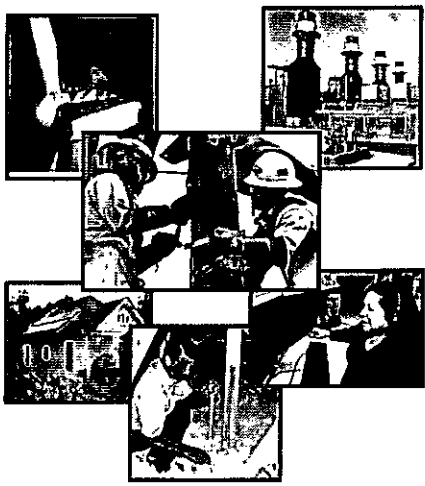




Late Backup



Austin Energy Quarterly Report

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

Larry Wels, General Manager
January 27, 2011



Topics

- Rate Review and Redesign Update
- Renewable Energy Acquisitions
- Forecasting an Affordable Resource Plan
- Near Term Strategies



Rate Review Goals

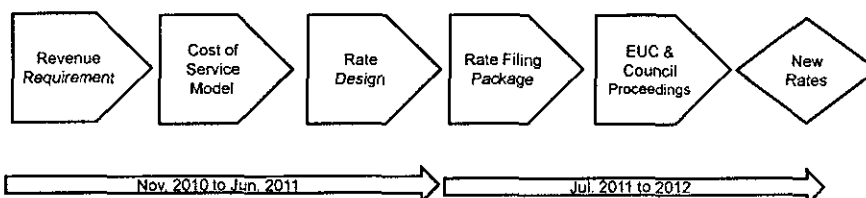
Ensure AE can successfully continue to provide clean, affordable, reliable energy and excellent customer service

- Provide affordable and competitive rates
 - Tool to sustain and attract jobs to Austin area
 - Help disadvantaged customers
- Costs are distributed fairly among customer groups
- Redesign rates to meet business objectives
 - Encourage efficient energy use
 - Net-metered distributed generation
 - Electric vehicles and other innovations
- Maintain the utility's financial health
- *Involve the public*



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Rate Review Timeline



| Date | Meeting Topics |
|-----------------------|---|
| Winter & Spring 2011 | Public Involvement Committee (PIC) |
| Summer & Fall 2011 | Outreach to interested civic and other groups |
| October 2011 | Update for Public Involvement Committee (PIC) |
| October-November 2011 | Electric Utility Commission Review & Recommendation |
| December 2011 | Council Review, Public Proceedings & Action |



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Public Involvement Committee (PIC)

- Diverse 14 member committee represents all customer groups & includes residential rate advocate
- Role and Responsibilities
 - Education on cost of providing electric service and rate structures
 - Represent the interests of their customer group
 - Communicate with their customer group
 - Provide input on rate issues and structures



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Public Involvement Committee (PIC)

| Type | Customer or Interest Group |
|--------------|-------------------------------------|
| Residential | Rate Advisor |
| | Low-Income |
| | At-Large |
| | Distributed Generation |
| Commercial | Small Non-Demand |
| | Demand |
| | Large-Medium Office Buildings |
| | Worship Facilities |
| Key Accounts | Large Industrial |
| | Large Commercial Long-Term Contract |
| | Government (State) |
| | School Systems |
| Other | Outside Austin Communities |
| | Energy Efficiency/Environmental |



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Public Involvement Committee (PIC)

- Public meetings with independent facilitator
- Education on cost of providing electric service and rate structures
 - White Papers prior to meetings
 - Meeting Presentations
 - Q&A during and after meetings
- Meetings provide scheduled time for member dialogue and input
- Website www.rates.austinenergy.com



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Public Involvement Committee Schedule

- Location - Town Lake Center Shudde Fath Conference Room
- 6:00 p.m. to 9:00 p.m.

