



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

January 2017

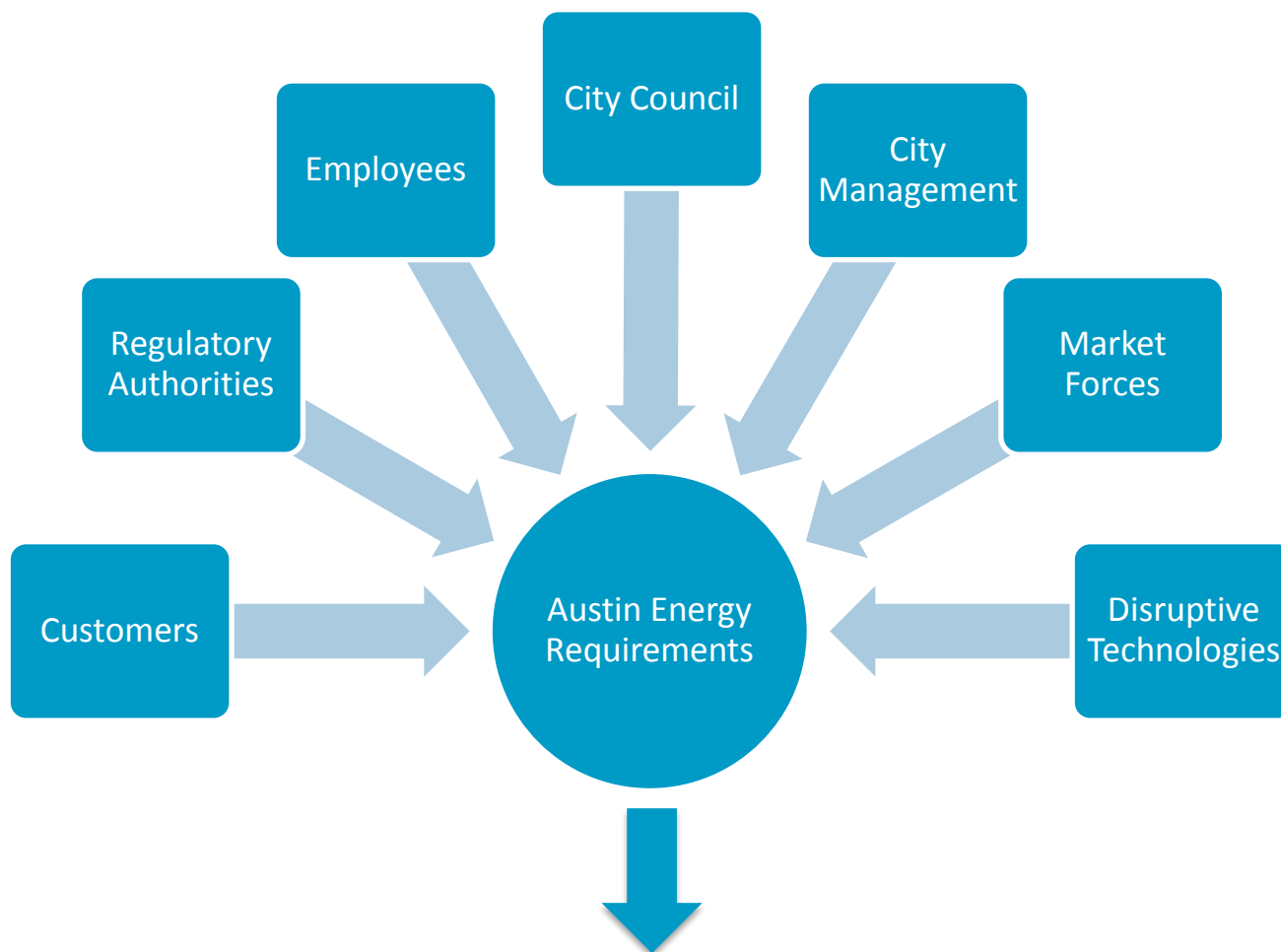




Monthly Performance Dashboard

- 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

