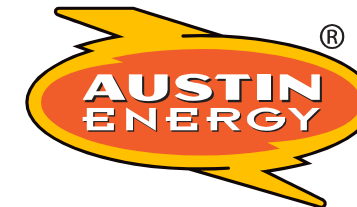


Austin Energy: Acquisition of Nacogdoches Power, LLC

Transaction Overview

Mark V. Dombroski
Chief Financial Officer



July 15, 2019

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Nacogdoches Power, LLC

Justification for Entering Power Purchase Agreement in 2008

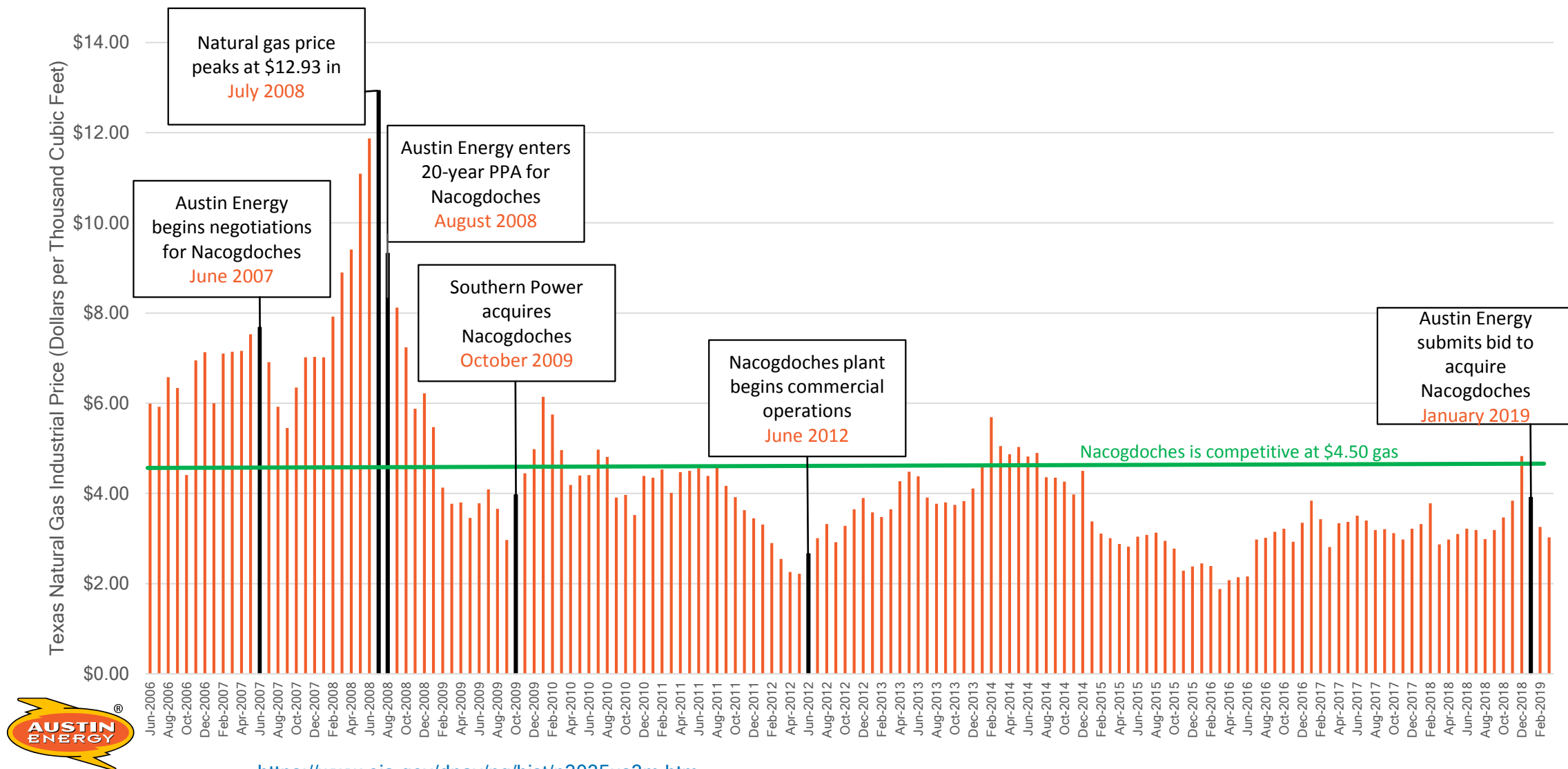
- Austin Energy renewable goals in 2007 called for 30% renewable by 2020*
- Limited non-wind resources in Texas in 2008
- Bio-mass is a firm dispatchable renewable resource
- PPA allowed Austin Energy to take advantage of Production Tax Credits
- Diversified Austin Energy's portfolio of nuclear, coal, natural gas, wind and solar
- Avoided West Texas transmission congestion
- Hedge against future carbon tax
- Natural gas prices increased 116% in two years (\$5.99/MMBTU in June 2006 to \$12.93 in July 2008)