| Date | Public Involvement Committee Meeting Topics |
|------------------|--|
| January 13, 2011 | Rate Review Overview |
| February 2, 2011 | Customer Types and Rate Philosophy |
| March 2, 2011 | Class Revenue Requirements and Cost of Service |
| April 6, 2011 | Residential Rate Structures |
| May 4, 2011 | Commercial and Industrial Rate Structures |
| June 1, 2011 | New Rates Implementation Plan |
| October 2011 | Update on Rate Review |



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Renewable Energy Project Acquisition Update

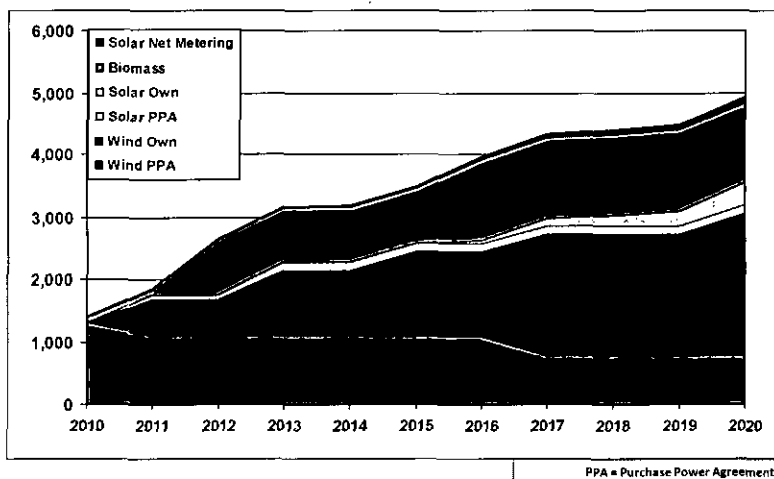
Renewable Energy Update

- Energy resource plan approval pending affordability measure
- Status of projects
 - Biomass – 100 MW online mid-2012
 - Webberville solar – 30 MW online end of 2011
- New acquisitions
 - Request for Proposals (RFP)
 - Investigating wind acquisitions
 - Two wind projects in energy resource plan
 - 200 MW in 2011 to replace expiring 77 MW contract
 - 150 MW in 2013



Renewable Additions 2020 (GWhs)

35% Total Energy



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Austin Energy Renewable Portfolio Cost

| Renewable | | Actual | | | | |
|-----------|-----------------|----------------|----------------|----------------|---------------|---------------|
| | | 2005 | 2006 | 2007 | 2008 | 2009 |
| Wind | Mwh | 515,247 | 639,215 | 584,347 | 835,175 | 1,253,161 |
| | Energy Cost | \$ 12,853,154 | \$ 17,536,695 | \$ 16,116,203 | \$ 27,234,811 | \$ 50,412,115 |
| | Congestion cost | \$ (2,549,355) | \$ (1,817,626) | \$ (1,121,113) | \$ 16,215,560 | \$ 3,754,624 |
| | Avg. cents/kWh | 0.025 | 0.027 | 0.028 | 0.033 | 0.040 |
| Solar | Mwh | | | | | |
| | Energy Cost | \$ - | \$ - | \$ - | \$ - | \$ - |
| | Avg. cents/kWh | - | - | - | - | - |
| Biomass | Mwh | 91,586 | 66,136 | 66,309 | 65,752 | 53,691 |
| | Energy Cost | \$ 2,283,068 | \$ 1,781,334 | \$ 1,628,588 | \$ 1,601,343 | \$ 1,090,444 |
| | Avg. cents/kWh | 0.025 | 0.027 | 0.025 | 0.024 | 0.020 |
| Total | Mwh | 606,833 | 705,351 | 650,656 | 900,927 | 1,306,852 |
| | Energy Cost | \$ 15,136,222 | \$ 19,318,029 | \$ 17,744,791 | \$ 28,836,154 | \$ 51,502,559 |
| | Avg. cents/kWh | 0.025 | 0.027 | 0.027 | 0.032 | 0.039 |

Notes:

