Austin Energy's Strategic Plan and Monthly Performance Dashboard: Financial Health

November 2016

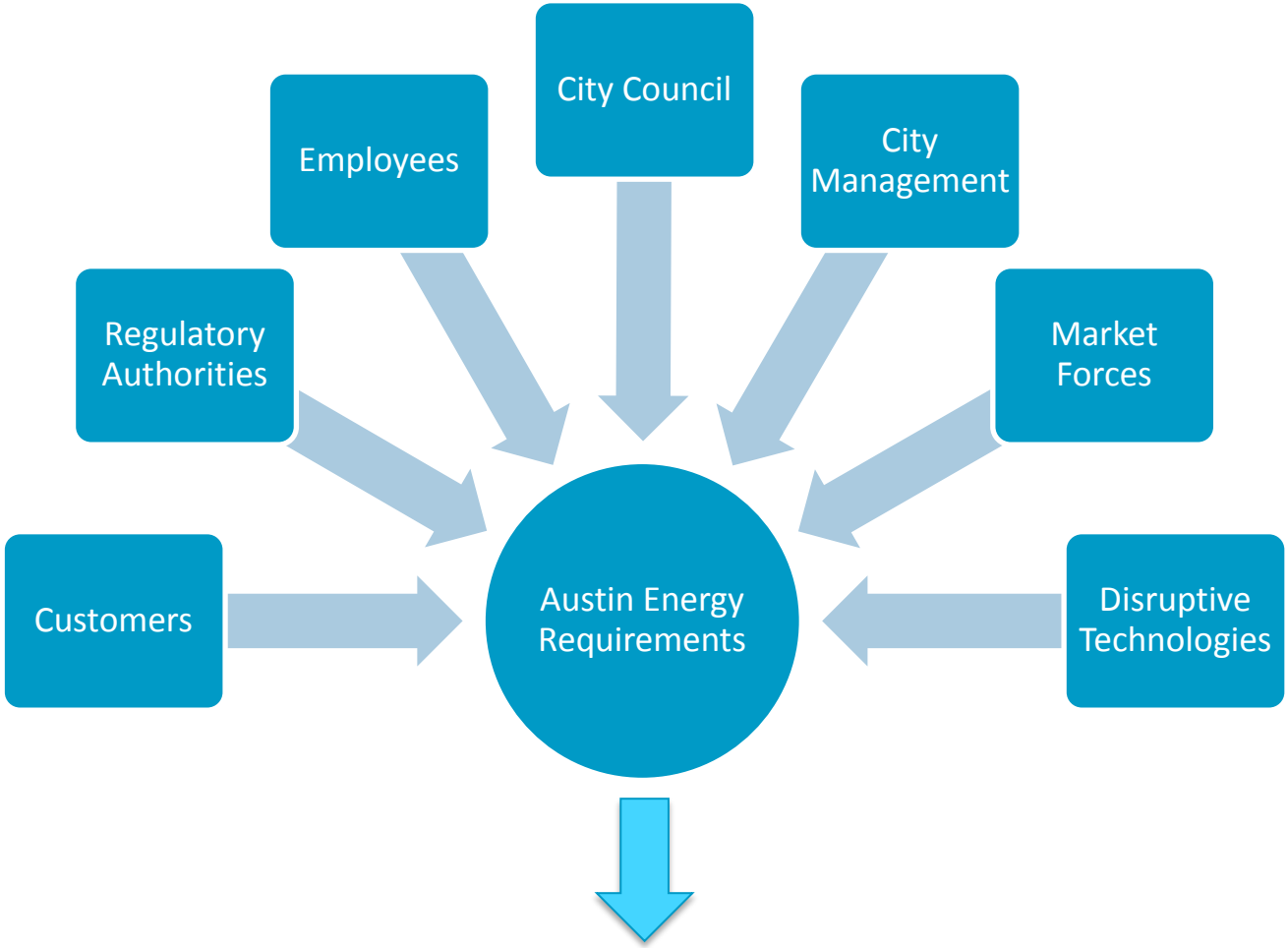
Monthly Performance Dashboard

- Austin Energy's Monthly Performance Dashboard communicates the utility's performance across a broad array of key operational metrics linked to our strategic plan

- Performance is measured against targets and goals established by policy, industry best practices and management expectations