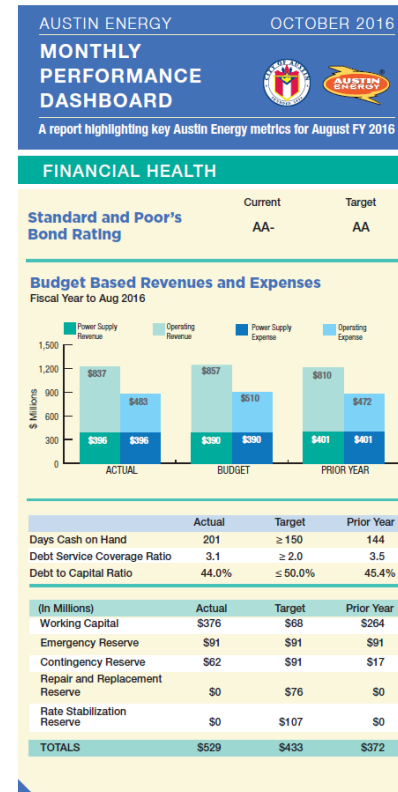
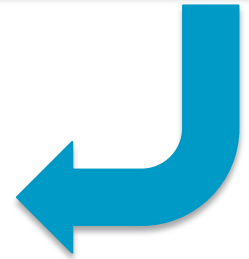
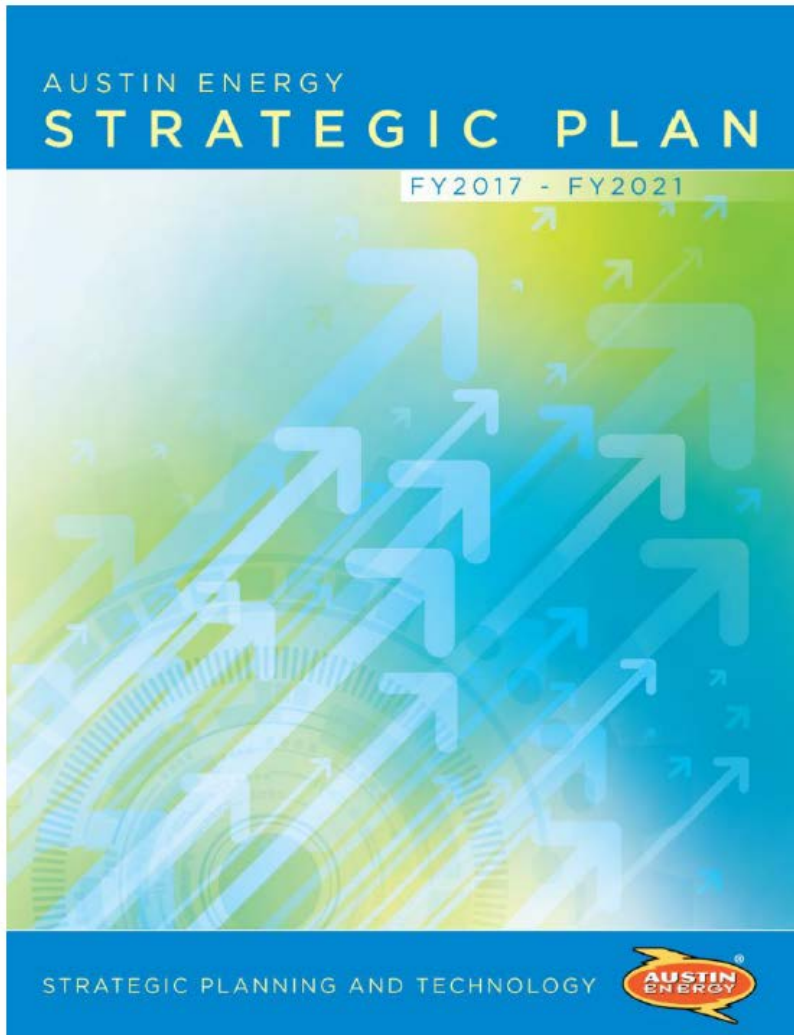
Strategic Planning Environment