* Resolution No. 20070215-023

Nacogdoches Power, LLC Timeline

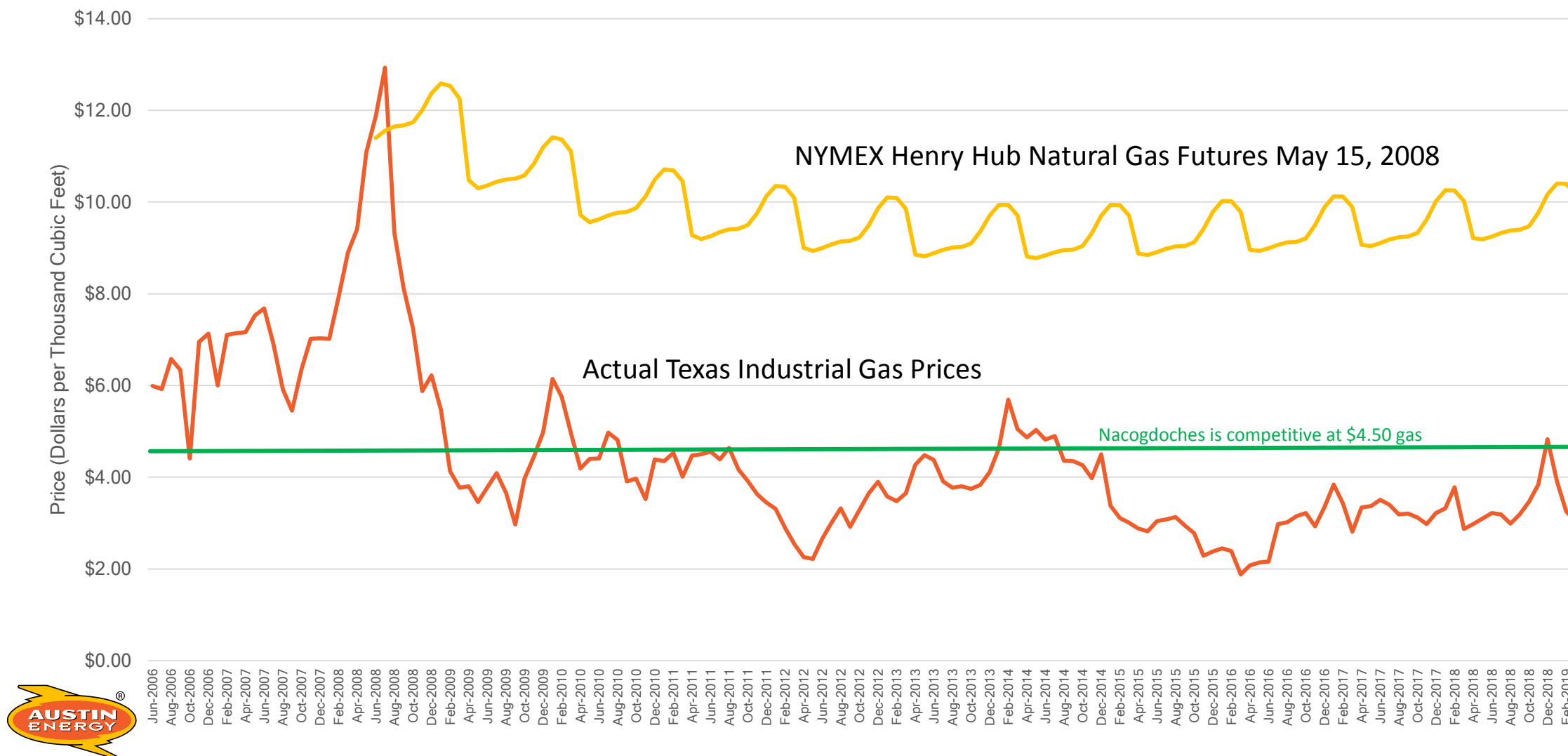
53% of Generation in ERCOT is Fueled by Natural Gas



