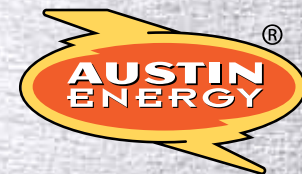




2011 Austin Energy Annual Report







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Message from the General Manager

FY 2011 has been a year of unprecedented challenges, accomplishments and groundbreaking initiatives for Austin Energy. This includes meeting record energy demands during the warmest summer ever in our history and managing a winter so cold that frozen power plants prompted statewide rolling blackouts for only the third time in Texas history. It was a year in which the state implemented a new energy market approach and our employees faced the dual challenge of upgrading and redesigning our electric rates for the first time in 17 years, while replacing a decade-old customer billing system.

It was also the year we began the history-making removal of an in-town, four-unit power plant for conversion into parkland, while facilitating construction startup near Austin on a 30 megawatt solar project that will be the largest in Texas and among the largest in the nation.

2011 was the year we initiated franchise payments to better assist outlying communities we serve. Additionally, we opened a spacious new customer walk-in center and expanded one of the nation's most comprehensive and innovative customer assistance programs that help citizens who are employed but homeless, re-establish utility service as they transition to permanent housing. Our Customer Assistance Program, which provides utility bill discounts to the most disadvantaged customers, is among the most generous in the nation.

Our Customer Care business unit further advanced our achievement as the only electric utility in the nation with International Organization for Standardization (ISO) quality management certification for core business units. In FY 2011, Customer Care joined our transmission and distribution operations and laboratory services in certification. This past year our Power Supply & Market Operations group began the process to earn their certification which requires development of a quality management system to assure consistency in delivering best practices and customer service.

On just about every front Austin Energy employees have delivered — from system reliability where the average length of outages during the year were the shortest in our history — to significant progress toward strategic goals such as increasing the percentage of renewable energy in our power supply.

Austin Energy became the first public power utility in Texas to earn Diamond Level recognition as a Reliable Public Power Provider by the American Public Power Association for excellence in system reliability, safety and workforce management. Our energy efficiency programs received Environmental Protection Agency excellence awards for the seventh year in a row. Our green power program outperformed 850 others nationwide in sales for the ninth year in a row and, for the 10th consecutive year, Austin Energy was designated a Tree Line USA Utility by the National Arbor Society. This designation recognizes utilization of best practices in line clearance operations as well as public education on the benefits of the right tree in the right place.

Austin Energy is also one of only a handful of utilities nationwide that meets with each property owner to review tree trimming required on the property to provide proper clearance between tree limbs and power lines. This advance consultation touches 12,000+ properties annually. Austin Energy also funds the planting of more than 5,000 trees each year throughout our community.

In community outreach, our staff planned-and-executed the Austin Energy Regional Science Fair which produced four teams who went on to win among 1,500 projects at the worldwide Intel International Engineering and Science Fair competition. The Austin regional fair is among the largest in the state and is consistently recognized as among the best in the nation.

This annual report features those and many other achievements made possible due to excellent staff and hard work. The diversity of our focus and achievements underscores the benefits derived from a community-owned and managed electric utility. Austin Energy goals and operations reflect the values of our community. FY 2011 has been an outstanding year. We are very focused on ensuring the coming year is even more successful.



Financial Integrity



Austin Energy continued its history of excellent bond ratings and financial stability. In FY 2011, credit rating agencies Moody's, Fitch, Inc. and Standard and Poor's all reaffirmed Austin Energy's strong credit ratings. This allows Austin Energy to issue future debt at continued low interest rates which helps keep electric rates lower. In reaffirming their rating, Standard & Poor's noted the utility's diversified generation resource mix, competitive rates, strong liquidity and long-term trend of strong financial performance.