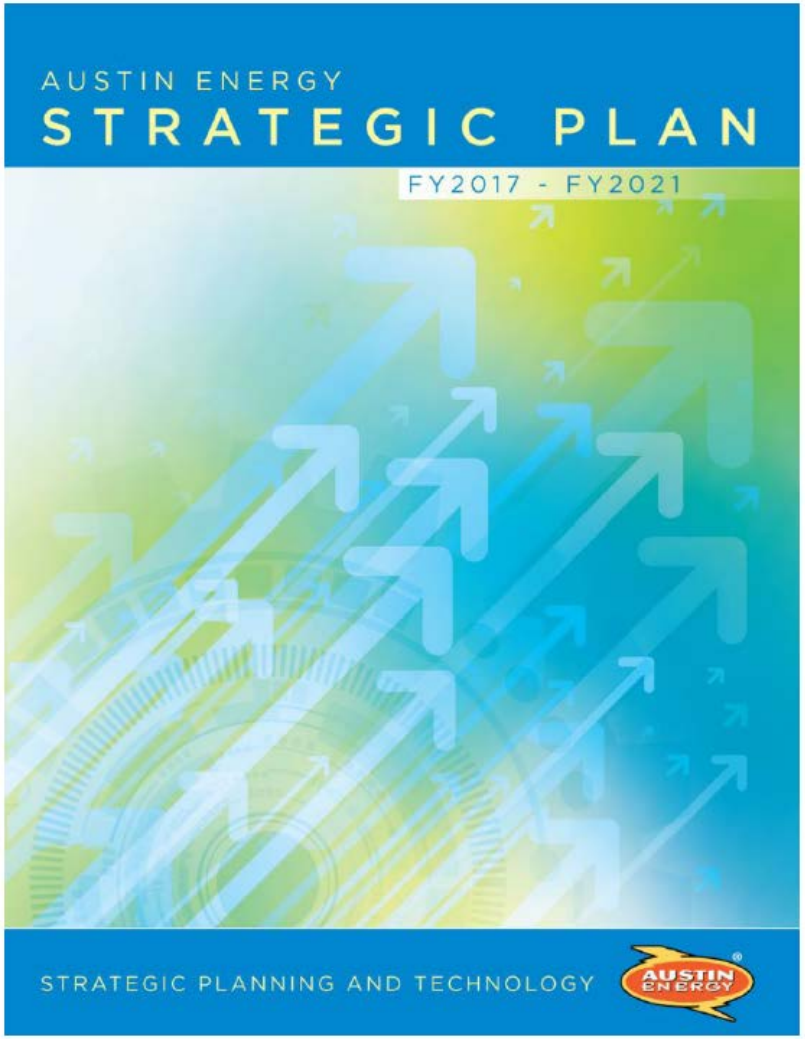
- Intent is to publicly present the progress of Austin Energy in becoming a *Best Managed Utility* and to improve accountability and transparency

