



YOUR ELECTRIC RATES

Austin has changed in the 17 years
since our last rate review.

Our commitment to our customers remains unchanged.

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

Budget Reductions, Line Extensions & Fees
City Council Work Session # 4
April 3, 2012



AE has become a leader in the industry

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

This mission statement clearly communicates Austin Energy's contribution to making Austin the **most livable community** in the country.

- Reliability
- Energy Efficiency
- Green Building Program
- Renewable Portfolio Standards
- Customer Service
- High Credit Quality



Performance Beyond the Average Utility Operations

- ISO 9000 – ESD, Customer Care, Power Production
- Early adoption of smart meters
- System Reliability outperforms industry
- Tree clearance communications with property owners
- Clean Oil Transformers
- Smart Streetlight Program
- Key Accounts (Best in Class)
- Customer Assistance Program above average benefits
- High credit rating – low interest rates



Performance Beyond the Average Utility Sustainability

- Nationally recognized energy efficiency programs
- Nation's first Green Building program
- 800 MW Energy Efficiency power plant by 2020
- 25% Renewables by start of 2013– 35% by 2020
- 30 MW Solar Resource – among largest in nation
- Scrubbers on FPP - Mercury reductions in planning
- Recycled Water supplies newest power plant
- 106-station community EV EveryWhere Network



Austin Energy's Strategy is to Continue:

- Above Average System Performance
- To Sustain Leadership in Energy Efficiency and Renewable Energy
- To Provide an Affordable New Rate Structure

AE desires to successfully continue to provide clean, reliable, affordable energy and excellent customer service ... AE's contribution to making Austin the **most livable community in the country**.