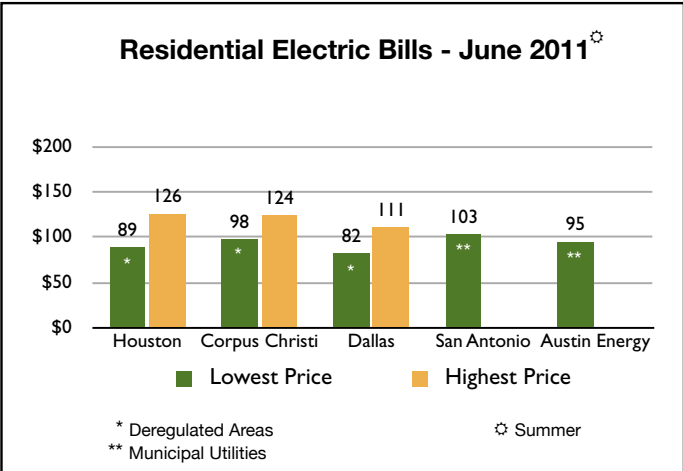
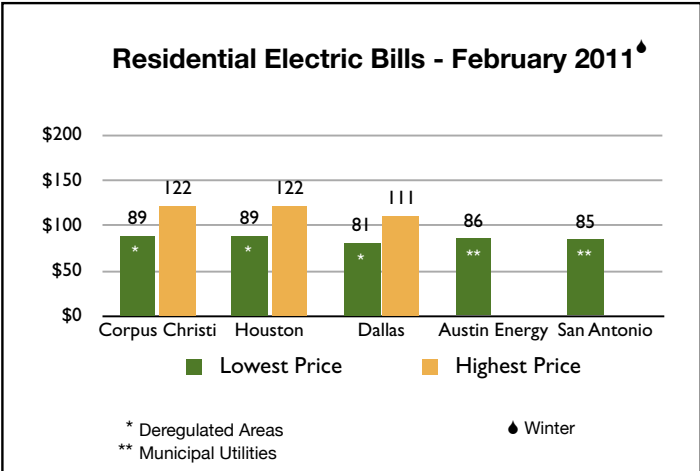
During FY 2011, Austin Energy launched a process to increase its rates and update its rate structure for the first time since 1994. In December 2011, following a year-long public participation process, Austin Energy presented a proposal to City Council for an 8.5% system-wide rate increase in 2012 and a 3.8% increase in 2015. Austin Energy electric rates are consistently among the most competitive in the state.

The Electric Reliability Council of Texas (ERCOT) which manages the state electric grid for most of Texas implemented a Nodal Market on December 1, 2010. Under the nodal market approach, generators submit bids (offer curve) to ERCOT on each generating unit for each hour of each day. ERCOT selects the generation needed throughout each day to meet the electricity demands of the state. The selection is based on the lowest cost power at any given time, coupled with the lowest transmission cost associated with transporting that power.

In FY 2011, Austin Energy implemented a Transmission Service Adjustment Rider to recover additional costs to the utility for its share of the Texas electric transmission grid build-out. For the FY 2011 budget year, the Transmission Service Adjustment Rider revenue was projected at \$17.2 million, an increase of \$9.9 million over the prior year. At the same time, Austin Energy reduced its Fuel Charge on January 1, 2011, from 3.65 cents per kilowatt (kWh) to 3.10 cents per kWh. The reduction was largely due to decreases in natural gas prices.

Credit Ratings

Description of Debt	Rating
Moody's	
Prior lien	A1
Subordinate lien	A1
Separate lien	A1
Fitch, Inc.	
Prior lien	AA-
Subordinate lien	AA-
Separate lien	AA-
Standard and Poor's	
Prior lien	AA
Subordinate lien	AA
Separate lien	A+





Energy Resources



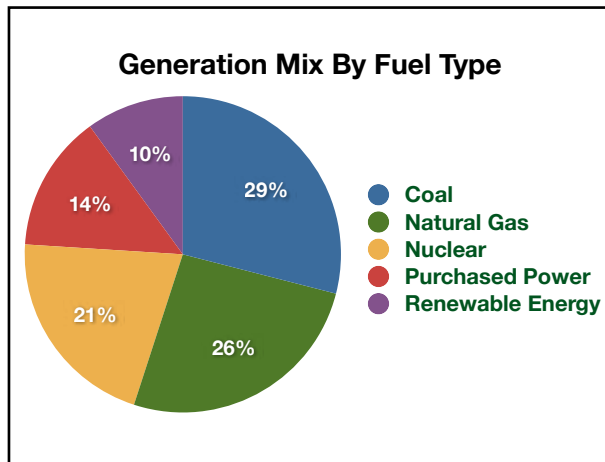
Austin Energy made a seamless transition to the Electric Reliability Council of Texas (ERCOT) Nodal Market, showing strong participation and excellent performance of its generating units.

Electric sales totaled 12.7 billion kilowatts (kWh) in 2011, of which 1.24 billion kWh was supplied by renewable energy. Of that, 719.4 million kWh were sold to voluntary GreenChoice® program subscribers through long-term sales agreements. Austin became the largest city in the country to power all of its municipal buildings with 100% green energy.

Austin Energy remains committed to providing 35% of its energy supply from renewable resources and reducing carbon emissions 20% below 2005 emission levels by 2020. In 2011, approximately 10% of Austin Energy's generation came from renewable resources of wind, rooftop solar and methane gas.