Strategic Planning Process



Strategic Plan and the Performance Dashboard

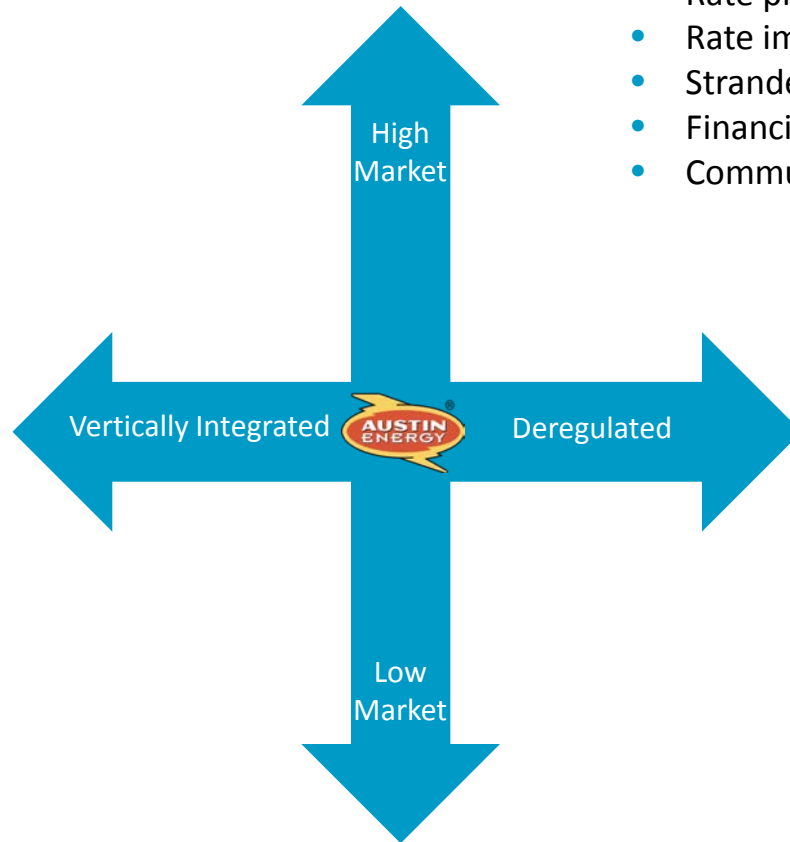


Future Worlds Environment



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





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



Monthly Performance Dashboard

AUSTIN ENERGY

OCTOBER 2016

MONTHLY PERFORMANCE DASHBOARD

A report highlighting key Austin Energy metrics for August FY 2016

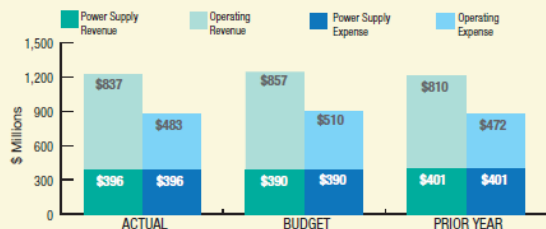
FINANCIAL HEALTH

Standard and Poor's Bond Rating

Current: AA- Target: 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

Month the dashboard is published

Month the data is effective

Strategic goal panel

Key performance indicator

Target set by management expectation

Budget to actual metrics

Targets set by Council's approved budget

Cash flow, liquidity and capital structure metrics

Targets set according to best practices

Working capital and reserve metrics

Targets set according to Council's approved policies



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	Aa	AA	AA
Upper Medium	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



- Standard and Poor's upgraded Austin Energy from AA- to AA on November 11, 2016
 - ✓ Strong fixed-charge coverage metrics, liquidity levels and cash reserves
 - ✓ Competitive rates with separate cost-recovery component
 - ✓ Steady customer growth
 - ✓ Diversified generation mix
 - ✗ Potential for future consumer choice (deregulation)
- Moody's upgraded Austin Energy from A1 to Aa3 on November 9, 2016
 - ✓ Improvement in debt service coverage and liquidity
 - ✓ Benefits from unregulated rate setting
 - ✗ Challenges from deregulated Texas retail electric market
 - ✗ Political involvement in power resource decisions and rate setting
 - ✗ Historically higher than public sector norms for transfers to General Fund
- Fitch reaffirmed Austin Energy's AA- on November 9, 2016

