City of Austin Financial Forecast

Austin Energy

April 26, 2011

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

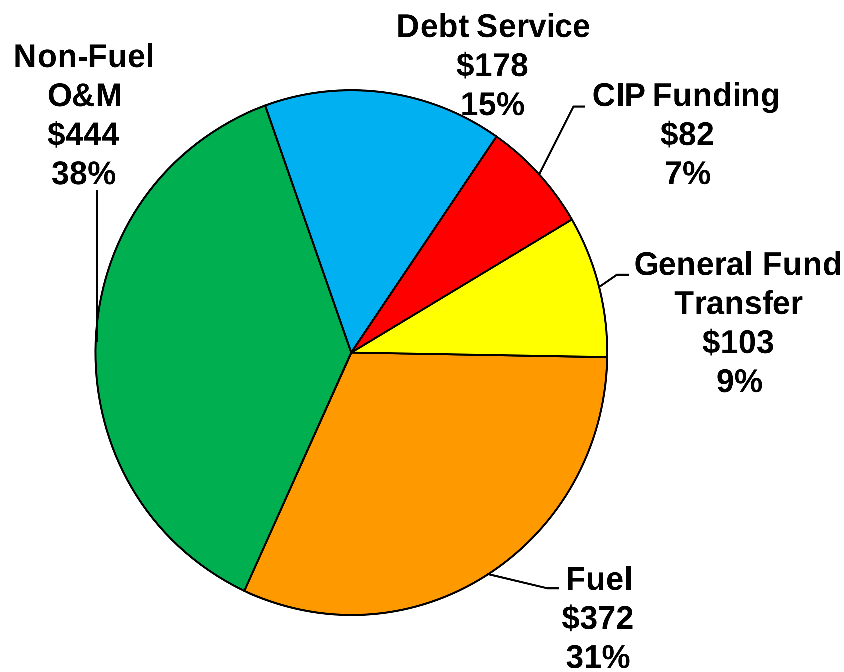
Forecast Highlights

- Prior year forecast showed a funding gap in each year
- Priority - protect utility's long-term financial stability & sustainability
- Rate increase combined with cost reductions needed to close the gap
  - Rate redesign currently underway
  - Forecast new rates in place January 2012
  - Conservative estimate of revenue increase due to rate redesign in forecast
  - Continue cost management work in FY 2012 budget development

Requirements

- Operating & Maintenance (O&M)
  - *Fuel & Purchased Power, ERCOT Fees*
  - *Non-fuel O&M*
- Capital Improvements (CIP)
  - *Debt Service*
  - *CIP Cash Funding*
- General Fund Transfer

FY 2012 Forecast
$1,178 Million
(In Millions)



Expenditure Key Assumptions

Expenditure Assumption	Utility Control?
No new Full Time Equivalents	**Controllable**
Labor cost increases (Health insurance, retirement contribution)	**Controllable ***
Contractual and commodity expenses	**Controllable ***
Fuel expense – Forecast prices for natural gas, coal, purchased power. Assumed production schedules, planned outages and Nodal Market conditions. Fuel cost forecasts impact fuel revenue in a similar manner.	Not controllable
Transmission expense increases due to ongoing Texas Transmission Construction Program	Not controllable
Capital improvement spending plan • Carries forward FY 2011-2015 plan updating cash flows; adds FY 2016 • Resource, Generation and Climate Protection Plan to FY 2020	**Controllable**
Debt service requirements • Principal and interest on existing debt and new debt for capital program • Interest rate on new debt issued • Maintain current bond ratings (affects long-term interest costs)	**Controllable *** Interest rates are not controllable.
Cash funding for capital projects	**Controllable**
General Fund Transfer • Maintains current policy at 9.1% of revenue • Evaluate policy as part of rate review	**Controllable**