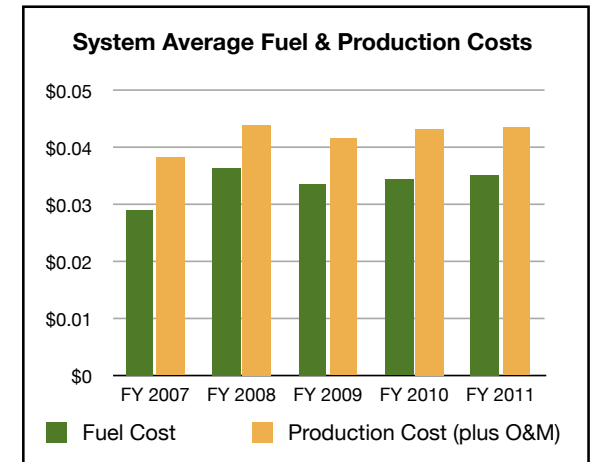
Purchased power from two new coastal wind acquisitions totaling 292 MW, combined with a 30 MW solar farm and 100 MW biomass facility, are expected to increase Austin Energy's renewable portfolio to nearly 27% by 2013. The Webberville, Texas solar facility, from which Austin Energy will be purchasing its solar energy, will be the largest solar facility in Texas and among the largest in the nation.

Coal accounted for 29% of Austin Energy's generation portfolio, natural gas 26%, nuclear 21% and purchased power 14%. The South Texas Project had a near-perfect capacity factor for the year, with the Fayette Power Project and Sand Hill Energy Center combined-cycle units also being primary sources of generation during one of the hottest summers on record. Austin Energy set a new peak record of 2,714 MW on August 29, 2011.



Secondary Fuel Charge

2011	3.105 cents/kWh
2010	3.653 cents/kWh
2009	3.653 cents/kWh
2008	3.653 cents/kWh
2007	3.343 cents/kWh



The Fayette Power Project in LaGrange, Texas completed a \$394 million scrubber project for Units 1 and 2, of which Austin Energy owns 50%. The additional pollution control equipment is capable of removing 95% of sulfur dioxide and 20% of mercury emissions. The Decker Creek Power Station in Austin also received new emissions control equipment for more reliable emissions tracking.

Austin Energy hired TRC Environmental Corporation to perform the decommissioning of the 50-year-old Holly Street Power Plant which ceased all operations in 2007. The decommissioning began in July 2011 and is expected to take 18 months to complete. All materials from the decommissioning process, such as steel, copper and scrap metals, will be recycled.

Business for Austin Energy's district cooling plants continues to grow in downtown Austin, mainly due to increased growth and economic development in the area. In 2011, gross revenues increased 17% with 49 district cooling customers providing more than 60 MWh of demand side management.



System Reliability

Distribution and transmission reliability continued to excel in FY 2011 at levels far better than industry averages and better than a number of major utilities across the nation.

In FY 2011, Austin Energy averaged 0.76 outages per customer with outages lasting 54.5 minutes. In a study released in 2011 of 21 utilities in the U.S. and Canada for a period in 2010, Austin Energy ranked in the first quartile with the lowest frequency of outages at 0.67 per customer and the shortest duration at 47 minutes per customer. This compared to a mean of 1.09 outages per customer, lasting 108.98 minutes, for the other utilities studied.

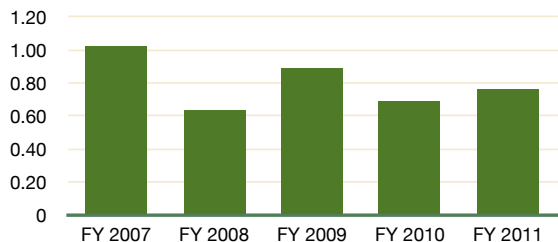
In the same study, Austin Energy's transmission reliability ranked first with the lowest outage frequency rate. In 2011, Austin Energy transmission experienced 1.78 faults per 100 miles against a goal of 3/100. Transmission disturbances fell to 13 compared to 33 in 2001.

Austin Energy invests as much as \$80 million a year to enhance reliability and maintain a robust electric system. The utility's 157 substation transformers, for example, carried an average load of just 57% in 2011. This included the hottest summer ever in Austin, with 90 triple-digit temperature days, as well as the second-coldest winter on record. Approximately 973 megawatts (MW) of transformer load capacity are reserved for large critical commercial and industrial customers who utilized just 240 MW and another 450 MW are reserved for the downtown network, which utilized 120 MW at system peak. Only 17 of the utility's 400+ distribution circuits carried loads of 100%.