Strategic Planning Environment



Strategic Planning Process

Strategic Plan and the Performance Dashboard



Mission

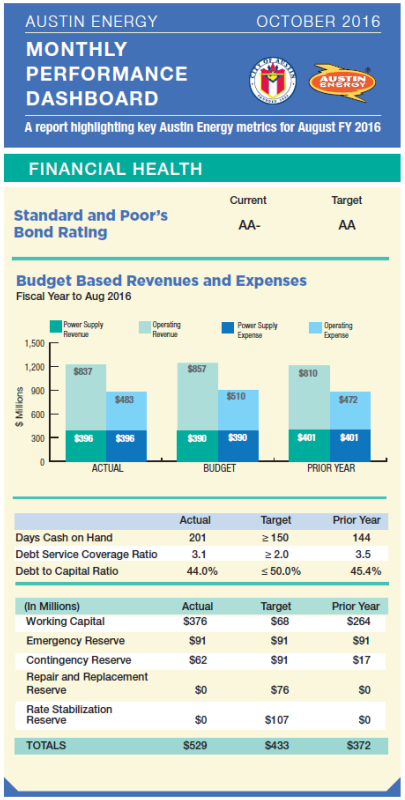
Vision

Values

6 Strategic Goals

16 Initiatives

51 Performance Metrics



AUSTIN ENERGY OCTOBER 2016

MONTHLY PERFORMANCE DASHBOARD

A report highlighting key Austin Energy metrics for August FY 2016

FINANCIAL HEALTH

	Current	Target
Standard and Poor's Bond Rating	AA-	AA

Budget Based Revenues and Expenses

Fiscal Year to Aug 2016

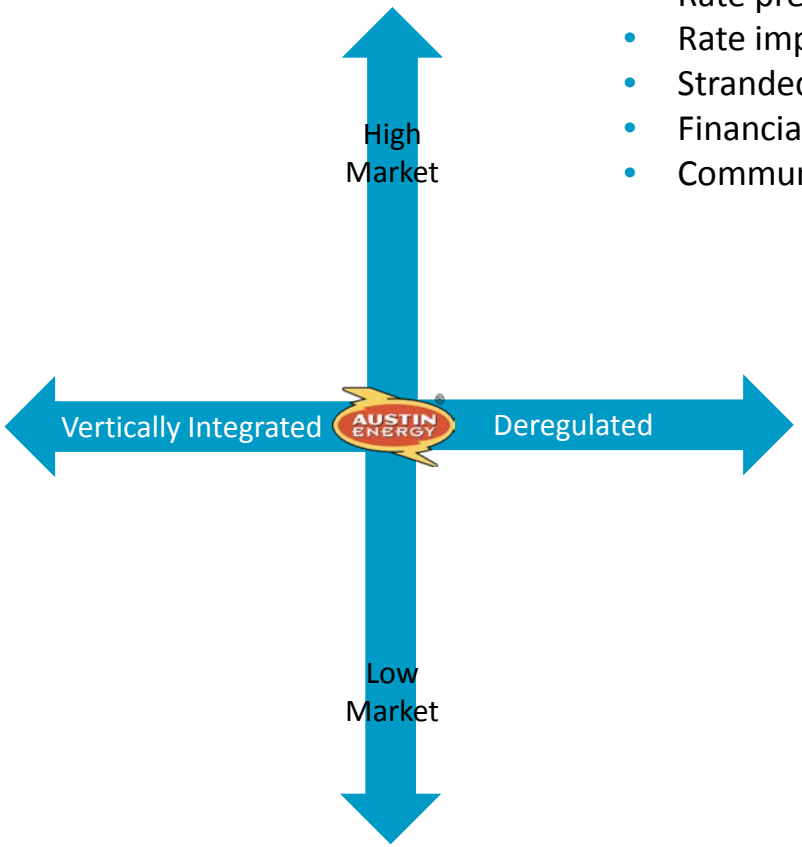
	Actual	Target	Prior Year
Days Cash on Hand	201	≥ 150	144
Debt Service Coverage Ratio	3.1	≥ 2.0	3.5
Debt to Capital Ratio	44.0%	≤ 50.0%	45.4%

(In Millions)	Actual	Target	Prior Year
Working Capital	$376	$68	$264
Emergency Reserve	$91	$91	$91
Contingency Reserve	$62	$91	$17
Repair and Replacement Reserve	$0	$76	$0
Rate Stabilization Reserve	$0	$107	$0
TOTALS	$529	$433	$372

Future Worlds Environment

Austin Energy's future world will be largely influenced by the power market price environment and the structure of Austin Energy's operations. Austin Energy's strategic planning is focused on addressing the impacts of the future world on the following:

- Rate pressure on Austin Energy
- Rate impact to customer
- Stranded asset risk
- Financial effectiveness
- Community benefits



Strategic Plan's Mission, Vision and Values

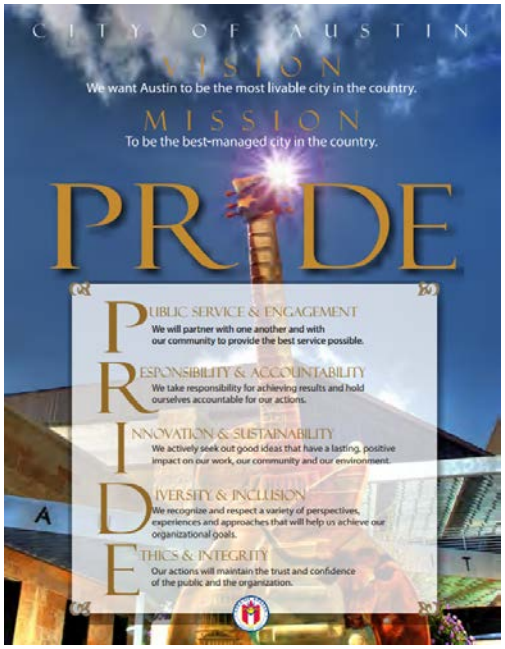
MISSION

To safely deliver clean, affordable, reliable energy and excellent customer service

