



THIRD Quarter REPORT

FISCAL YEAR 2015

www.austinenergy.com

BENEFITS OF PUBLIC POWER

Community Solar

Austin Energy is a leader in developing innovative and emerging technologies and energy sources. The publicly owned utility pioneered the wind industry in Texas and continues to invest in renewable energy. Austin residents share this focus, making photovoltaic systems an increasingly popular way for residents and businesses to offset their electricity use.

Despite advances in solar technology, many customers still face hurdles to taking advantage of solar energy at their homes. Studies show that only 25 – 35 percent of homes can harness the sun's energy due to barriers including shade, roof orientation, structural issues and cost. Additionally, more than half of Austin residents are renters who generally are not going to install solar panels on a property they do not own.

In light of these challenges, Austin Energy is looking at a new project allowing any AE residential customer to invest in solar energy. This new project, called Community Solar, will allow Austin residents to subscribe to renewable energy from a local solar project, instead of installing the panels at their home.

Austin Energy's first Community Solar project is planned for East Austin on land owned by the utility around the Kingsbery substation, northeast of Springdale Road and Airport Boulevard. In June, Austin Energy signed a contract with PowerFin Partners, a local solar developer, to build the project. Program participation details are in the works, and the solar installation is expected to be constructed next summer.

For more information about Austin Energy's solar programs, visit austinenergy.com/go/solar or call the Conservation Program hotline at **512-482-5346**.



The Kingsbery substation community solar project.

CUSTOMER ASSISTANCE PROGRAM STATS

Residential Customers Enrolled through Q3: > 41,680

Benefits Provided through Q3: > \$7.1 M

Weatherization Program Referrals through Q3: 58

COST OF SERVICE STUDY

Under Austin City Council policy, a cost of service study is required every five years, and Austin Energy recently began this process. This study ensures the utility is using the community's resources as effectively as possible while allowing Austin Energy to fully recover the costs of providing electric services to the community.

As required by State and local law and long-standing economic policy, utility rates must be based on costs, and the cost of service study will determine how to correctly attribute those costs. Cost of service studies determine how much it costs the utility to provide electricity to different customer types. There are three main steps to Austin Energy's cost of service study.

Historical

For this study, Austin Energy will use fiscal year 2014 data to determine the entire cost required to run the utility. This cost calculation yields Austin Energy's revenue requirement, the amount of funds the utility must recover.

Allocation

Once the entire cost to run the utility is calculated, the revenue requirement will be allocated to Austin Energy customers. Customers will be grouped into customer classes with similar characteristics so the costs can be effectively assigned. The goal of the allocation stage is to assign costs based on which classes caused the utility to incur those costs.

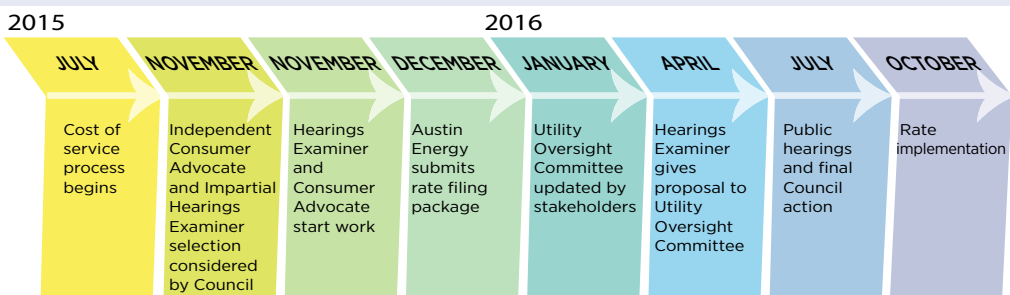
Rate Setting

After the cost, revenue requirements and customer class breakdown is assessed, the final step in the study is to set rates. Austin Energy staff aim to develop rates to fully recover costs, reflect council policies and align rates with incentives for energy conservation. Rates are required by law to be designed in the public interest and to achieve that metric, Austin Energy will follow a structured, fair and inclusive process. The utility is hiring an independent consumer advocate to represent residential customers and small commercial businesses as well as an impartial hearings examiner. The hearings examiner will:

- Organize interested parties
- Facilitate information exchange between the parties
- Hold hearings
- Make recommendations based on evidence, policy and law
- Provide Austin City Council a framework for policy decisions.

The Council-appointed citizen Electric Utility Commission also plays a critical part in integrating public input into the rate-setting process. From beginning to end, the EUC will act as a filter for public input and provide that information to Austin Energy and Austin City Council.

At the end of this inclusive process, the City of Austin and Austin Energy customers will have rates that accurately recover costs and reflect the community's priorities.



FINANCIAL RESULTS - Q3 Ended Jun. 30, 2015

Austin Energy's preliminary, unaudited financial results for the third quarter of fiscal year 2015 ending June 30 are consistent with expectations. Non-power supply operating revenue grew since last year by \$23 million, mainly due to increased regulatory revenue — which recovers transmission expense — and increased transmission service revenue due to increases in usage and access fees.