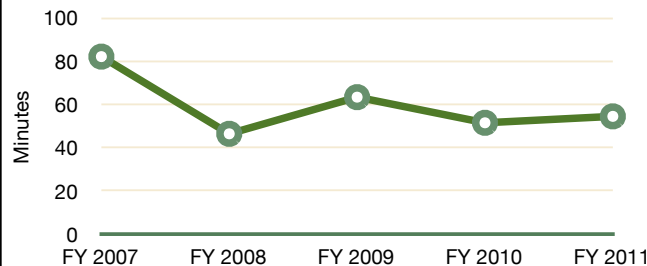
Tree limbs that make contact with power lines contribute to 60% of all outages. Therefore, limbs were trimmed along 447 miles of power lines — the second-largest number of completed miles ever. The trimming involved almost 12,000 properties. The program also funded more than 1,000



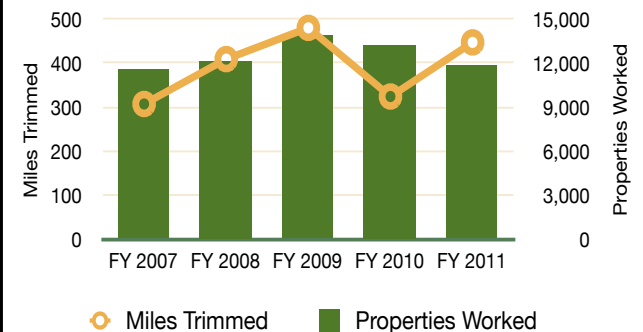
Outages Per Customer
System Average Interruption Frequency Index (SAIFI)



Average Length of Outage
System Average Interruption Duration Index (SAIDI)



Tree Trimming Miles & Properties Worked



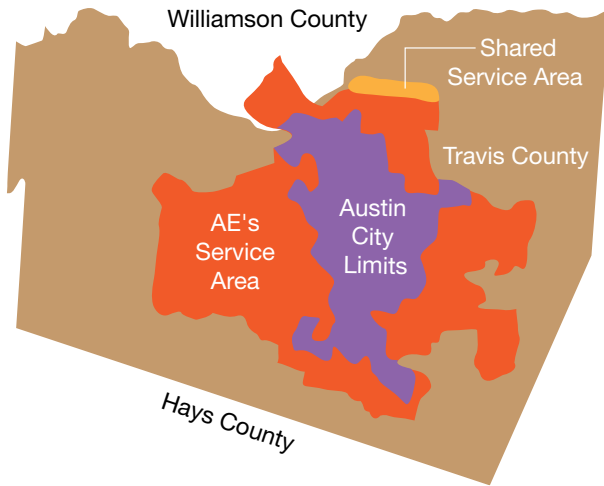
replacement trees (also known as mitigation) in situations where dead trees had to be removed or other circumstances warranted replacement. The respected Arbor Day Foundation has recognized Austin Energy for 10 years in a row as a Tree Line USA utility for following best practices in tree trimming.

More than 12,000 wireless photocell devices were installed on streetlights to alert Austin Energy when the lights are out and to allow the lights to be turned off remotely when necessary. Installations will expand by 2014 to include all 70,000 streetlights in the Austin Energy system. The new devices will potentially save \$340,000 in electricity costs annually and reduce carbon dioxide emissions by almost 200 tons. Austin Energy receives data every hour from the wireless devices through a Web-based communications system and knows immediately when lights have malfunctioned. Lights can be turned off remotely until the problem is fixed. Austin Energy also will save electricity through flexibility in remotely timing streetlights to better match changing dusk to dawn times.

Electric Service Delivery — which was the first business unit of its type in the country to receive International Organization for Standardization (ISO) 9001 certification in 2007 for quality management practices — passed its annual audit with independent auditors indicating that the utility's Quality Management System is in the top 1% of organizations with multisite operations.