Budget – FY 2013



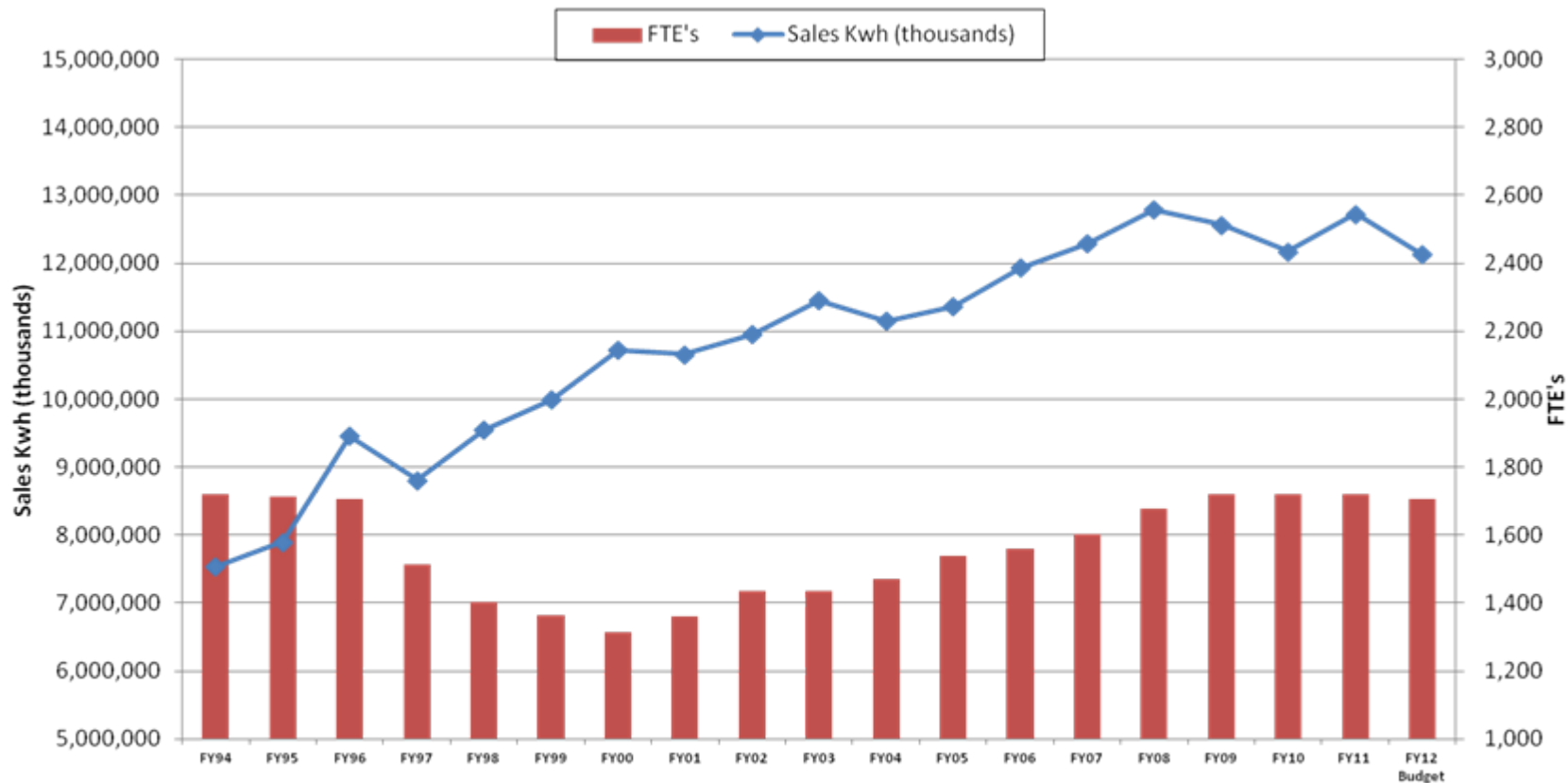


Expense Reductions Since 2009

- No new FTEs - vacancy savings
- Eliminating FTE positions over time
- Reduced overtime/call back (weather)
- Reduced tree trimming budget
- Reduced engineering and consulting services
- Reduced software maintenance agreements
- Reduced service contract for Customer Care
- Reduced maintenance costs – scheduling
- Reduced printing and supplies
- Reduced paid advertising for programs