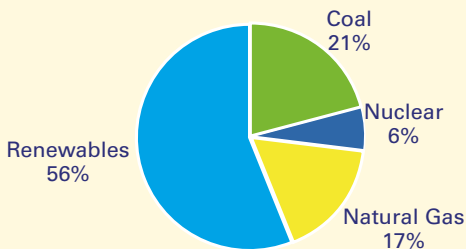
Austin Energy's preliminary net income for the first nine months of its fiscal year showed improvement from a \$29 million net loss in the prior period to a \$3 million net gain. The following items were significant factors:

- Total operating revenue decreased \$28 million due to a reduction in power supply expenses and revenues offset by increased transmission, regulatory and community benefit revenue.
- Non-power supply operations and maintenance (O&M) expenses were \$1 million lower compared to the prior year largely because of decreases in joint project costs offset by increases in transmission expenses and personnel and staffing.
- Power supply expenses were \$302 million or \$51 million lower than the same period last year primarily due to decreases in market prices and lower generation.

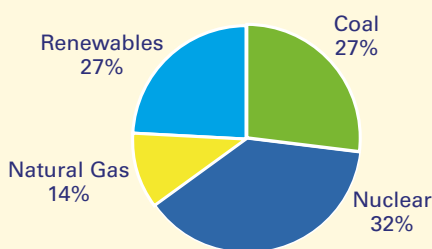
Austin Energy's financial statements reflect assets and liabilities for under/over recovery of certain recoverable costs. Power supply costs are over-recovered by \$26 million compared to an under-recovery of \$32 million for the same period last year. Regulatory costs — primarily consisting of transmission costs — are \$32 million under-recovered at June 30, up from \$17 million.

Overall, Austin Energy's financial results show a \$108 million increase in cash over the fiscal year that will aid in replenishing reserve levels and allow Austin Energy to invest in operational technologies and competitive generation resources.

Power Generation Costs by Fuel Type/Source*

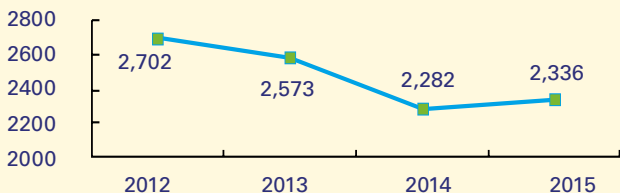


Power Generation by Fuel Type/Source (MWh)

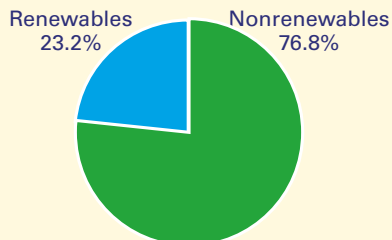


* Costs include fuel for generation, fuel transportation, renewable power purchase agreements and hedging activity.

Historical System Peak Demand MW



Renewable Power as Percent of Consumption

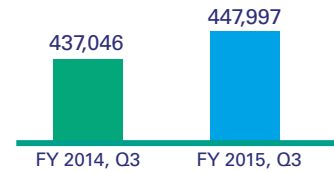


INCOME STATEMENT

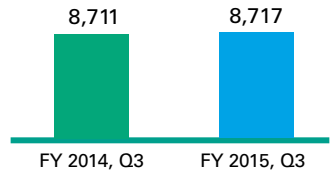
\$ in millions	9 months ended	
	6/30/14	6/30/15*
Operating Revenue	\$ 927	\$ 899
Power Supply Expense	353	302
Non-Power Supply Expense	375	374
Depreciation Expense	112	112
Operating Income/(Loss)	87	111
Other Revenue (Expense)	(37)	(29)
General Fund Transfer	79	79
Net Income/(Loss)	(\$29)	\$3
Debt to Equity Ratio	46%	46%
Debt Service Coverage*	2.51	3.45

*Calculated using 12 month rolling income statement

Average Number of Customers



Total Sales in Gigawatt Hours



COMPARATIVE STATEMENT OF NET POSITION

\$ in millions	6/30/2014	6/30/2015*	Change
Cash	\$102	\$210	\$108
Account Receivable (net)	149	132	(17)
Power Supply Under-Recovery	32	0	(32)
Other Under-Recoveries	21	38	17
Debt Service	18	22	4
Strategic Reserve	107	108	1
Nuclear Decommissioning Reserve	197	205	8
Other Restricted Assets	122	87	(35)
Other Assets	442	467	25
Property, Plant and Equipment	2,582	2,603	21
TOTAL ASSETS	\$3,772	\$3,872	\$100
Current Liabilities	122	113	(9)
Power Supply Over-Recovery	0	26	26
Other Over-Recoveries	12	17	5
Revenue Bonds	1,272	1,428	156
Commercial Paper	134	4	(130)
Other Long-Term Liabilities	597	600	3
Retained Earnings	1,635	1,684	49
TOTAL LIABILITIES AND FUND EQUITY	\$3,772	\$3,872	\$100

*This information is unaudited and should be read in conjunction with the audited Comprehensive Financial Reports for the City of Austin, when published, on www.austintexas.gov/financeonline/finance/main.cfm