Austin Energy Profile



Austin Energy 2011 Customer Profile

Customer Type	Customer Total	Customer Percentage
Residential	372,329	89.10%
Commercial	43,815	10.50%
Industrial	81	0.00%
Other	1,640	0.40%
Total	417,865	100.00%

Distribution Infrastructure

Overhead Primary Conductor	2,375 miles
Overhead Secondary Conductor	3,075 miles
Underground Primary Conductor	2,922 miles
Underground Secondary Conductor	2,990 miles
Total	11,362 miles

Transmission Line Mileage

69/138/345 kV **618 miles**

Substations

Distribution	56
Transmission	11
Total	67

Distribution Transformers

Overhead	42,943
Pad Mount	34,609
Total	77,552

Poles

Austin Energy-Owned Poles **149,208**

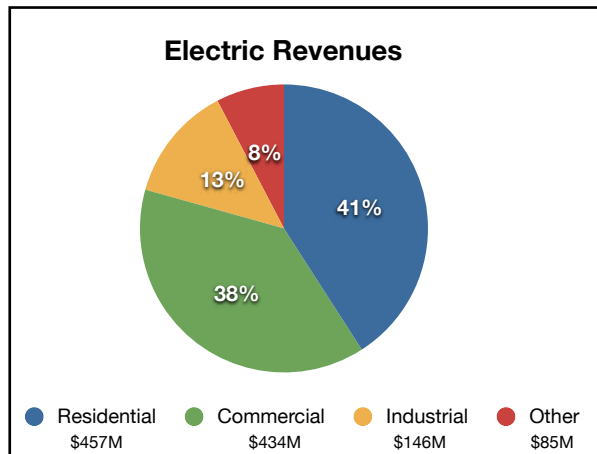
System Peak Demand

FY 2011	2,714 MW
FY 2010	2,628 MW
FY 2009	2,602 MW
FY 2008	2,514 MW
FY 2007	2,391 MW

Rated Generation Capacity

Project	Installation	Rating
Decker (Gas) 2 Units	1970-1977	726 MW
Decker (Gas Turbine) 4 Units	1988	200 MW
Fayette (Coal) 2 Units	1979-1980	570 MW
South Texas Project (Nuclear)	1988-1989	400 MW
Renewables (Wind/Landfill/Solar)	1986-2011	451.4 MW
Sand Hill (Gas Turbine) 4 Units	2001	180 MW
Sand Hill (Combined Cycle)	2004	300 MW
Sand Hill (Gas Turbine) 2 Units	2010	90 MW
Mueller Energy Center	2006	4.6 MW
Total		2,922 MW

Electric Revenues





Fuel Cost

	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Gas	235,403,993	250,721,680	214,711,985	203,976,741	190,320,211
Coal	50,360,624	87,063,860	84,635,000	91,590,706	88,068,421
Nuclear	14,197,169	15,823,059	16,866,183	16,655,851	18,295,747
Fuel Oil	1,382,440	420,142	566,981	2,405,166	2,698,718
Purchase Power	42,158,639	90,621,318	54,863,996	53,409,677	57,820,582
ERCOT	-10,892,545	10,165,180	21,889,298	21,617,196	66,372,518
Renewable	18,559,209	26,183,662	49,567,759	48,631,116	48,212,653
Total	\$351,169,529	\$480,998,901	\$443,101,202	\$438,286,453	\$471,788,849

Plant Performance Equivalent Availability Factor

Plant	FY 2011
Decker D 1-2	90.77%
Decker GT 1-4	93.07%
Fayette Power Project	83.69%
Sand Hill Units 1-4	98.62%
Sand Hill Unit 5A	78.11%
South Texas Project	87.15%

Customer Satisfaction

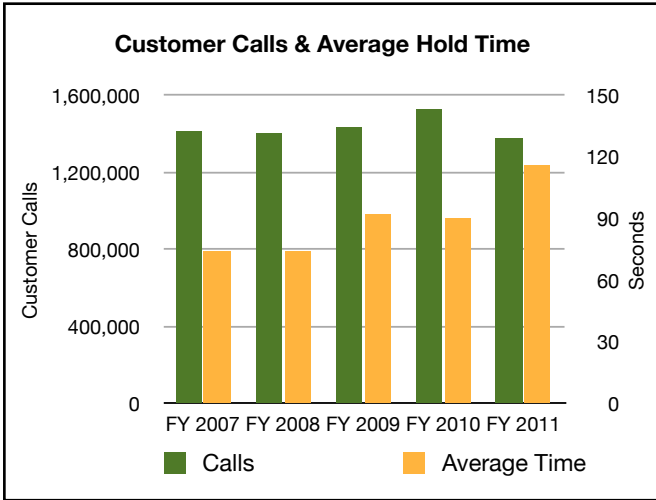


Our Customer Care Division at Austin Energy is one of the best in the nation. Made up of more than 300 professionals, this division celebrated its first anniversary in 2011 as the nation's only utility call center to earn International Organization for Standardization (ISO) 9001 certification. This requires documentation and implementation of all work processes through a quality management and performance-monitored regimen. Quality assurance auditors in 2011 said Customer Care has "world-class quality management systems based on International Organization for Standardization."