*** Some elements are not controllable.**

FY 2011-12 Cost Drivers

Category	Estimated Increase	Description
Fuel expenses	($28.8M)	Decrease due to natural gas prices and usage for generation of electricity
Fayette Power Plant (coal)	($6.6M)	Ownership share (50%-Units 1 & 2) of plant operating costs
STP Power Plant (nuclear)	$5.4M	Ownership share (16%) of plant operating costs, primarily due to planned maintenance
Transmission Expense	$5.7M	Rising costs for Texas Transmission Construction Program
Labor Related	$5.2M	City-wide cost increases for Health Insurance (10%; $1.6 million) and Salary Adjustments (3%; $3.6 million)
Corporate Expense	$4.1M	2% additional Supplemental Retirement Contribution ($2.4 million), Franchise Fees ($1.0 million), Communications & Technology Management updated allocation ($0.6 million)
Administrative Support	$1.5M	Updated allocation for administrative support
Debt Service	$8.3M	Increase in principal and interest on outstanding debt for financing capital program
Transfer to Electric Capital Improvement Program	$7.7M	Increase in cash funded portion of capital program

Although some cost increases, no longer in a high economic growth period and average residential use is declining. Utility responded with cost management efforts since 2010.

O&M Cost Reduction & Control

- No new FTEs in FY 2010, FY 2011 or Forecast
- FY 2010 decreases in Non-fuel requirements
  - $3.6 million consulting and temporary services contracts
  - $15.0 million debt service – lower Capital Plan and interest rate
- FY 2011 decreases in Non-fuel requirements
  - $6.4 million controllable contractual expenses
  - $4.0 million 311 call center cost reallocated to other funds
  - $9.1 million debt service requirements – lower Capital Plan and use of $4.0 million from over-funded Bond Retirement Reserve
- FY 2012 Budget Development
  - Working on cost reduction plan including review of vacant positions

Requirements (In Millions)

- Operating Requirements - 70% of total requirements
  - Fuel is 32% of total and 46% of operating requirements
  - Non-fuel Operating & Maintenance (O&M) is 19% of total and 27% of operating requirements
- Transfers - 30% of total

Category	Amended 2010-11	Estimated 2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Fuel Expense	$ 490	$ 401	$ 372	$ 439	$ 446	$ 475	$ 473
Non-Fuel O&M	$ 227	$ 236	$ 218	$ 229	$ 234	$ 243	$ 252
Transmission Service	$ 66	$ 64	$ 70	$ 81	$ 98	$ 117	$ 126
Conservation	$ 13	$ 13	$ 13	$ 14	$ 15	$ 15	$ 16
Conservation Rebates & Incentives	$ 18	$ 18	$ 19	$ 18	$ 17	$ 16	$ 15
Nuclear & Coal Plants O&M	$ 85	$ 89	$ 88	$ 103	$ 96	$ 99	$ 116
Other Operating Requirements	$ 30	$ 30	$ 35	$ 39	$ 40	$ 41	$ 42
Total Operating Requirements	**$ 929**	**$ 851**	**$ 815**	**$ 923**	**$ 945**	**$ 1,007**	**$ 1,040**
Debt Service	$ 169	$ 169	$ 178	$ 182	$ 180	$ 137	$ 141
Transfer to Electric CIP	$ 74	$ 74	$ 82	$ 83	$ 85	$ 76	$ 92
General Fund Transfer	$ 103	$ 103	$ 103	$ 102	$ 104	$ 108	$ 116
Other Transfers	$ 1	$ 1	$ 1	$ 1	$ 1	$ 1	$ 1
Total Transfers	**$ 348**	**$ 347**	**$ 363**	**$ 367**	**$ 370**	**$ 323**	**$ 351**
Total Department Expenditures	**$ 1,277**	**$ 1,198**	**$ 1,178**	**$ 1,290**	**$ 1,315**	**$ 1,330**	**$ 1,390**

Factors affecting Capital Plan

- Economy – slow recovery
- Lower Load Forecast
- Labor & commodity costs rise
- Existing project commitments
  - Billing System Replacement
  - System Control Center
- Resource, Generation & Climate Protection Plan to 2020
- Affordability drives decisions