1) Biomass includes Landfill and Woodwaste resources



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Austin Energy Renewable Resource Cost

| Renewable | | Projected | | | | |
|-----------|-----------------|---------------|----------------|----------------|----------------|----------------|
| | | 2011 | 2012 | 2013 | 2014 | 2015 |
| Wind | Mwh | 1,857,436 | 1,726,602 | 2,390,749 | 2,438,724 | 2,785,404 |
| | Energy Cost | \$ 71,561,808 | \$ 68,304,207 | \$ 93,063,083 | \$ 81,820,756 | \$ 94,415,572 |
| | Congestion cost | | | | | |
| | Avg. cents/kWh | 0.039 | 0.040 | 0.039 | 0.034 | 0.034 |
| Solar | Mwh | 70,520 | 70,659 | 70,520 | 138,766 | 138,766 |
| | Energy Cost | \$ 11,600,612 | \$ 11,623,432 | \$ 11,600,612 | \$ 22,213,484 | \$ 22,213,484 |
| | Avg. cents/kWh | 0.165 | 0.165 | 0.165 | 0.160 | 0.160 |
| | | | | | | |
| Biomass | Mwh | 87,862 | 550,343 | 876,262 | 876,262 | 876,262 |
| | Energy Cost | \$ 3,422,233 | \$ 45,231,841 | \$ 76,319,189 | \$ 77,933,917 | \$ 79,605,325 |
| | Avg. cents/kWh | 0.039 | 0.082 | 0.087 | 0.089 | 0.091 |
| | | | | | | |
| Total | Mwh | 2,015,818 | 2,347,604 | 3,337,531 | 3,453,752 | 3,800,432 |
| | Energy Cost | \$ 86,584,653 | \$ 125,159,480 | \$ 180,982,884 | \$ 181,968,157 | \$ 196,234,381 |
| | Avg. cents/kWh | 0.043 | 0.053 | 0.054 | 0.053 | 0.052 |
| | | | | | | |

Notes:

- 1) Biomass includes Landfill and Woodwaste resources
- 2) Projection includes resources under contract and new resources reflected in April 2010 Resource Plan
- 3) Future Transmission Congestion Costs are not known or projected



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Forecasting an Affordable Resource Plan

Implement an Affordable Resource Plan

- AE's response to City's 2007 climate protection plan
- April 22, 2010 City Council approval dependent on developing method to measure the plan's affordability
- Flexible, dynamic and emphasizes affordability as a fundamental element

Plan Goals – three components

- 35% of annual energy supply from qualifying renewables
- Affordable and predictable as possible
- Reach generation plan goals by 2020



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Energy Resource Plan (In Megawatts – MW)

| Year | Coal & Nuclear | Gas | Biomass | Wind | Solar | Total | Renewable Portfolio |
|--------------|----------------|--------------|------------|--------------|------------|--------------|---------------------|
| 2009 | 1,029 | 1,444 | 12 | 439 | 1 | 2,925 | 10% |
| 2010 | | 100 | | | 30 | 130 | 10% |
| 2011 | | | | (77)* / 200 | | 123 | 15% |
| 2012 | | | 100 | | | 100 | 17% |
| 2013 | | | | 150 | | 150 | 25% |
| 2014 | | | | | 30 | 30 | 25% |
| 2015 | | 200 | | 100 | | 300 | 28% |
| 2016 | | | 50 | | 20 | 70 | 30% |
| 2017 | | | | (126)* / 200 | 30 | 104 | 33% |
| 2018 | | | | | 20 | 20 | 32% |
| 2019 | | | | | 30 | 30 | 32% |
| 2020 | | | | 115 | 40 | 155 | 35% |
| TOTAL | 1,029 | 1,744 | 162 | 1,001 | 201 | 4,137 | |