Beginning in 2010, Austin Energy Customer Care and Information Technology divisions, along with other City utility departments, began the substantial process to redesign and install a new customer billing system. The new system was configured to improve customer service and facilitate advances made possible through smart meters and smart grid development. The new billing system was launched in October 2011.

Customer Care is home to two call centers: the Utility Customer Contact Center and Austin 3-1-1. The Contact Center manages billing and service connection orders for all City of Austin services, including electric, water, solid waste and watershed protection. Austin 3-1-1 receives citizen calls for services from nearly three dozen City departments, from potholes to code violations. Combined, the two call centers handled about 2.5 million calls during FY 2011; 3-1-1 processed 193,000 service order requests.

Customer Care also opened its first new Utility Customer Service Center in more than 15 years. This new North Branch walk-in center was designed and built based on customer focus group



Bill Payments

	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Manual	64.76%	59.27%	54.79%	49.83%	36.46%
Electronic	35.24%	40.73%	45.21%	50.17%	63.54%

City of Austin Utility Bill Discount Program

Average - Electric Only	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Customers Served Monthly	5,134	4,005	5,137	8,599	8,587
Customer Monthly Savings	\$21.44	\$22.56	\$23.58	\$23.29	\$23.33
Annual Combined Savings	\$1.32M	\$1.08M	\$1.45M	\$2.40M	\$2.40M

feedback and includes informational kiosks, meeting rooms and a public education center.

More than 8,500 customers benefit from the City of Austin Customer Assistance Program administered by Austin Energy. The program, one of the most generous in the nation, includes utility bill discounts that average \$400 a year for an average customer. Total discounts provided by Austin Energy and other City utility departments during FY 2011 totaled almost \$6 million. The Customer Assistance Program also funds emergency utility bill assistance to customers facing extraordinary situations, such as sudden job loss or medical emergencies. It also provides special one-on-one account management assistance to the medically vulnerable. This past year a pilot was launched to help the homeless who re-enter the workforce re-establish utility services so they can successfully transition into permanent housing.

The Remittance Processing business unit commissioned two new bill payment transport machines in 2011 and celebrated its third anniversary of posting 100% of payments on the same day received — against an industry standard of up to three days. This involves the processing of some 25,000 checks and payment stubs each day.



Energy Efficiency

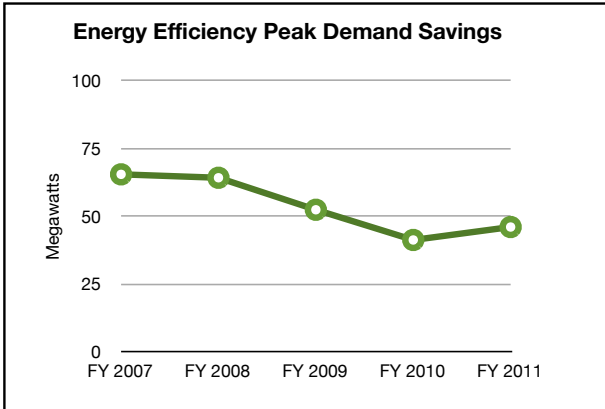
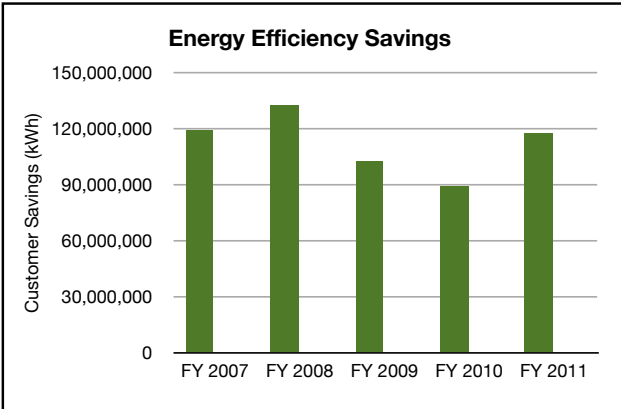
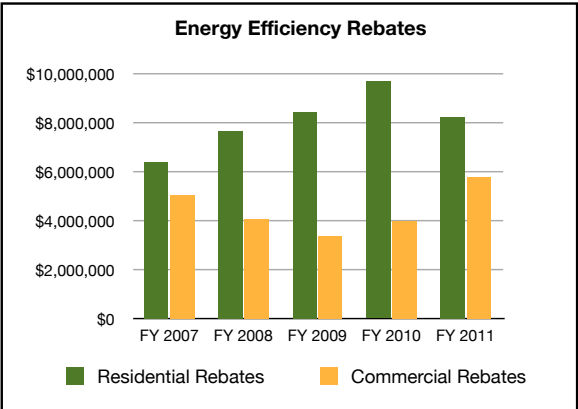


It was a landmark year in 2011 for Austin Energy Green Building. Green Building celebrated its 20th anniversary as the first green building program in the country. The pioneering achievements of the program were highlighted at the end of the year when the United Nations awarded Green Building the Scroll of Honour. This was the second time Green Building has been recognized by the U.N. for leadership in sustainable building practices.