<https://www.eia.gov/dnav/ng/hist/n3035us3m.htm>

NYMEX Forward Curve vs Actual

Sustained Higher Power Prices Were a Reasonable Assumption in 2008



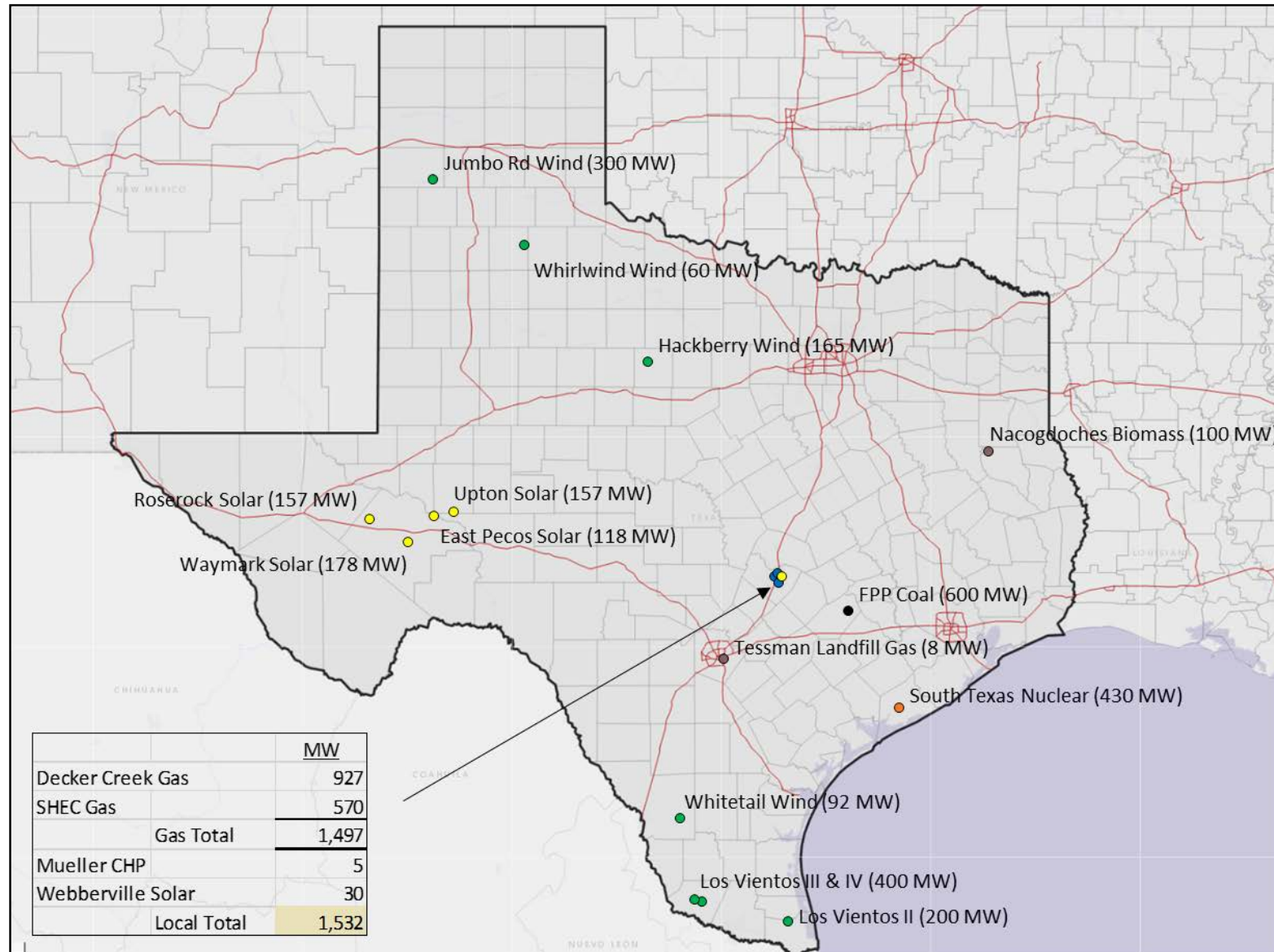
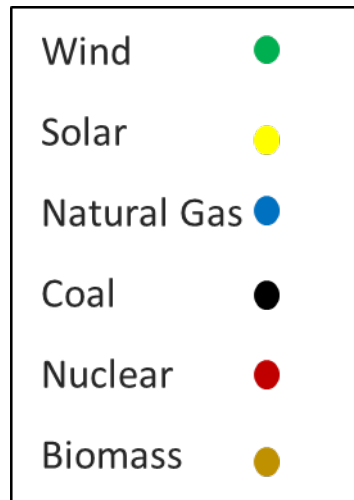
Nacogdoches Power, LLC