Capital Cost Reduction & Control

- FY 2010-2014 Plan reduced from prior 5-year plan
  - ($63 million) defer electric service delivery projects
- FY 2011-2015 Plan reduced from prior 5-year plan
  - ($24 million) defer electric service delivery projects
  - ($10 million) eliminated contingency on Fayette scrubber project, as project nears completion
  - ($35 million) fewer district cooling projects due to economy
  - ($5 million) reduction in solar PV for large rooftop lease
- FY 2012 – 2016 Forecast Capital Plan
  - Deferred 200 MW expansion at Sand Hill Energy Center two years to FY 2015-2017 due to lower load forecast
  - Renewable acquisition - Wind purchased power agreement with flip to ownership/debt beyond the forecast period
  - Lower plan due to nearing completion of large projects (Fayette scrubbers, Billing system replacement)

Capital Improvements Program

$1.1 Billion Five Year Capital Spending Plan

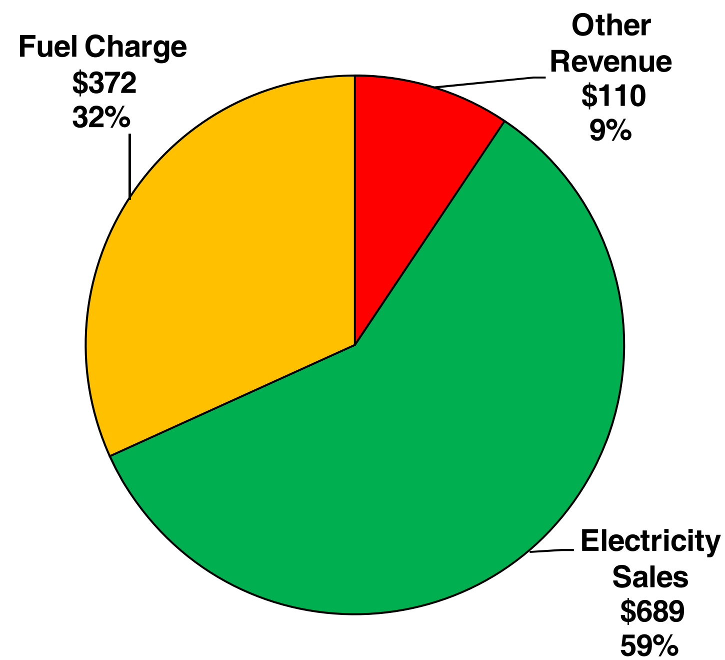
$ in Millions	Estimate 2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2012-2016 Total
Distribution	$ 58	$ 59	$ 61	$ 63	$ 64	$ 61	$ 308
Distribution Substation	5	16	9	18	15	20	78
Transmission	18	16	26	10	16	13	81
Electric Service Delivery	81	90	96	92	95	94	466
Power Production	74	47	49	52	100	189	437
Customer Service Billing & Metering	16	13	4	4	4	5	30
Facilities, Technology & Support Services	31	85	19	15	16	19	153
Total	$ 202	$ 235	$ 168	$ 163	$ 215	$ 307	$ 1,087

- Projects for power supply, reliability and customer service
- $1,087 Million 5-year plan with $235 Million in 2012
  - Electric Service Delivery - 43% of 5-year plan
  - Power Production - 40% of 5-year plan & includes 200 MW expansion at Sand Hill Energy Center in FY 2015-2017 (deferred 2 years)

Sources of Revenue

- Electricity Sales
- Fuel Charge
- Other Revenue
  - *Transmission*
  - *Infrastructure Rental*
  - *District Cooling*
  - *Customer Fees*
  - *Interest Income*

FY 2012 Forecast
$1,172 Million
(In Millions)