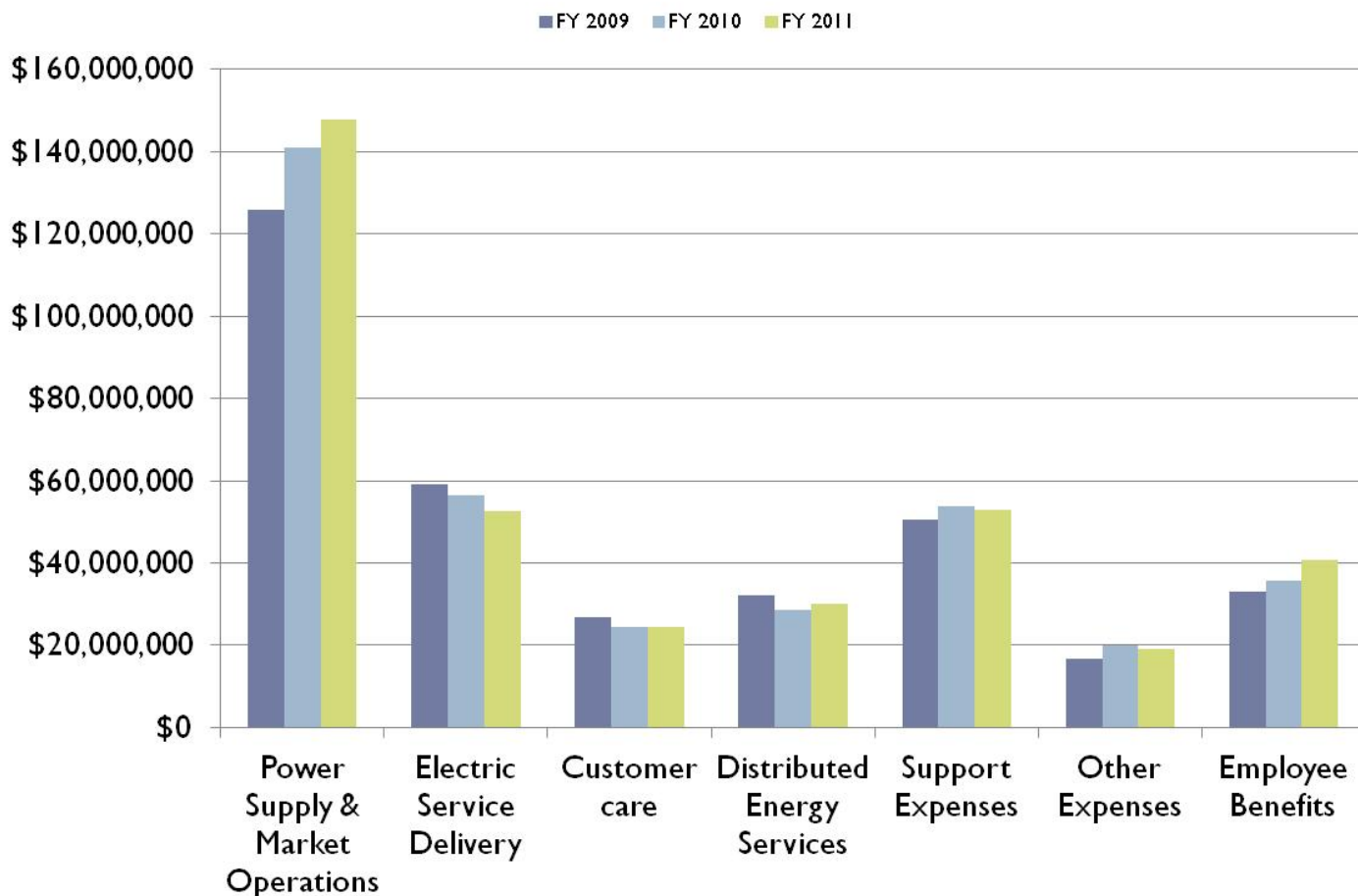
Sales (Kwh) Growth per FTE's





Over \$26 Million Reduction to Non-Fuel Expenses with \$ 13 Million More Expected in FY 2012

Non-Fuel Costs





FY 2012-13 Cost Drivers

Category	Estimated Increase	Description
Fayette Power Plant (coal)	\$4.3M	Ownership share (50%-Units 1 & 2) of plant operating costs
STP Power Plant (nuclear)	\$14.7M	Ownership share (16%) of plant operating costs, primarily due to planned maintenance
Transmission Expense	\$14.0M	Rising costs for Texas Transmission Construction Program
Labor Related	\$5.5M	City-wide cost increases for Health Insurance (%; \$1.7 million) and Salary Adjustments (3%; \$3.8 million)
Corporate Expense	\$2.6M	2% additional Supplemental Retirement Contribution (\$2.2 million), Communications & Technology Management updated allocation (\$0.4 million)
Administrative Support	\$1.3M	Updated allocation for administrative support

- Modest economic growth and decline in average residential use, compared to recent past. Utility responded with cost management efforts since 2009.