Key Provisions of the Power Purchase Agreement

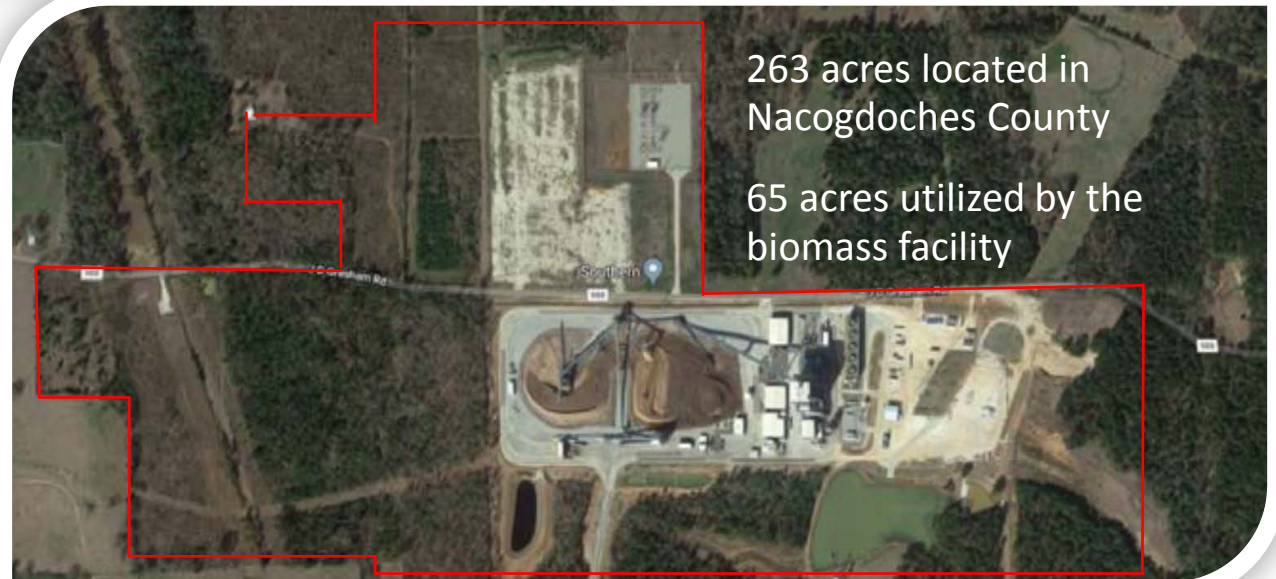
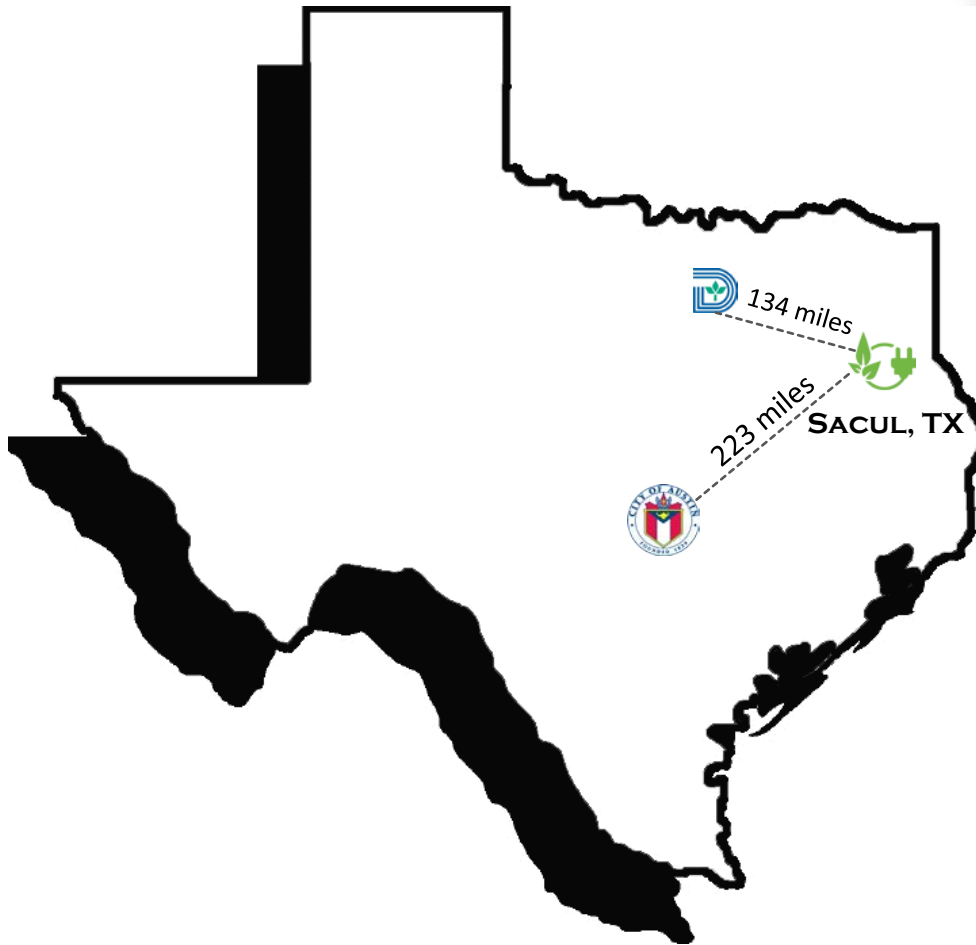
- Contract term of 20-years from commencement date (2012 – 2032)
- Maximum 100 MW – 70 MW minimum output delivered into the ERCOT market
- 72-hour dispatch notice required – maximum two start-ups per month permitted
- Contract price structure:
 - Capacity payment (fixed) = \$50.5 million per year in 2012 and escalates at 3% annually, \$88.5 million in 2032
 - Energy charge (variable) = Delivered energy x (\$3.15 x GDP IPD Adjuster)
 - Fuel charge (variable) = delivered cost of fuel (range \$5.00 - \$15.00 x GDP IPD Adjuster) x average conversion factor x delivered energy
 - Startup charge (variable) = fuel (propane and wood) + O&M – Energy charge
- No right of first refusal
- Commitment unless bio-mass wood-fuel deemed “non-renewable”