Revenue Key Assumptions

Assumptions
Economic data for Travis County
Electric demand or load forecast • Population and employment growth • Historical patterns of customer mix and usage patterns • Legislation related to energy efficiency • Goal of 800 MW demand side management by FY 2020
Growth in electricity sales and revenue • Electric demand or load forecast • Growth of 1.1% in number of customers • kWh sales growth of 1.3% derived from normalized weather • Rate increase; revenue requirements increase 12% • Long term contracts fix large customer rates (non-fuel) until May 2015
Recovery mechanism for rising transmission costs
Lower cash balances and interest rates reduce interest income
No use of Strategic Reserve Fund to balance
Maintain $35 million Revenue Bond Retirement Reserve

Revenue (In Millions)

- Electricity sales and fuel charge are 91% of revenue
- All other revenue is 9% of revenue
  - Transmission revenue is 4.5% of revenue

Category	Amended 2010-11	Estimate 2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Service Area Base Revenue	$ 613	$ 622	$ 689	$ 722	$ 741	$ 762	$ 787
Fuel & Green Choice Revenue	490	390	372	439	446	475	473
Transmission Service Revenue	56	61	57	57	58	59	59
Other Revenue	58	59	38	40	42	60	47
Retail Transmission Rider	7	7	12	17	34	53	62
Interest Income	6	6	3	3	4	4	6
Total Revenue	**$ 1,230**	**$ 1,145**	**$ 1,172**	**$ 1,277**	**$ 1,324**	**$ 1,413**	**$ 1,434**
Transfers In	**$ 0**	**$ 0**	**$ 0**	**$ 0**	**$ 0**	**$ 0**	**$ 0**
Total Available Funds	**$ 1,230**	**$ 1,145**	**$ 1,172**	**$ 1,277**	**$ 1,324**	**$ 1,413**	**$ 1,434**

Fund Summary ($ in millions)

		2011 CYE	2012	2013	2014	2015	2016
Beginning Balance	$	**152.8**	**99.7**	**93.0**	**79.6**	**89.0**	**171.8**
Revenue	$	1,145.3	1,171.6	1,277.1	1,324.1	1,412.7	1,433.9
Transfers In	$	0.0	0.0	0.0	0.0	0.0	0.0
Available Funds	$	**1,145.3**	**1,171.6**	**1,277.1**	**1,324.1**	**1,412.7**	**1,433.9**
Fuel and Purchased Power	$	401.0	372.2	438.7	445.9	475.3	472.9
Operating Requirements	$	419.8	407.6	445.1	459.0	490.9	524.9
Debt Service	$	169.2	177.5	181.5	179.8	137.4	141.5
Transfers Out	$	178.1	185.8	185.7	189.8	185.2	209.1
Other Requirements	$	30.3	35.2	39.5	40.2	41.1	41.9
Total Requirements	$	**1,198.4**	**1,178.3**	**1,290.5**	**1,314.7**	**1,329.9**	**1,390.3**
Excess (Deficiency)	$	**(53.1)**	**(6.7)**	**(13.4)**	**9.4**	**82.8**	**43.6**
Ending Balance	$	**99.7**	**93.0**	**79.6**	**89.0**	**171.8**	**215.4**
Strategic Reserve Fund	$	**141.7**	**141.7**	**141.7**	**141.7**	**141.7**	**141.7**
Debt Service Coverage		**1.74**	**2.01**	**1.95**	**2.11**	**2.95**	**2.79**
Full Time Equivalents (FTEs)		**1,721**	*** 1,712**	*** 1,712**	*** 1,712**	*** 1,712**	*** 1,712**

Ending Balance includes working capital reserve in accordance with City Financial Policy.
*** FTEs for Climate Protection Program transferred to General Fund.**

Forecast Summary

- FY 2011 deficiency of $53 million despite deferring capital projects and cost management efforts
- Planned rate increase is not sufficient to achieve structural balance in all forecast years
  - Gap in FY 2012 of $7 million
  - Gap in FY 2013 of $13 million
- FY 2012 proposed budget development
  - Structural balance ensures long-term financial sustainability
  - Action plans underway for rate design and increase
  - Continue cost management efforts to close the gap

Questions or Comments

more information available at:

www.ci.austin.tx.us/budget