was \$24 million compared to a \$30 million net loss in FY 2013 through the same time period. The following items were significant factors:
 - Total revenue (operations revenue and fuel revenue) increased \$46 million or 8 percent from prior year second quarter primarily due to additional recovery of costs for transmission expenses as well as the power supply adjustment (PSA) revenue.
 - Non-fuel operations and maintenance (O&M) expenses were \$31 million higher through the second quarter compared to prior year largely due to scheduled outages at generation joint projects, transmission expenses and bad debt.
 - Power supply expenses were \$221 million or \$30 million higher than during the same period last year due to the larger amount of renewable energy purchased and an increase in kilowatt-hour (kWh) sales for the period.
- The unaudited financial results through the second quarter ended March 31 show a net loss. However, it is anticipated that as we enter the late spring and summer months, which are typically the highest months for sales, net income will continue to improve. This will allow Austin Energy to replenish cash reserve levels and work toward meeting financial policies.

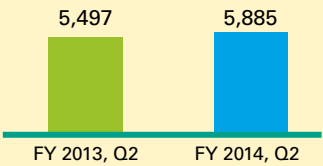
Power Supply Costs by Type
\$221 Million



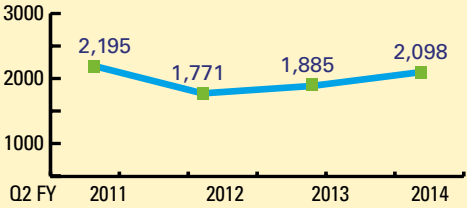
Percent of Energy Supply
5.9 Million MWh



Total Sales in Gigawatt Hours
(FY through Q2 ended March 31)



Historical Q2 System Peak Demand MW



COMPARATIVE STATEMENT OF NET ASSETS

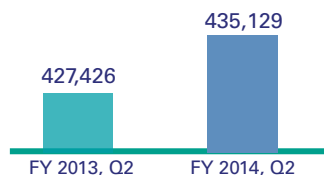
\$ IN THOUSANDS	3/31/2013*	3/31/2014*	VARIANCE
Cash	\$40,585	\$124,205	\$83,620
Accounts Receivable	152,175	143,979	(8,196)
Allowance for Doubtful Accounts	(6,057)	(7,337)	(1,280)
Inventories	95,560	70,749	(24,811)
Other Current Assets	70,631	65,949	(4,682)
Restricted Assets:			
Debt Service	36,959	40,558	3,599
Strategic Fund	107,154	106,776	(378)
Reserve Fund	9,970	9,984	14
Repair & Replacement Fund	64	64	—
Nuclear Decommissioning Acct.	190,248	195,176	4,928
Non-Nuclear Decommissioning Acct.	11,561	9,255	(2,306)
Construction	26,681	55,370	28,689
Other	27,049	33,180	6,131
Property, Plant and Equipment	2,585,323	2,582,043	(3,280)
Long-Term Other Assets	307,980	302,334	(5,646)
TOTAL ASSETS	\$3,655,883	\$3,732,285	\$76,402
Current Liabilities	83,564	\$74,817	(8,747)
Liabilities Payable from Restricted Assets	282,658	300,765	18,107
Revenue Bonds	1,259,414	1,193,628	(65,786)
Commercial Paper	15,000	106,321	91,321
Other Long-Term Liabilities	448,773	417,757	(31,016)
Retained Earnings	1,566,474	1,638,997	72,523
TOTAL LIABILITIES AND FUND EQUITY	\$3,655,883	\$3,732,285	\$76,402

*NOTE: This information is unaudited.

INCOME STATEMENT

\$ in Millions	6 months ended	
	3/31/13	3/31/14
Operating Revenues	\$ 361	\$ 377
Power Supply Revenue	191	221
Power Supply Expense	191	221
Non-Fuel Expenses	229	248
Depreciation Expense	72	75
Operating Income/(Loss)	60	54
Other Revenue (Expense)	(37)	(25)
General Fund Transfer	53	53
Net Income/(Loss)	(\$30)	(\$24)

Average Number of Customers



Service Area Base Revenue (millions)

