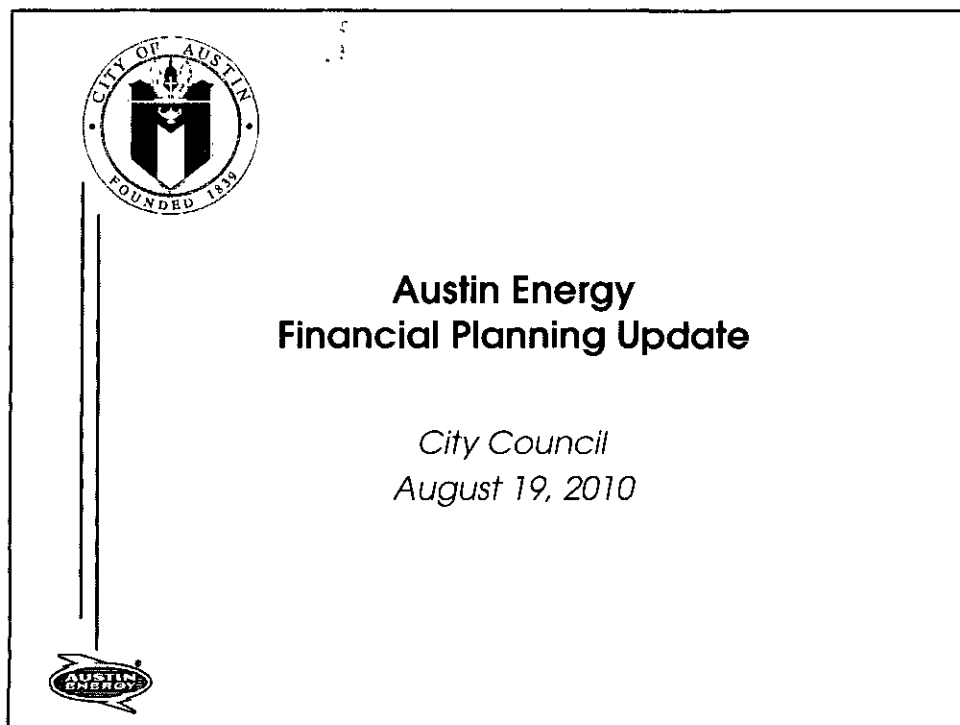


Late Backup



This slide features the City of Austin seal in the top left corner, which includes the text "CITY OF AUSTIN" and "FOUNDED 1839". The main title, "Austin Energy Financial Planning", is centered at the top. Below the title, the text "City Manager identified several Financial Challenges facing Austin Energy in April:" is displayed. This is followed by a bulleted list of four challenges. In the bottom left corner, there is a small Austin Energy logo.

Austin Energy Financial Planning

City Manager identified several Financial Challenges facing Austin Energy in April:

- ▶ ***Funding*** for power generation and maintenance/ improvements for utility infrastructure.
- ▶ The ***General Fund transfer policy*** needs to be evaluated in conjunction with the review of our electric rates.
- ▶ We need to recover ***increasing transmission costs*** related to ongoing costs of the Texas Transmission Construction Program.
- ▶ Changes in the electric industry will require us to evaluate and begin planning for adjustments to our ***business model*** to competitively position us for the future state of the industry.

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Today's Presentation

Update on Austin Energy's Financial Planning Initiatives launched in response to these challenges.



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AE Major Financial Initiatives

1. **Financial Assessment – Phase 1**
 - ▶ Financial and Programmatic Review of the Utility
 - ▶ Resource Generation Plan – Affordability Matrix
2. **Financial Assessment – Phase 2**
 - ▶ Rate Review
 - ▶ New Business Model



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Financial Assessment Phase 1 – Financial and Programmatic Review

- ✓ Independent evaluation of utility's financial position
- ✓ Benchmarking of electric utility costs compared to other comparable utilities
- ✓ Review of programs to determine whether they support achievement of long-range goals in utility's strategic plan and to help maximize efficiencies
- ✓ Assessment of General Fund transfer methodology



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Financial and Programmatic Review - Status

Tasks Performed	Status
Independent evaluation of utility's financial position	<ul style="list-style-type: none">• Work underway. Completing financial analysis and preparing report.• Complete by September 30, 2010.
Benchmarking of electric utility costs compared to other comparable utilities	<ul style="list-style-type: none">• Work underway. Finalize collecting data and developing benchmarks by August 31. Analysis in progress.• Complete by mid-October, 2010.
Review of programs to determine whether they support achievement of long-range goals in utility's strategic plan and to help maximize efficiencies	<ul style="list-style-type: none">• Work underway. Finalize collecting data and developing benchmarks by August 31. Analysis in progress.• Complete by mid-October, 2010.
Assessment of General Fund transfer methodology	<ul style="list-style-type: none">• Work underway. Provided some data. Additional information due by August 31.• Complete by mid-October, 2010.