Since 1991, Green Building has rated more than 10,000 single-family homes, more than 17 million square feet of commercial space, and 83 multifamily projects representing 12,174 dwelling units in Austin. In 2011, Green Building continued to be a trend-setter nationally by awarding green rating points to developers who promote safe and equitable treatment of construction workers on their projects.

Austin Energy also was recognized for the seventh year in a row by ENERGY STAR® for excellence in helping residential customers reduce their energy use and lower their utility bills by making energy-efficiency improvements to their homes. The 2011 ENERGY STAR® Sustained Excellence Award presented by the U.S. Environmental Protection Agency and the U.S. Department of Energy specifically cited the success of Austin Energy’s Home Performance with ENERGY STAR® program, which encourages residents to make whole-house improvements to increase their homes’ overall efficiency. Austin Energy provides rebates that pay up to 20% of the cost, or low-interest loans through an outside lender, to help residents make the improvements. Almost 3,000 residents participated in 2011 and will help reduce peak demand by 5.4 megawatts (MW) and save up to 5.9 million kilowatt-hours (kWh) annually.

With the assistance of a federal grant, Austin Energy also provided enhanced rebates that paid up to 80% of the costs for adding insulation, sealing duct work and adding solar screens to multifamily



properties to help the owners comply with a City of Austin deadline requiring energy audits for multifamily properties 10 years old or older. Almost 11,000 apartment units received energy-efficiency work through the initiative in FY 2011 that will offset 4 MW of peak demand and some 7.2 million kWh annually.

About 350 commercial customers took advantage of up to \$200,000 in rebates per commercial site to make energy-efficiency improvements, including the installation of new air conditioners, chillers, reflective roofs, window film, variable speed drives and other improvements that reduced peak demand by 12 MW and will save 53.2 million kWh annually, the equivalent of powering more than 4,400 average-size homes in Austin year-round. For small commercial customers and non-profits with demand of less than 100 kilowatts, Austin Energy offers a program that discounts the cost of installing state-of-the-art efficient lighting by as much as 75% with paybacks in as little as six months or less. About 330 customers participated in the program and combined will save more than 12.2 million kWh annually or the equivalent of power for more than 1,000 average-size homes in Austin throughout the year.

Austin Energy was the first electric utility in the country to achieve a conservation power plant by offsetting 700 MW of peak demand through its energy-efficiency programs from 1982 through 2006. Starting in 2007, the utility embarked on an ambitious goal to build an 800 MW conservation power plant by 2020. At the end of FY 2011, Austin Energy had offset almost 300 MW, placing the utility on track for its new goal.



Emerging Technologies



Austin Energy created the first plug-in charging station network in Central Texas in 2011 by installing more than 100 charging stations at locations throughout the community, as electric vehicles began appearing in dealer showrooms. The charging stations were provided through the nationwide ChargePoint America program, funded by federal stimulus dollars. Austin Energy, which administered the program locally, partnered with businesses and non-profits to help install the charging stations at diverse locations such as restaurants, hospitals, schools and municipal facilities such as parks, libraries and recreation centers.

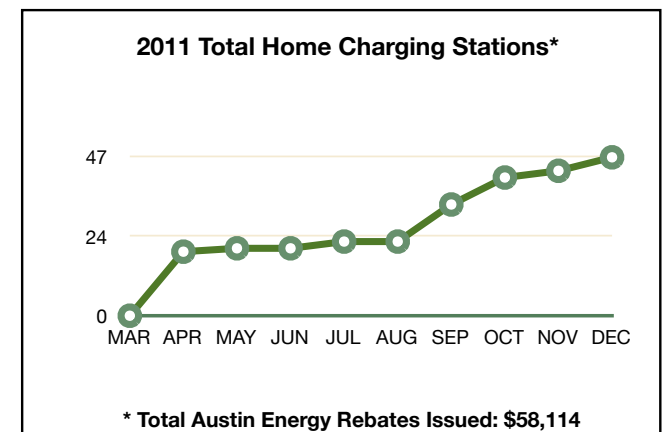
The utility also offered a \$25 swipe card good for six-months of unlimited charging at any charging station in the network, to assist owners of electric vehicles in the incorporation of the charging stations into their daily routines. Austin Energy also offered a \$1,500 rebate to plug-in owners to help defray costs for installing a home charging station at their residence. Austin Energy estimates there will be 36,000 electric vehicles in the Austin area by 2020. These emerging technologies may require greater investment in infrastructure, such as transformers that can handle the electricity draw when electric vehicles become more commonplace in neighborhoods and commercial areas. Electric vehicles, however, could also benefit the electric grid if they can be used to send electricity back into the system from their batteries during peak times. This is part of the ongoing research by Austin Energy to determine how electric vehicles and charging stations may affect utilities in the future.