VISION

Drive customer value in energy services with innovative technology and environmental leadership

VALUES



Austin Energy's Strategic Goals

Financial Health: Long-term financial resiliency that ensures cost recovery, provides market competitiveness, delivers operational excellence and creates value for customers and the Austin community

Customer Collaboration: New heights in customer satisfaction through increased collaboration, varied and high quality services, programs, and delivery methods and competitive pricing that strengthen customer loyalty

Environment: Minimized environmental footprint throughout Austin Energy's value chain

Employee Engagement: Employees are safe, healthy and engaged, and equipped with tools and training to effectively perform their work

Business Excellence: Best Managed Utility culture where customer needs are thoroughly and efficiently achieved through optimal use of resources

Grid Modernization: Innovative two-way grid utilizing customer and company infrastructure to deliver superior reliability and customer experience at the lowest reasonable cost

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Monthly Performance Dashboard

AUSTIN ENERGY OCTOBER 2016

MONTHLY PERFORMANCE DASHBOARD

A report highlighting key Austin Energy metrics for August FY 2016

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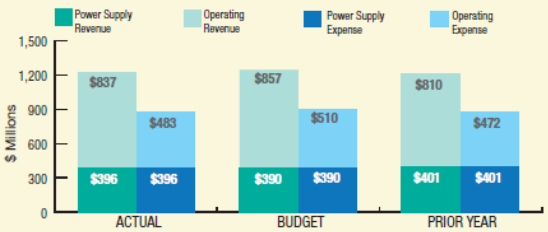
Fiscal Year to Aug 2016



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Month the dashboard is published

Month the data is effective

Strategic goal panel

Key performance indicator

Budget to actual metrics

Cash flow, liquidity and capital structure metrics

Working capital and reserve metrics

Financial Health

- Goal Measure: AA
- Current State: AA-

	Track Metrics	Revenue Generation Opportunity Assessment	Performance Improvement
Fiscal Year	2017 - 2021	2017	2017 - 2021
Description	• Meet or exceed financial ratio metrics and other rating framework activities and measures	• Assess revenue opportunities	• Reduce controllable costs • improve business performance through process and operational efficiency
Key Activities	• Review and reporting of metrics/framework (financial and non-financial), policies, and plans • Create and follow action plans for continuous improvements	• Identify and analyze possible new or improved revenue sources • Create revenue generation plan for executive approval	• Implement Zero-Based Budgeting • Assess contracts for reductions in operating expenses • Paperless timesheet pilot • Budget, Planning and Forecasting tool
Key Performance Indicators	• **Days Cash On Hand ≥ 150** • Operating Margin ≥ 10% • **Debt To Capital < 50%** • **Debt Service Coverage ≥ 2.5x** • Debt to Funds Available for Debt Service < 6x • **City of Austin financial policy metrics**	• Transmission Rate of Return ≥ 12% • On-Site Energy Resources Operating Margin ≥7% • Wholesale margin • Maintain average annual system rates in lower 50% of all Texas utilities serving residential, commercial and industrial customers	• **Favorable budget to actual variance** • Maintain average system rates at or below 2% annual compound growth rate that began October 2012

Bond Ratings as an Indicator of Financial Health

Credit Risk	Moody's	Standard and Poor's	Fitch Ratings
Investment Grade			
Highest Quality	Aaa	AAA	AAA
High Quality (Utility Industry Norm)	Aa	AA	AA
Upper Medium (Utility Industry Norm)	A	A	A
Medium	Baa	BBB	BBB
Not Investment Grade			
Lower Medium	Ba	BB	BB
Lower Grade	B	B	B
Poor Grade	Caa	CCC	CCC
Speculative	Ca	CC	CC
No Payments / Bankruptcy	C	D	C
In Default	C	D	D

Moody's uses a modifier of 1, 2, or 3 to show relative standing in a category. Standard and Poor's and Fitch Ratings use a modifier of + or - .