FY 2013 Budget Control

- Hold FTEs constant or reduce vacant positions
 - Continue internal recruitment
- Evaluate current contracts for cost savings
- Evaluate maintenance schedules and adjust if there are no effects to reliability
- Expand debt funding of capital projects

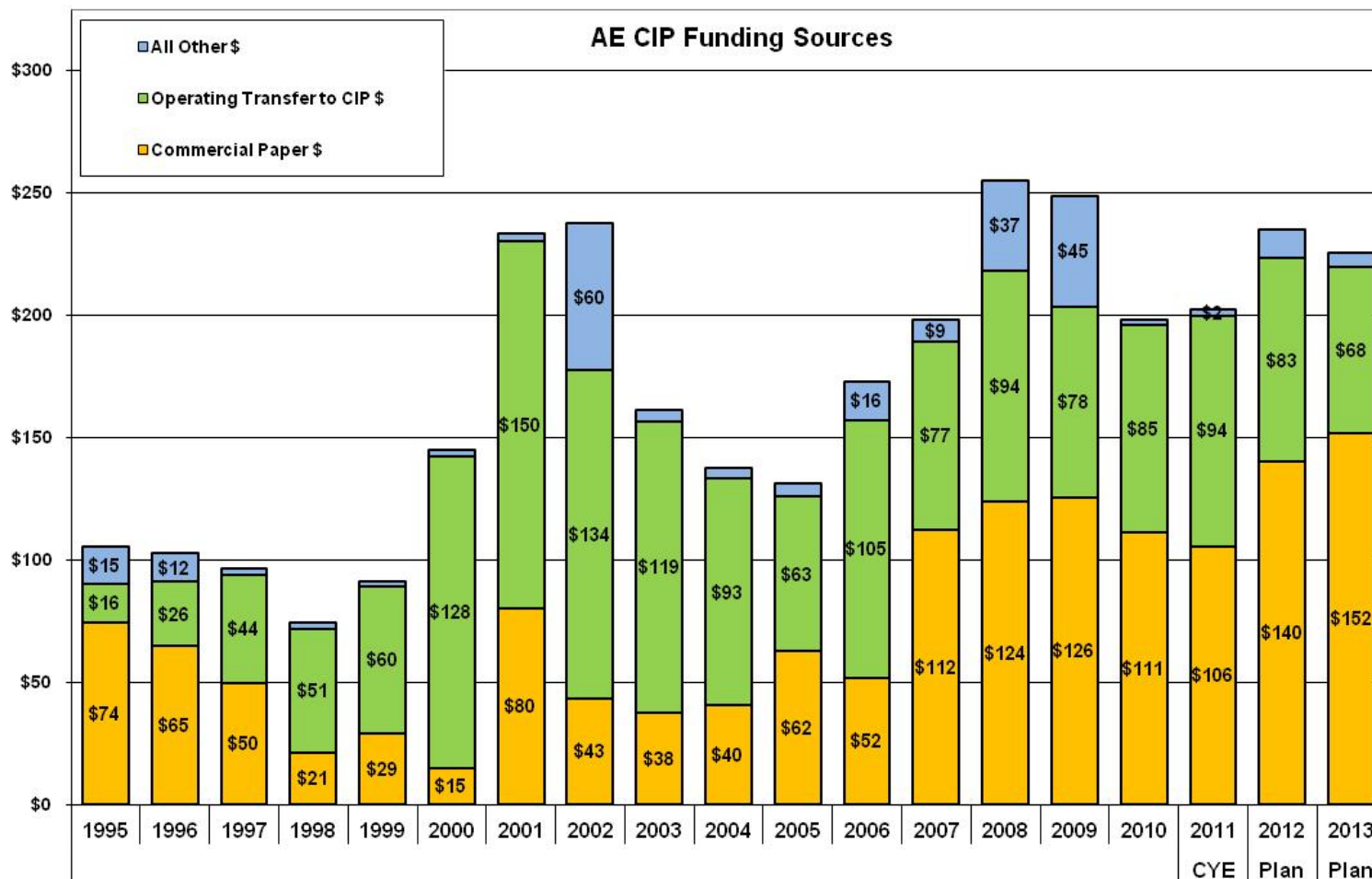


Capital Expenditure Deferrals

- FY 2010 CIP Plan reduced from prior 5-year plan
 - (\$63 million) defer electric service delivery projects
- FY 2011 CIP 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
 - (\$5 million) reduction in solar PV for large rooftop lease
- FY 2012 CIP Plan
 - Deferred 200 MW expansion at Sand Hill Energy Center two years to FY 2015-2017 due to lower load forecast
 - Traditional wind Purchase Power Agreement rather than acquisition or construction
 - Deferred other projects until completion of large projects (Fayette Scrubbers, Billing System replacement)