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Financial Assessment Phase 1 – **Generation Plan - Affordability Matrix**

What is an affordability matrix?

- ▶ Used as tool for making resource investment decisions
 - ▶ Measures / Metrics
 - ▶ Dashboard
- ▶ Working Assumptions
 - ▶ Data-driven
 - ▶ Specific to customer classes
 - ▶ Benchmarking w/ Texas cities
 - ▶ Backed up by detailed methodology and sources
 - ▶ Updated annually
 - ▶ Must integrate with related projects



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Affordability Matrix - Development Process

Initial Customer engagement

- ▶ Key accounts
- ▶ Small business
- ▶ Social services organizations
- ▶ Environmental representatives
- ▶ Low-income advocates
- ▶ Residential representatives



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Affordability Matrix - Residential

Based on Energy Burden

- ▶ Energy Burden - percent of household income spent on electric service
 - ▶ Census data
 - ▶ Compare Austin area with other parts of state
 - ▶ Allows stratification of population by income and other characteristics (e.g., ownership/rental, house/apartment)
- ▶ Supplemental Information
 - ▶ Bill comparisons across communities
 - ▶ Couple with housing burden statistics
 - ▶ Provide breakdown of all utilities (electric, gas, water)
 - ▶ Energy efficiency information / housing characteristics



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Affordability Matrix - Commercial / Industrial

Based on competitiveness

- ▶ Commercial/industrial customers assess affordability in terms of competitiveness
- ▶ How do we assess competitiveness?
 - ▶ Characterize the general economic environment
 - ▶ Austin Energy customer electric bill data benchmarked with comparative Texas cities' electric bill data
 - ▶ Austin Energy specific data
 - ▶ Unique affordability metrics for commercial and industrial customers—particularly challenging to identify



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Affordability Matrix - Status

Tasks Performed	Status
Determine Residential Energy Burden	<ul style="list-style-type: none">• Work underway and substantially complete. Completing analysis and preparing report.• <u>Draft completed September.</u>
Determine Commercial/Industrial "competitiveness"	<ul style="list-style-type: none">• Work underway. Consultant completing analysis on Commercial/Industrial bills.• <u>Draft completed September.</u>
Customer Engagement	<ul style="list-style-type: none">• Ongoing –• <u>Provide draft metrics September.</u>
Next Steps – EUC/Council review	<ul style="list-style-type: none">• <u>Begin in September/October.</u>



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Financial Assessment Phase 2 - Rate Review

Multiple Objectives

- ▶ Assure long-term revenue sufficiency - need rate increase at beginning of FY 2013
- ▶ Rate rebalancing
- ▶ Execute strategy to become utility of the future
 - ▶ Development and public endorsement of "New Business Model" through collaborative Public Involvement process, consultant experience and AE staff expertise
- ▶ Engage public productively
 - ▶ Improve public confidence in utility decision making and transparency
- ▶ Key challenge - striking proper balance among objectives



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Assure long-term revenue sufficiency – Balance Rates

Develop a **Cost of Service (COS) model**,
tightly integrated with a Rate Design tool
and scenario analysis capability

- ▶ Update regularly
- ▶ Improve transparency



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Execute strategy to become utility of the future

- ▶ Two key components of rate review
establish foundation for **New Business
Model** opportunities
 - ▶ Unbundling:
 - ▶ Existing barrier to New Business Model—energy costs
intertwined with infrastructure (wires) costs
 - ▶ Differentiate **costs** of generation from **costs** of wires
 - ▶ Rate restructuring:
 - ▶ Unbundling allows differentiation of energy **pricing**
from wires **pricing**
 - ▶ Research alternative rate designs and pricing signals
 - ▶ Implement transition plan to unbundled pricing