Benchmarking for Best Practices



FitchRatings

U.S. Public Power Peer Study



Peer Utilities Grouped by Bond Rating

Retail Systems

Issuer	Rating	Outlook/ Watch	Region	Total Operating Revenue (\$ 000)	Debt Service Coverage (x)	Coverage of Full Obligations (x)	Adjusted Debt/ FADS (x)	Adjusted Debt/ 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	45F	155	2.0	8.5	53.7	13,400	
Memphis Light, Gas & Water, TN	AA+	Stable	SERC	1,332,599	1.97	1.19	2.3	5.5	61						
Nashville Electric Service, TN	AA+	Stable	SERC	1,246,632	2.96	1.23	3.7	6.4	101						
San Antonio City Public Service (CPS Energy), TX	AA+	Stable	ERCOT	2,629,677	2.47	1.61	5.3	5.4	81						
AA+ Rated Median				1,246,632	2.96	1.40	3.3	5.5	81						
AA Rated Senior Debt															
Colorado Springs Utilities, CO	AA	Stable	WECC	830,821	2.00	1.81	7.3	7.3	131						
Concord Utility Funds, NC	AA	Stable	SERC	118,804	2.81	1.72	2.6	4.4	421						
Fayetteville Public Works Commission, NC	AA	Stable	SERC	300,484	2.91	1.47	3.9	5.5	171						
Grant County Public Utility District No. 2, WA	AA	Stable	WECC	313,169	2.20	2.08	8.2	8.2	475						
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							59.0	6,205	
AA Rated Median				306,827	2.40	1.71							51.5	5,835	
AA- Rated Senior Debt															
Anaheim Public Utilities Department, CA — Electric Fund	AA-	Stable	WECC	453,697	2.36	1.41							30.2	6,514	
Austin Electric, TX	AA-	Stable	ERCOT	1,351,436	3.41	2.36							54.9	3,206	
Bountiful Light and Power, UT	AA-	Stable	WECC	25,861	4.02	1.29							82.8	757	
CoServ Electric, TX	AA-	Stable	ERCOT	455,777	2.10	1.32							45.0	2,894	
Dover Electric Revenue Fund, DE	AA-	Stable	RFC	79,763	5.54	1.27							83.9	922	
Floresville Electric Light & Power System, TX	AA-	Negative	ERCOT	36,584	1.88	1.12							52.3	1,934	
Gainesville Regional Utilities, FL	AA-	Stable	FRCC	425,941	1.90	1.62							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-	Stable	WECC	6,755,222	2.55	2.55			5.7	305	438	7.1	123.1	29.8	10,912
Jacksonville Beach, FL	AA-								4.4	382	382	3.9	89.7	89.3	648
Kissimmee Utility Authority, FL	AA-								4.6	257	257	8.4	243.9	63.0	1,769
Lakeland Electric Utility, FL	AA-								4.3	181	181	12.1	83.9	42.0	3,477
Los Angeles Department of Water & Power, CA — Power System	AA+								8.0	252	252	8.0	236.9	38.1	5,893
Ocala Combined Utility Funds, FL	AA-								5.9	216	216	5.6	116.0	63.7	2,833
FADS – Funds available for debt service. D&A – Depreciation and amort FRCC – Florida Reliability Coordinating Council. SPP – Southwest Power Anchorage Electric Utility Fund; Batavia Electric Fund; Grays Harbor CO Source: Fitch Ratings.															
em Electric Coordinating Council. ERCOT – Electric Reliability Council of Texas. ordinating Council. MRO – Midwest Reliability Organization. Note: Fiscal 2014 audit — as & Water Division; Puerto Rico Electric Power Authority. Continued on next page.															