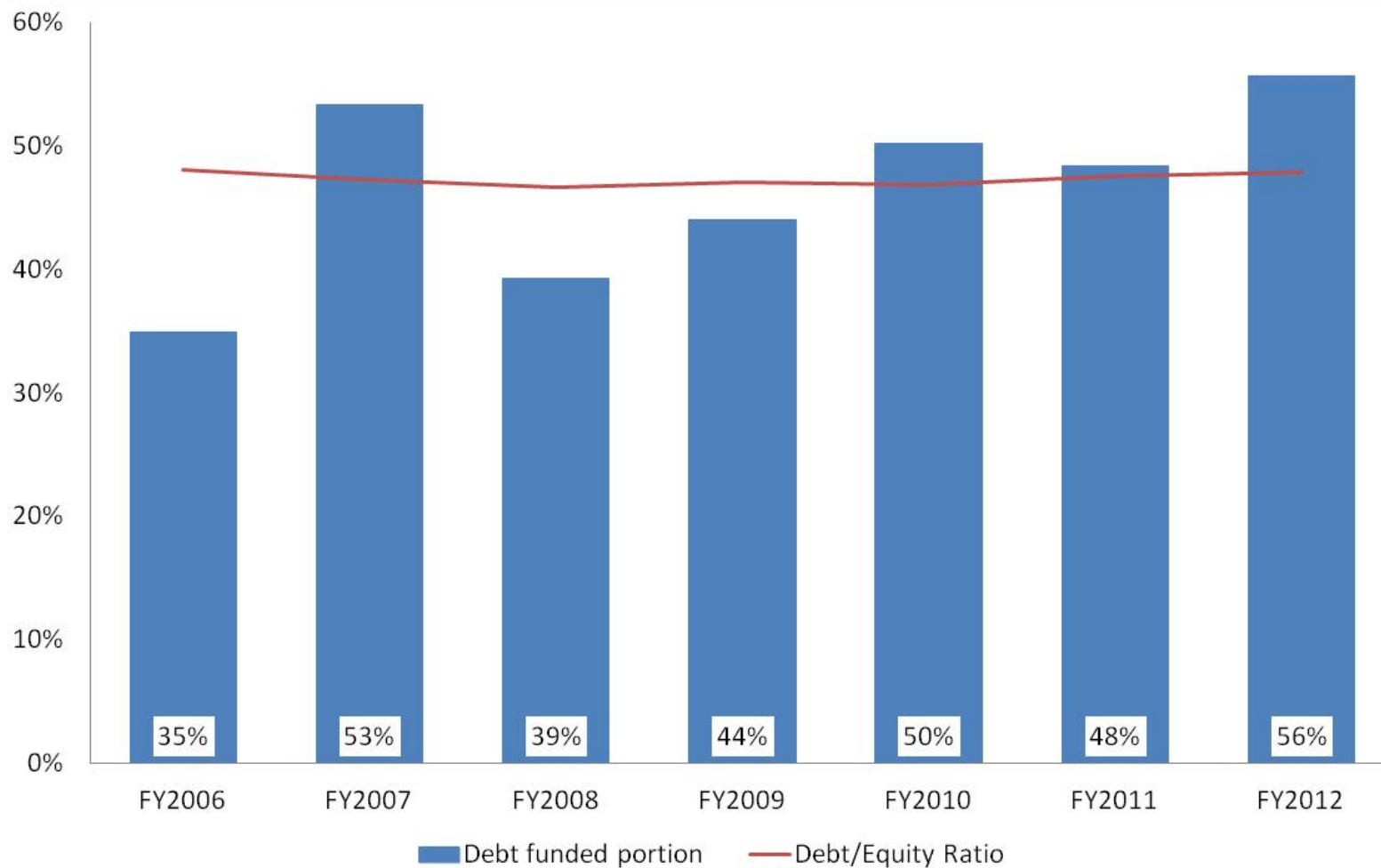


AE CIP Funding Sources





Debt Funded Portion of Capitalized Construction Projects





Rate Assumptions





Rate Assumptions

Transition Assumption for New Rates	Expected Results
FY2013 - \$71 million rate increase assumed	Non-compliance with Financial Policies
FY2015 - \$31 million rate increase assumed	Non-compliance with Financial Policies
FY2016 - \$25 million revenue increase - contract expiration	Non-compliance with Financial Policies



Cost Reductions Since 2009 Due to Insufficient Rates (Unrecovered Cost)

- Projects deferred
- O&M temporary cuts
- Permanent FTE cuts
- Overtime reductions
- Hold non-fuel O&M budget flat for 2013
 - Not prudent to defer projects any longer
 - Not prudent to cut O&M any deeper
 - Difficult to continue to absorb inflation and material & supply increases like wire, poles, transformers, vehicles



Forecast Horizon Risks

- Weather
- Substantial Infrastructure Needs
- Depleted Reserve Funds
 - Unplanned Plant Outages
 - Storm Damage
 - ERCOT Market Prices
 - Regulatory Changes
- Credit Rating



Strategic Goal Impacts

- Financial Integrity Goal AA Rating
 - Reserves Inadequate
- Reliability
 - Project Deferrals for last four (4) years
 - CIP Pent-up Demand
 - Contract Deferrals for Line Clearance (tree trimming) may continue
- Customer Service
 - Resource Constraints
- DSM 800 MW by 2020
 - Energy Efficiency Rebates Contained
- Renewable Energy Goals 35% by 2020
 - New Renewable Energy Build-Out Deferred to Later Years



Line Extension Policy and Fees





Why Have a Line Extension Policy?

- Electric Rates are averages and they recover the average cost to serve a particular class
- The purpose of a line extension policy is to make new customers look “average” for rate purposes