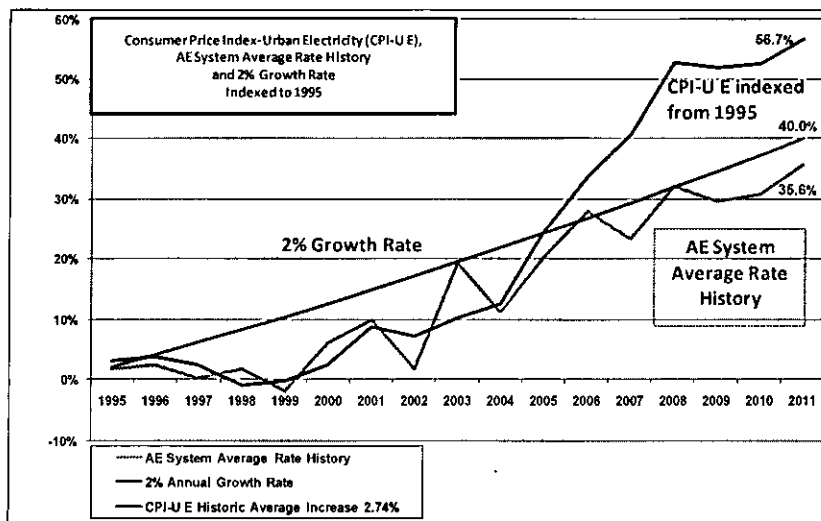
* Wind contracts expire.

Plan goal - 35% of annual energy supply from qualifying renewable sources.
800 MW energy efficiency by 2020 goal. Reduces growth in load forecast.



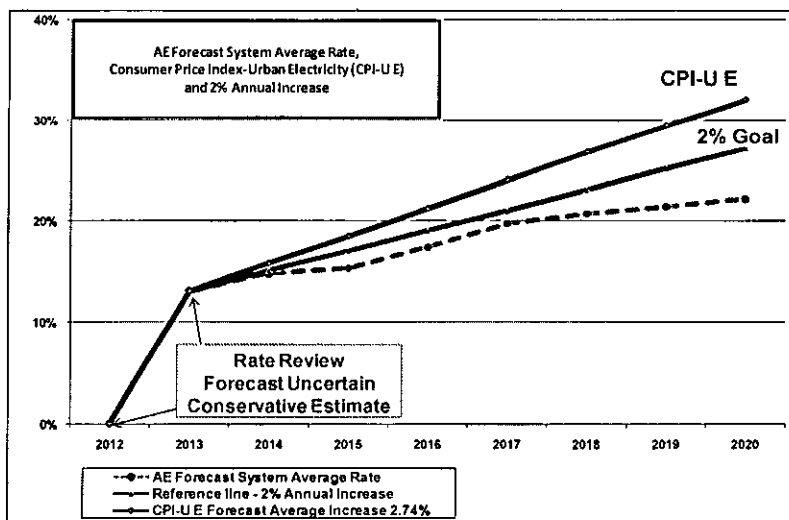
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Forecasting Tools to Measure Affordability



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Forecasting Tools to Measure Affordability



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Revenue Requirements Forecast

- Driven by assumptions
 - Economic outlook & inflation
 - Renewed emphasis on cost reduction strategies
 - Early forecast years are more firm data
 - Later forecast years more dependent upon assumptions that will likely change
- Used to calculate forecast AE system average
- Will indicate need for future rate increases
- Rate review resets revenue requirements in 2012
 - Improve utility's financial health and move to cost of service



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Recommendation

Request Council action at its next meeting on AE's Generation Plan subject to the following conditions:

- Operate within a range between historic average increases of 2% for AE system average and 2.7% for CPI-U Electric following rate review that resets revenue requirements in 2012
- Report progress
 - AE system average increase compared to goal through 2020
 - Forecast revenue requirements to calculate system average
- Update Forecast Tool annually and when recommending renewable acquisitions
 - Report in 5 Year Financial Forecast each Spring with rate benchmarking



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Future Council Communication Timeline

- April 2011
 - Council work session on 5 year financial forecast
- July 2011
 - Report on utility operational and strategic issues
- August 2011
 - Briefing on Proposed 2012 Budget
- October 2011
 - Report on utility operational and strategic issues



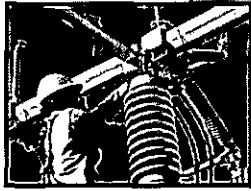
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General Manager's Near Term Strategies

- Rate review and energy resource plan with affordability measure launched
- Continue internal organizational & financial review
- In-depth review of capital improvement plan
- Improve communications and transparency



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Questions