Austin Energy is Diversified in Fuel and Geography

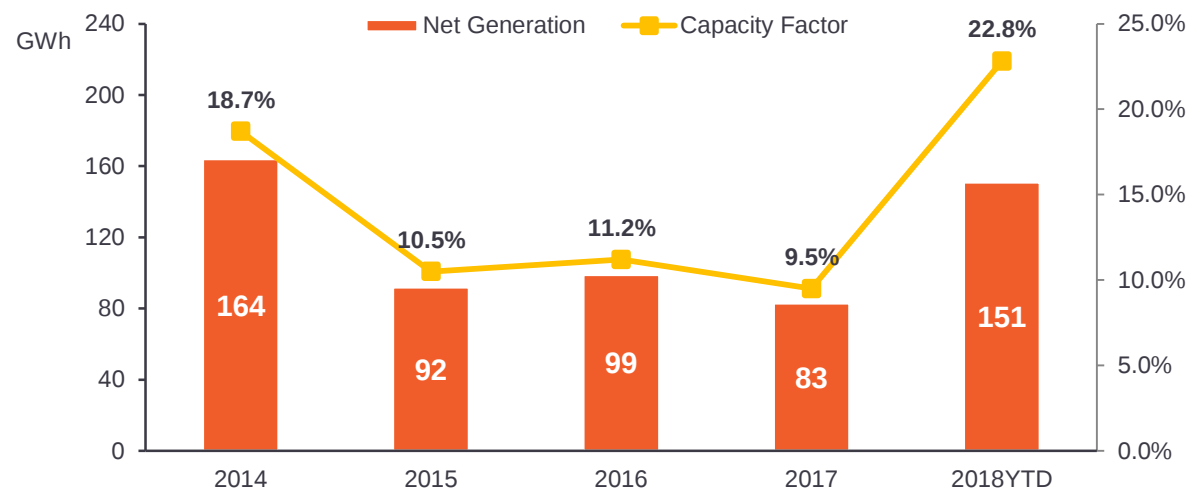


Nacogdoches Biomass Facility

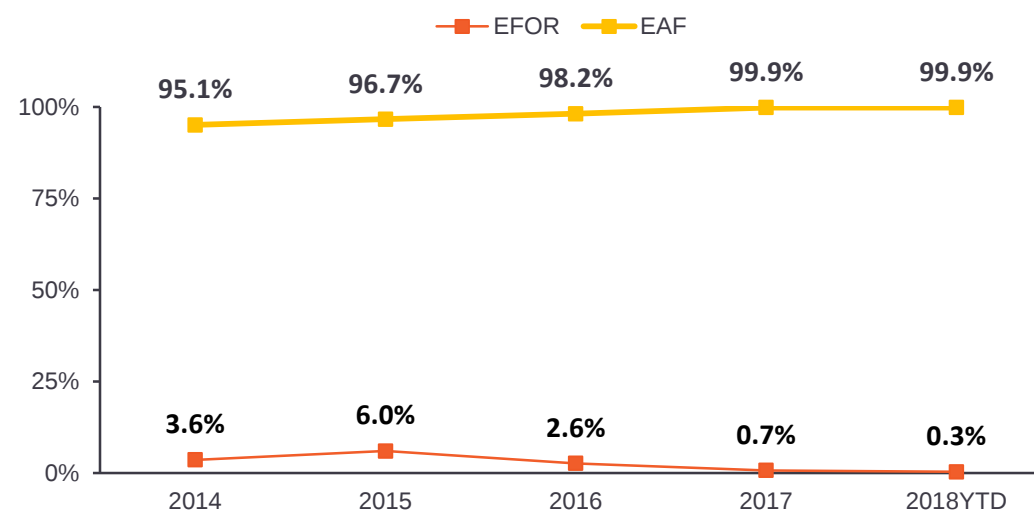


Historical Operating Performance

Net Generation and Capacity Factor⁽¹⁾



Equivalent Availability Factor and Forced Outage⁽¹⁾



Summary Operating Data⁽¹⁾

	2014	2015	2016	2017	2018 YTD
Net Generation (GWh)	164	92	99	83	151
Equivalent Availability Factor	95.1%	96.7%	98.2%	99.9%	99.9%
Equivalent Forced Outage Rate	3.6%	6.0%	2.6%	0.7%	0.3%
Net Capacity Factor	18.7%	10.5%	11.2%	9.5%	22.8%
Net Heat Rate (Btu/kWh)	15,516	14,732	16,472	14,849	14,230
Starts	12	4	6	6	7