- Line extension policies that do not achieve this goal will result in a utility’s financial position degrading as new customers are added to the system



Line Extension Policy Concept

- Various methodologies will be considered but basic concept is :
 - Electric Rates pay for backbone of the system
 - Line extension revenue pays for above average portion
- Study Underway – Line Extensions & Fees
 - Study began with Electric Service Delivery – data collection
 - Consultants Review – after electric rates established
 - Study will include Fee reduction as well as Fee increases



Study Underway – Line Extensions & Fees

- Study began with Electric Service Delivery – data collection
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Response to Council Requests





Revenue Requirements - Cash Flow Return Method

- Annual minimum needs of the Utility - Normalized to exclude non-typical items

Cash Flow Methodology Revenue Requirement Components	Test Year (\$ Millions)	Basis for Recovery
Total Operations & Maintenance Expense	\$ 824	Continue to provide core services
Debt Service	168	Bond Covenant and Financial Policy Compliance
Capital From Current Revenue	111	Funding within Financial Policy guidelines
General Fund Transfer	105	Financial Policy Requirement
Other net (Non-Rate) Revenue	(94)	Transmission Revenue, Other Revenue
Total Revenue Requirements minus Reserves	\$ 1,114	

- Reserves are added to cover non-typical events

Cash Flow Methodology Revenue Requirement Components	Test Year (\$ Millions)	Basis for Recovery
<i>Additional items:</i>		
Contributions to Decommissioning Reserves	6	Financial Policy Requirement-Fund depleted
Required Contributions to Reserves	25	Financial Policy Requirement-Fund depleted
Total Revenue Requirement	\$ 1,145	