Rating agencies consider governance, management, market forces, service territory, cost recovery, generation risk, rate competitiveness and financial strength when assigning a bond rating. As a result, a bond rating serves as an indicator of overall financial health of the utility. The benefits of having high quality bond ratings include:

- Lower interest costs for the utility resulting in lower rates for our customers
- Greater attention from investors thus assuring lowest rates
- Enhanced credit from counter parties in the power market where Austin Energy trades more than $600 million per year
- Better terms and conditions when Austin Energy negotiates contracts
- Favorable relationships with regulatory agencies
- Improved ability to attract top leadership talent when recruiting

Bond Rating Agency Observations

Moody's upgraded Austin Energy from A1 to Aa3 on November 9, 2016 :

Credit Strengths:

- Strong and growing service area reflected in the Aaa rating for the City of Austin's
- general obligation bonds
- Notable improvement in debt service coverage and liquidity
- Municipally owned utility which benefits from unregulated rate setting
- Diversified generation supply portfolio, albeit with an increasing focus on renewables
- Flexibility in the balance sheet owing to the sound debt ratio and conservative objectives not to exceed 50%

Credit Challenges:

- Maintaining competitiveness and sound financial profile while executing a power supply strategy which focuses on renewable
- energy, efficiency programs and reducing carbon emissions
- Deregulated Texas retail electricity market could create competitive pressures
- Commodity price risk tied to the natural gas component of the fuel mix
- Political involvement in power resource decisions and rate setting
- Historically higher than public power sector norm for transfers to the City of Austin's general fund

Fitch reaffirmed Austin Energy's AA- on November 9, 2016:

Key Rating Drivers:

- Large regional utility. large vertically integrated utility system providing retail electric service to a rapidly growing service area
- Strong service territory. AE benefits from a deep and diverse economy, exceptionally low unemployment, above average wealth levels and a well-diversified customer base.
- Sound financial performance. Operating margins have continued to improve over the prior three fiscal years, prompting cash flow metrics well in excess of rating category medians and a much improved liquidity position.
- Affordable rates. Competitive electric rates provide flexibility to raise additional revenues if needed. However, they are subject to a city council-imposed affordability threshold that limits rate adjustments to no more than 2% per annum, which could ultimately impede financial performance.
- Diverse portfolio. Competitively priced and diverse generation and resource portfolio sufficient to meet the needs of its growing service area. AE's already aggressive strategy of reducing carbon emissions, although implementation of the plan will be subject to the city's ability to keep rate increases below its 2% threshold.
- Manageable debt. The utility's debt burden and equity position compare well to median ratios

Rating Sensitivities:

- Resource Plan. Execution of Austin Energy's resource and generation plan absent rate increases needed to generate financial metrics consistent with the current rating would exert downward pressure on the rating

Benchmarking

FitchRatings

U.S. Public Power
Peer Study

Comparable Metrics

Ratio Definitions

Ratio	Calculation	Si
Cash Flow		
FADS ($)	Operating Revenues[a] – Operating Expenses + Depreciation + Amortization + Interest Income	Pr
Debt Service Coverage (x)	FADS/Total Annual Debt Service	Indicates the margin available to meet current debt service requirements.
Coverage of Full Obligations (x)	(FADS + Fixed Charges[b] – General Fund Transfer/ PILOT Payments/Taxes/Dividends Excluded from Operating Expenses)/(Total Annual Debt Service + Fixed Charges)	Indicates t
Debt to FADS (x)	Total Debt/FADS	Indicates t
Liquidity		
Days Cash on Hand	Unrestricted Cash/(Operating Expenses – Depreciation + Amortization)*365	Indicates f
Days Liquidity on Hand	(Unrestricted Cash + Available Lines of Credit and Commercial Paper Capacity)/(Operating Expenses – Depreciation – Amortization)*365	Indicates f ative to expenses.
Capital Structure		
Equity to Capitalization (%)	Total Equity/Capitalization	Provides a measure of cost recovery, leverage, and debt capacity.
Debt to Customer ($)	Total Debt/Total Customers	Provides a measure for relative comparison of leverage.
Other		
Capex to Depreciation and Amortization (%)	Capex/(Depreciation + Amortization)	Indicat
Transfer Payments to Operating Revenues (%)	(General Fund Transfers/PILOT Payments/Taxes/Dividend Payments)/Operating Revenues	Indicat

[a]Operating revenues exclude deferrals to and transfers from a rate stabilization fund. [b]Fixed charge is 30% of Note: Includes unrestricted cash, cash equivalents and investments plus restricted cash and investments (if available for general system purpo
Source: Fitch Ratings.