Financial Policies Establish Metrics and Targets

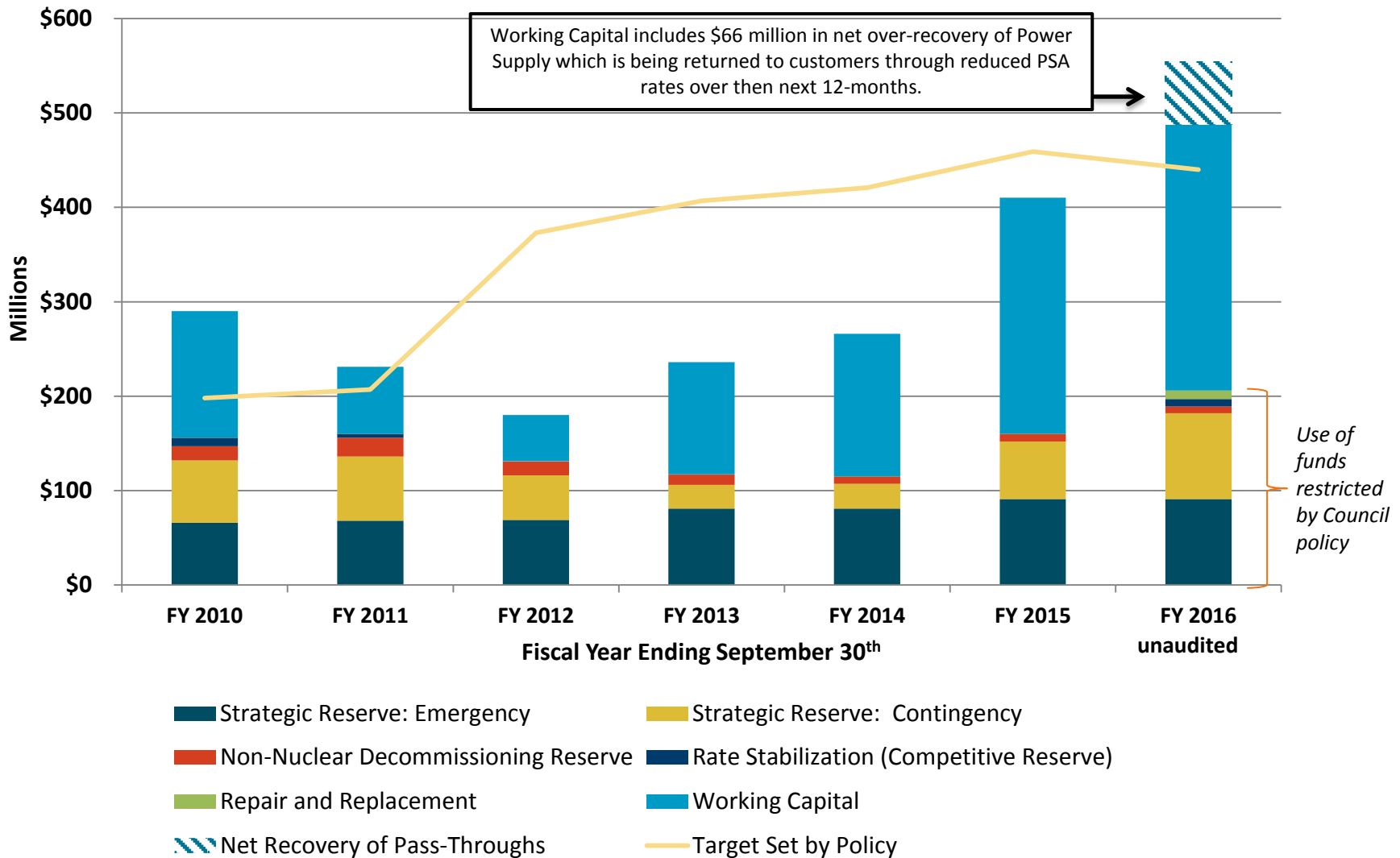
Austin Energy has 22 adopted financial policies. These policies are memorialized and adopted by ordinance each year during the budgeting process. They are published in Volume II of the City of Austin's budget. They cover a variety of financial issues, including:

- 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	FY 2017 Reserve	Transferred Balance October 2016
Working Capital	\$348 M	Working Capital	\$348 M
Strategic Reserve: Emergency	\$91 M	Contingency Reserve ⁽¹⁾	\$98 M
Strategic Reserve: Contingency	\$91 M		
Rate Stabilization	\$8 M	Power Supply Stabilization	\$89 M
Non-Nuclear Decommissioning	\$7 M	Non-Nuclear Decommissioning	\$7 M
Repair and Replacement	\$9 M	Capital	\$12 M
Total	\$554 M	Total	\$554 M

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