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Engage Public Productively

Public Involvement Plan

- ▶ Start narrow and deep, gradually expand scope
- ▶ **Phase 1: Nov. 2010 – Oct. 2011**
 - ▶ Outreach among target, engaged constituencies
 - ▶ Low-income community advocates discussion group
 - ▶ Public Involvement Committee (PIC)
 - ▶ Modeled after Austin Water's successful process



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Engage Public Productively

Public Involvement Plan

- ▶ **Phase 2: Spring 2011-Spring 2012**
 - ▶ Outreach to Broader Set of Constituencies
 - ▶ Numerous, targeted discussions with neighborhood groups and key constituencies
- ▶ **Phase 3: Winter 2011-Spring 2012**
 - ▶ Broader based Town Halls
 - ▶ Expand scope to broadest audience



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Engage Public Productively

Other Communications Components

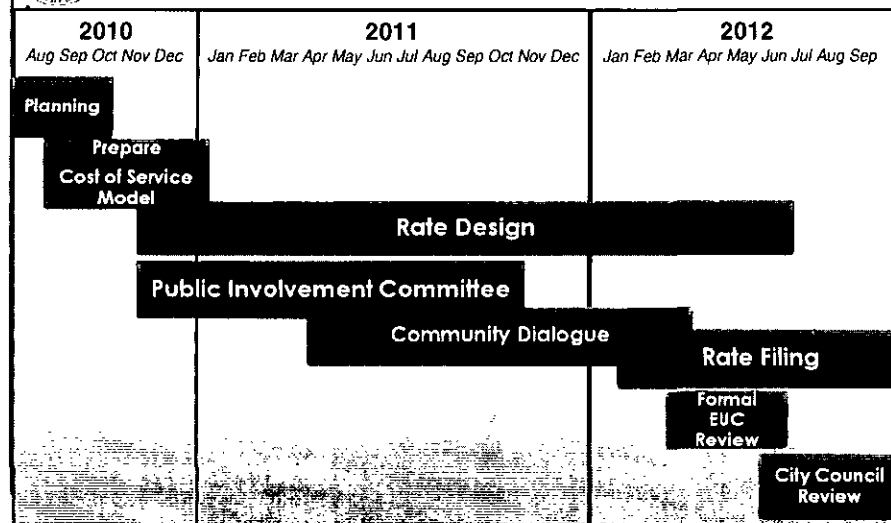
- ▶ Use web generously throughout public involvement
- ▶ Regular briefings with EUC and City Council
- ▶ Formal EUC hearings Spring-Summer 2012



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Rate Review Timeline



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Need for Consultant Engagement

- ▶ Outside – National Expertise
 - ▶ 17 years since last comprehensive rate review
 - ▶ Added depth needed
 - ▶ 26+ month process
 - ▶ Innovative rate designs
- ▶ New era of public engagement across the City
 - ▶ Lessons learned from generation plan public engagement
 - ▶ Public eager to participate



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Consultant Engagement 3 Separate Components

- ▶ Cost of Service and Rate Design
 - ▶ Develop unbundled Cost of Service Model
 - ▶ Research and develop rate design options
 - ▶ Present findings at public meetings, EUC, City Council
- ▶ Public Involvement
 - ▶ Manage Public Involvement Committee (PIC)
 - ▶ Organize constituency meetings and town halls
 - ▶ Help in media relations
- ▶ Financial Consultant
 - ▶ Assist in research and analysis—added depth
 - ▶ Assist with development of forecast and scenario tool



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Rate Review - Status

Tasks Performed	Status
<p>Consulting expertise to assist in rate planning and analysis</p> <ul style="list-style-type: none">• Prepare cost of service and rate design• Develop, implement and lead a public involvement communication plan• Act as a financial consultant and additional resource to assist Austin Energy	<ul style="list-style-type: none">• Request for Council Action to select consultants <u>August 26, 2010.</u>• Phase I – Project planning and development of unbundled Cost of Service and Rate Design Model - <u>Complete January 2011.</u>• Phase II – Modeling detailed rate design scenarios, public involvement input, community outreach and town hall meetings - <u>Complete by December 2011.</u>• Phase III – Include electric rate proposal in budget process, formal review by Electric Utility Commission with <u>Council action in September 2012.</u>• New rates effective <u>October 1, 2012.</u>



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Questions



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