Ratio: Debt Service Coverage (x)

Calculation: Funds Available for Debt Service/Total Annual Debt Service

Significance: Indicates the margin available to meet current debt service requirements.

Ratio: Days Cash on Hand

Calculation: Unrestricted Cash/(Operating Expenses – Depreciation + Amortization)*365

Significance: Indicates financial flexibility, specifically cash and short-term investments, relative to expenses.

Ratio: Equity to Capitalization (%)

Calculation: Total Equity/Capitalization

Significance: Provides a measure of cost recovery, leverage and debt capacity.

Peer Utilities

Retail Systems

Issuer	Rating	Outlook/ Watch	Region	Total Operating Revenue ($ 000)	Debt Service Coverage (x)	Coverage of Full Obligations (x)	Debt/ FADS (x)	Adjusted Debt/ Adjusted FADS (x)	Days Cash on Hand	Days Liquidity on Hand	Transfer Payment as % of Operating Revs	Capex/ D&A (%)	Equity/ Capitalization (%)	Debt/Electric Customers ($)
AA+ Rated Senior Debt														
Chattanooga Electric Power Board, TN	AA+	Stable	SERC	671,041	4.88	1.40	3.0	5.8	51	67	2.9	139.6	49.6	1,723
Chelan County Public Utility District No. 1, WA	AA+	Stable	WECC	370,487	2.97	2.60	3.3	3.7	45	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Memphis Light, Gas & Water, TN	AA+	Stable	SERC	1,332,599	1.97	1.19	2.3	5.5	6	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Nashville Electric Service, TN	AA+	Stable	SERC	1,246,632	2.96	1.23	3.7	6.4	10	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
San Antonio City Public Service (CPS Energy), TX	AA+	Stable	ERCOT	2,629,677	2.47	1.61	5.3	5.4	8	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
AA+ Rated Median				**1,246,632**	**2.96**	**1.40**	**3.3**	**5.5**	**8**	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
AA Rated Senior Debt														
Colorado Springs Utilities, CO	AA	Stable	WECC	830,821	2.00	1.81	7.3	7.3	13	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Concord Utility Funds, NC	AA	Stable	SERC	118,804	2.81	1.72	2.6	4.4	42	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Fayetteville Public Works Commission, NC	AA	Stable	SERC	300,484	2.91	1.47	3.9	5.5	17	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Grant County Public Utility District No. 2, WA	AA	Stable	WECC	313,169	2.20	2.08	8.2	8.2	47	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
JEA, FL	AA	Stable	FRCC	1,241,737	2.49	1.77	5.6	5.9	252	394	12.3	56.3	21.0	5,982
Lincoln Electric System, NE	AA	Stable	SPP	300,453	2.09	1.47	7.5	7.6	266	458	6.5	115.5	29.5	5,687
New Braunfels Utilities, TX	AA	Stable	ERCOT	131,223	7.21	1.56	2.7	5.3	265	265	4.9	356.7	82.9	1,985
Orlando Utilities Commission, FL	AA	Stable	FRCC	859,452	2.27	1.45	5.9	6.4	341	341	11.9	103.2	44.1	8,101
Pasadena Water & Power, CA	AA	Stable	WECC	203,748	4.04	1.70	3.4	4.8	442	442	7.9	422.8	71.8	3,108
Springfield City Utilities, MO	AA	Stable	SPP	431,482	2.31	1.82	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	59.0	6,205
AA Rated Median				**306,827**	**2.40**	**1.71**	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	**51.5**	**5,835**
AA– Rated Senior Debt														
Anaheim Public Utilities Department, CA — Electric Fund	AA–	Stable	WECC	453,697	2.36	1.41	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	30.2	6,514
Austin Electric, TX	AA–	Stable	ERCOT	1,351,436	3.41	2.35	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	54.9	3,206
Bountiful Light and Power, UT	AA–	Stable	WECC	25,861	4.02	1.29	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	82.8	757
CoServ Electric, TX	AA–	Stable	ERCOT	455,777	2.10	1.32	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	45.0	2,894
Dover Electric Revenue Fund, DE	AA–	Stable	RFC	79,763	5.54	1.27	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	83.9	922
Floresville Electric Light & Power System, TX	AA–	Negative	ERCOT	36,584	1.88	1.12	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	52.3	1,934
Gainesville Regional Utilities, FL	AA–	Stable	FRCC	425,941	1.90	1.62	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	19.5	20,822
Garland Electric Fund, TX	AA–	Stable	ERCOT	339,179	1.70	0.99	8.3	8.3	288	332	6.3	198.3	48.5	6,071
Greenville Utilities Commission, NC	AA–	Stable	SERC	271,987	2.69	1.29	2.6	5.5	90	90	2.4	134.5	77.2	1,542
Guadalupe Valley Electric Cooperative, TX	AA–	Stable	ERCOT	223,352	3.19	1.58	4.0	5.9	72	375	0.1	201.5	55.8	2,555
Hydro-Quebec	AA–	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	5.7	305	438	7.1	123.1	29.8	10,912
Jacksonville Beach, FL	AA–	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	4.4	382	382	3.9	89.7	89.3	648
Kissimmee Utility Authority, FL	AA–	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	4.6	257	257	8.4	243.9	63.0	1,769
Lakeland Electric Utility, FL	AA–	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	4.3	181	181	12.1	83.9	42.0	3,477
Los Angeles Department of Water & Power, CA — Power System	AA–	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	8.0	252	252	8.0	236.9	38.1	5,893
Ocala Combined Utility Funds, FL	AA–	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	5.9	216	216	5.6	116.0	63.7	2,833