Austin Energy is a partner in Pecan Street, Inc. — one of the most innovative smart grid demonstration projects in the world. A 700-acre site at the former Robert Mueller Municipal Airport, which closed in 1999, is being redeveloped with houses, apartments and businesses that will one day be home to more than 10,000 residents and 10,000 employees.

Up to 1,000 homes and 75 businesses in this environmentally-focused community built with green building techniques, will be participating in a five-year study on the integration of solar power, plug-in electric vehicles, smart thermostats, smart meters and a smart grid innovation.

Public Charging Station Locations

Retail (grocery, big box)	21	Residential/Retail	7
Education	19	Library	6
Community (churches, non-profits)	16	Restaurant	4
Government	13	Medical	3
Park	12	Hotel	2
Recreation Center	8	Office	2
		Total Stations	113
Cumulative Energy Use	20,000 kWh	Cumulative Green House Gas Savings	27,000 kg





Community Resource

Austin Energy is an invaluable community resource, both in the design of its operations to support the quality-of-life emphasis of the community and the development of new jobs. Over the past five years, Austin Energy has provided \$1.3 million in funding to help seed innovation through the Austin Technology Incubator (ATI), a program of the University of Texas at Austin. That support has helped facilitate six local start-up companies related to lithium-ion battery development and the solar and wind energy industries. The number of companies that install energy efficiency improvements for the utility's nationally-recognized efficiency programs has grown to 75, while the number of Austin Energy-registered solar companies has grown from four in 2004 to nearly 40 in 2011, providing an estimated 600 local jobs.

The utility was also a founding member of the local non-profit organization Pecan Street, Inc., a neighborhood research and development laboratory, for the development of smart grid innovation, solar rooftop support and electric vehicle infrastructure sizing.

As a city-owned electric utility, Austin Energy provides an annual dividend to the City of Austin that helps support City services such as police, fire, EMS, parks, libraries and other services that add to the quality of life in Austin and the surrounding community. In FY 2011, Austin Energy returned \$103 million to the City.

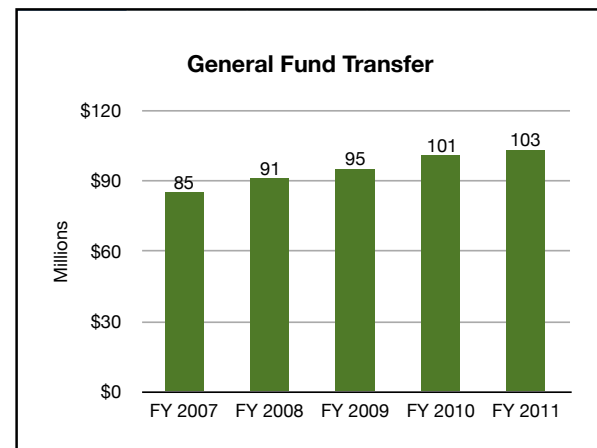
Austin Energy employees support the community in many other ways. This has included the delivery of nearly 20,000 hot meals to homebound seniors over the last 17 years through the local 'Meals on Wheels' non-profit organization, with about 40 employees participating last year. In addition, 80 employees from the utility mentor or tutor students each school year, joining more than 300 employees from other City departments in what has been an award-winning program. Austin Energy employees have also contributed more than \$1 million to area non-profit organizations since 2000 during the City's annual Combined Charities Campaign.



Major 2011 Sponsorships

- Grant for Technology Opportunities Program (GTOP)
- Central Texas Clean Air Force
- African American Men & Boys Conference - Harvest Foundation
- The Long Center for Performing Arts
- African-American Cultural Heritage District
- Austin Lyric Opera
- Austin Parks Foundation

\$124,920
 \$90,000
 \$75,000
 \$50,000
 \$30,000
 \$30,000
 \$26,000





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