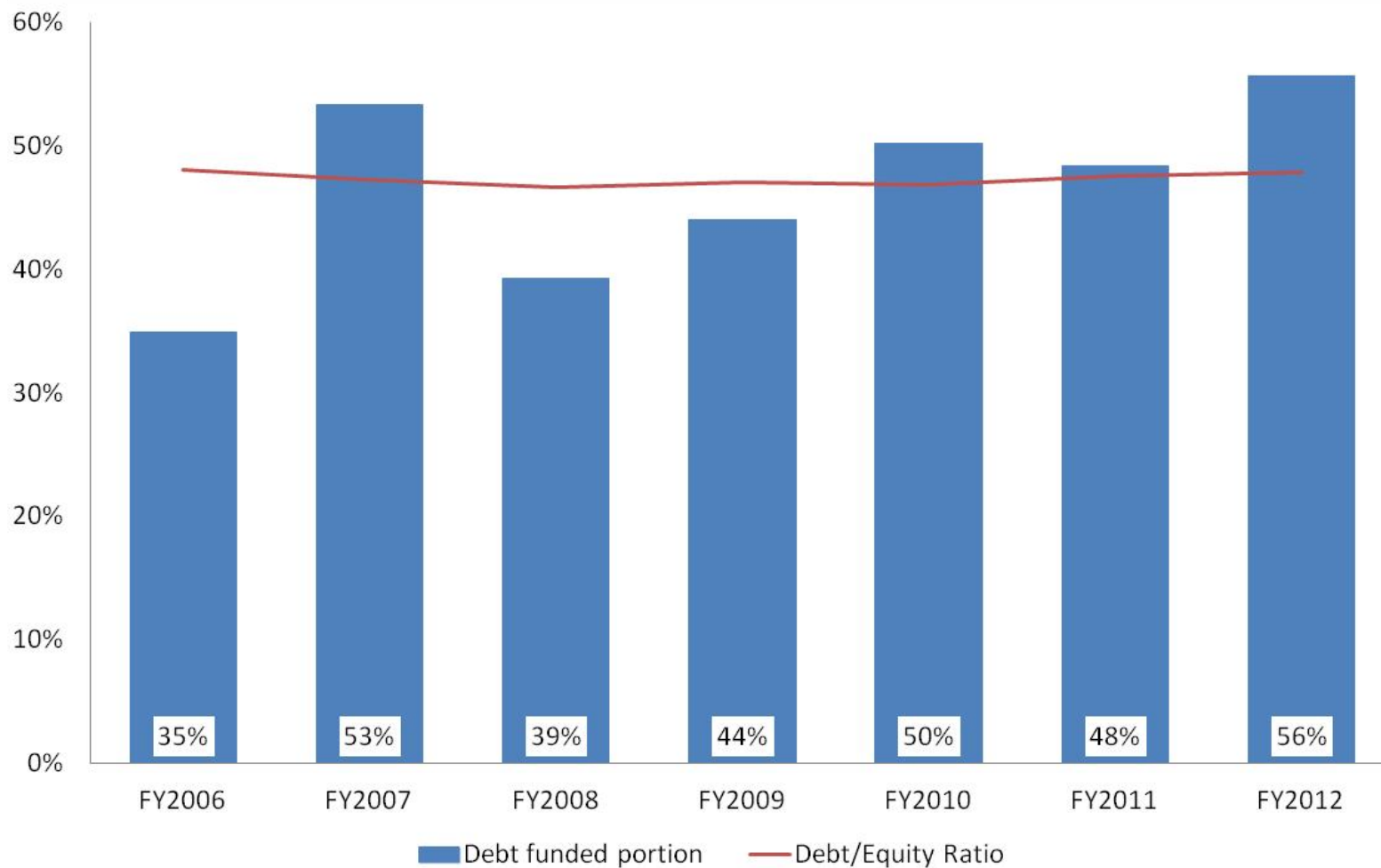


Example-Increasing Debt Funded Portion of CIP

(\$ thousands)	<i>Estimated 2013 Current Method of Funding</i>	<i>% Debt Funded</i>	<i>Estimated 2013 Higher Amount Debt Funding</i>	<i>% Debt Funded</i>	<i>Difference</i>	
Power Supply	\$50,632	5%	\$50,632	60%	55%	
Transmission	43,000	60%	43,000	75%	15%	
Distribution	76,778	65%	76,778	75%	15%	
SCC and Large Facilities	16,500	100%	16,500	100%	0%	
Customer Care/Support Services/OSER	32,740	46%	32,740	46%	0%	
Total Spending Plan	\$219,650	50%	\$219,650	69%	19%	
Total Debt Funded	\$109,706		\$151,928		\$42,222	
Equity (Current Revenue) Funded	\$109,944		\$67,722		(\$42,222)	
Debt Funding %	50%		69%		19%	
Annual Debt Service 30years @ 4%	\$524		\$725		\$201	30 Year Total \$6,000
Annual Debt Service 30 years @ 6%	\$658		\$911		\$253	30 Year Total \$7,600



Debt Funded Portion of Construction (CIP)





Financial Policy Maximums

Savings

for Non-Typical Events

Repair and Replacement
Reserve

Strategic Reserve:

Emergency

Contingency

Rate Stabilization

Decommissioning
Reserve

Maximum

for Non-Typical Events

$\frac{1}{2}$ of Depreciation Expense

Strategic Reserve:

60 days of O&M less Fuel

60 days of O&M less Fuel

90 days of Power Supply Cost

Power Plant Retirement Cost



Financial Policies for Reserves

Savings for Non-Typical Events

Repair and
Replacement Reserve

Strategic Reserve:

Emergency

Contingency

Rate Stabilization

Decommissioning
Reserve

Current Savings for Non-Typical Events

\$ 0

Strategic Reserve:

\$ 69 million