FADS – Funds available for debt service. D&A – Depreciation and amort[illegible]em Electric Coordinating Council. ERCOT – Electric Reliability Council of Texas. FRCC – Florida Reliability Coordinating Council. SPP – Southwest Powe[illegible]ordinating Council. MRO – Midwest Reliability Organization. Note: Fiscal 2014 audit — Anchorage Electric Utility Fund; Batavia Electric Fund; Grays Harbor CO[illegible]as & Water Division; Puerto Rico Electric Power Authority. *Continued on next page.*
Source: Fitch Ratings.

Rating	Equity/Cap Range	AE
AA+	67.5 to 38.2	
AA	82.9 to 21.0	
AA-	89.3 to 19.5	54.9

Rating	DCOH Range	AE
AA+	456 to 51	
AA	442 to 136	
AA-	614 to 0	148

Rating	DSC Range	AE
AA+	4.88 to 1.97	
AA	7.21 to 2.00	
AA-	45.64 to 1.66	3.41

Financial Policies

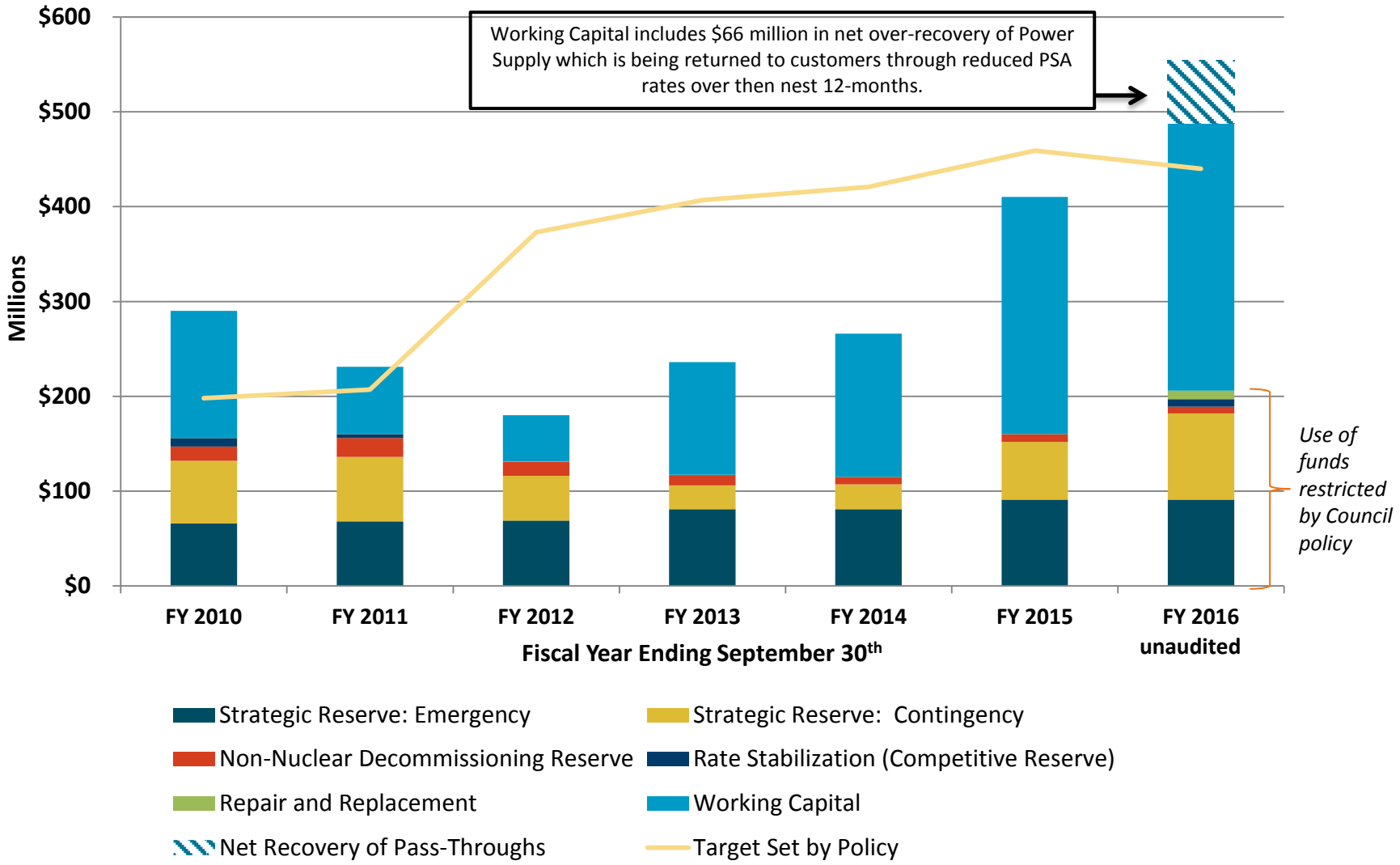
Austin Energy has 22 adopted financial policies. These policies are memorialized and adopted by ordinance each year during the budgeting process. They are published in Volume II of the City of Austin's budget. They cover a variety of financial issues, including:

- Use and limitations on long-term debt funding
- **Debt service coverage ratios**
- Use and limitations on Commercial Paper
- **Cash balance requirements**
- General fund transfer
- **Debt to equity financing of capital projects**
- **Reserve funding, balances and uses**
- Electric rate levels
- Nuclear and non-nuclear decommissioning funds

Austin Energy financial policies includes more than simply the adopted policies. We also look to numerous other sources for guidance and instruction related to financial matters, including:

- Credit rating agencies
- Bond covenants
- Generally Accepted Accounting Principles
- City budgeting
- City procurement
- City Council instructions, resolutions and ordinances
- Federal Energy Regulatory Commission
- Texas Public Utility Commission
- Contractual requirements
- Business and government best practices
- ERCOT Protocol and credit standards

Working Capital and Reserves



Working Capital and Reserves Restructuring

FY 2016 Reserve	Balance at September 30, 2016
Working Capital	$348 M
Strategic Reserve: Emergency	$91 M
Strategic Reserve: Contingency	$91 M
Rate Stabilization	$8 M
Non-Nuclear Decommissioning	$7 M
Repair and Replacement	$9 M
Total	$554 M

FY 2017 Reserve	Transferred Balance
Working Capital	$348 M
Contingency Reserve[1]	$98 M
Power Supply Stabilization	$89 M
Non-Nuclear Decommissioning	$7 M
Capital	$12 M
Total	$554 M

[1] $5 million is dedicated to the potential defeasement of the debt associated with the Fayette Power Plant, if required.