\$ 69 million

\$ 0

\$ 0

Maximum for Non-Typical Events

\$ 61 million

Strategic Reserve:

\$ 69 million

\$ 69 million

\$ 98 million

\$56 million



Reserve Replenishment Calculation in Revenue Requirement

- Proposed annual recovery over 3 years = \$ 25 million
- Proposed annual recovery over 5 years = \$ 15 million

Replenishment needs have increased from \$75 million to \$182 million due to depletion of cash:

- Current annual recovery over 3 years = \$ 61 million
- Current annual recovery over 5 years = \$ 36 million



Fitch Peer Review Ratings Report – June 2011

Debt Service Coverage:

AA- Rating

Median for AA- Rated Utilities 2.48

Debt Service Coverage Ratio (DSC)	FY 2009 Actual	Test Year	Test Year
		<i>With Reserves</i>	<i>Without Reserves</i>
Rate Revenue (Test Year at various levels)	\$ 1,033,507,095	\$ 1,145,071,163	\$ 1,114,978,025
Other Revenue	132,427,698	85,966,153	85,966,153
Sub-Total	\$ 1,165,934,794	\$ 1,231,037,316	\$ 1,200,944,178
Operations & Maintenance	\$ 873,237,069	\$ 824,736,318	\$ 824,736,318
Balance Available for Revenue Debt Service	\$ 292,697,724	\$ 406,300,999	\$ 376,207,861
Revenue Debt Service	\$ 176,582,728	\$ 167,713,457	\$ 167,713,457
Debt Service Coverage (DSC)	1.66	2.42	2.24



2 Times DSC Method compared to Cash Flow Method

Return Components	Proposed Cash Flow Method	2 Times DSC Method
Debt Service	\$168 million	\$168 million
General Fund Transfer	\$105 million	\$105 million
Cash Portion of Construction Projects	\$111 million	\$63 million
Contributions to Reserves	\$31 million	