⁽¹⁾Includes both Austin Energy dispatch and fuel management dispatch

Nacogdoches Power LLC Transaction Team



 **NORTON ROSE FULBRIGHT**

- Bond Counsel
- Tax Counsel



- Financial Advisor

**HUSCH
BLACKWELL**

- Mergers & Acquisition Counsel

J.P.Morgan

- Credit Provider
- Transaction Assistance
- Bond Underwriter



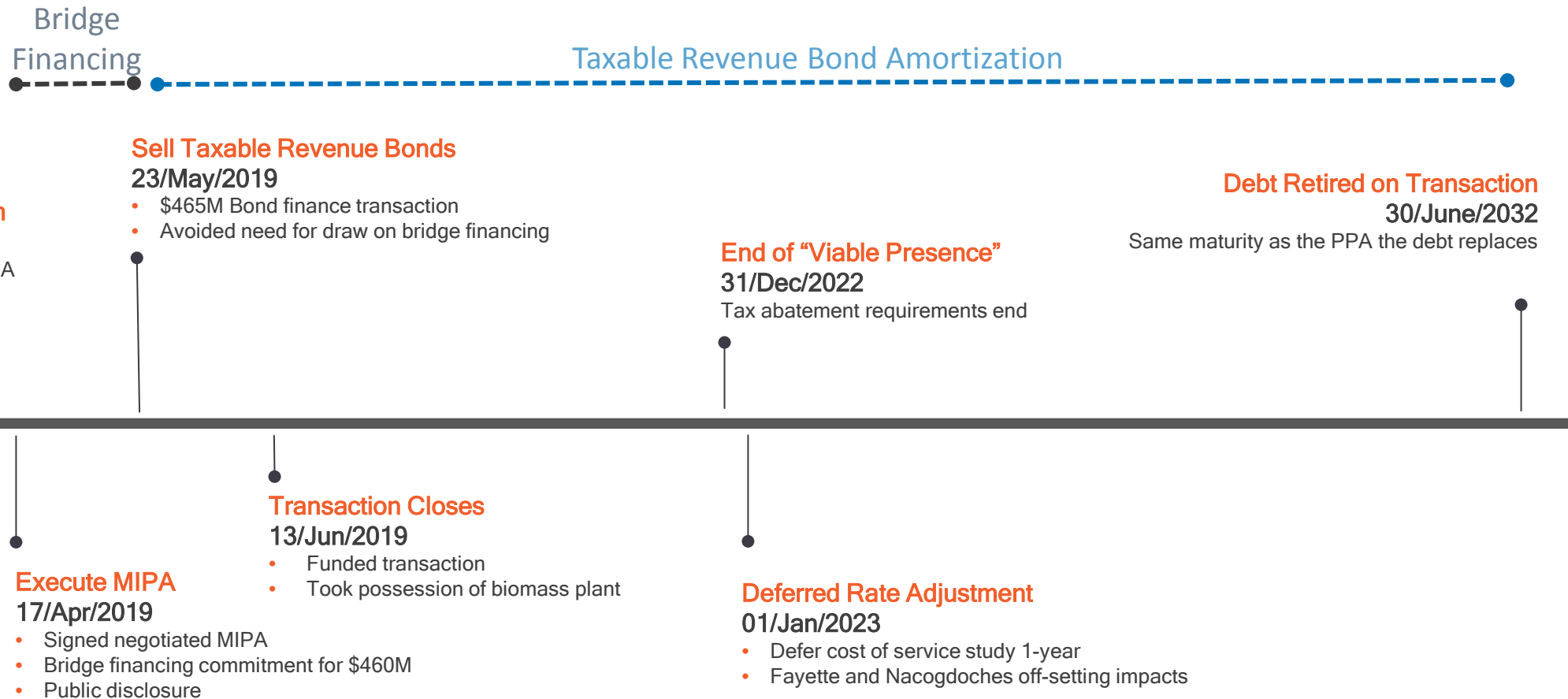
Nacogdoches Biomass Facility

Key Aspects of Transaction

- Key economic benefits to Austin Energy:
 - Exchange an escalating capacity payment for a lower, fixed debt service payment at favorable “AA” rate
 - Eliminate the significant profit component of future payments to Nacogdoches Power LLC
 - Capture operating efficiencies and cost reductions as owners
- Structured as a \$460 million acquisition of Nacogdoches Power LLC from Southern Power Company
 - Purchased of 100% ownership interest from Southern Power Company on debt-free, cash-free basis
 - Assumes \$339M as plant in service and \$121M as a deferred cost
- Transaction closed on June 13, 2019
- Assets and land transferred to City of Austin, Austin Energy
- Austin Energy will continue to operate Nacogdoches Power LLC
 - Power Purchase Agreement remains in place allowing costs to be recovered under the Power Supply Adjustment
 - Operations & Maintenance provider NAES on-boarded staff and operating plant under contract
 - Fuel and service contracts with Nacogdoches Power LLC remain in place and continue
- Southern Power assisting in transition under a negotiated Transition Services Agreement
- Nacogdoches will continue to operate and will be evaluated under future resource planning efforts

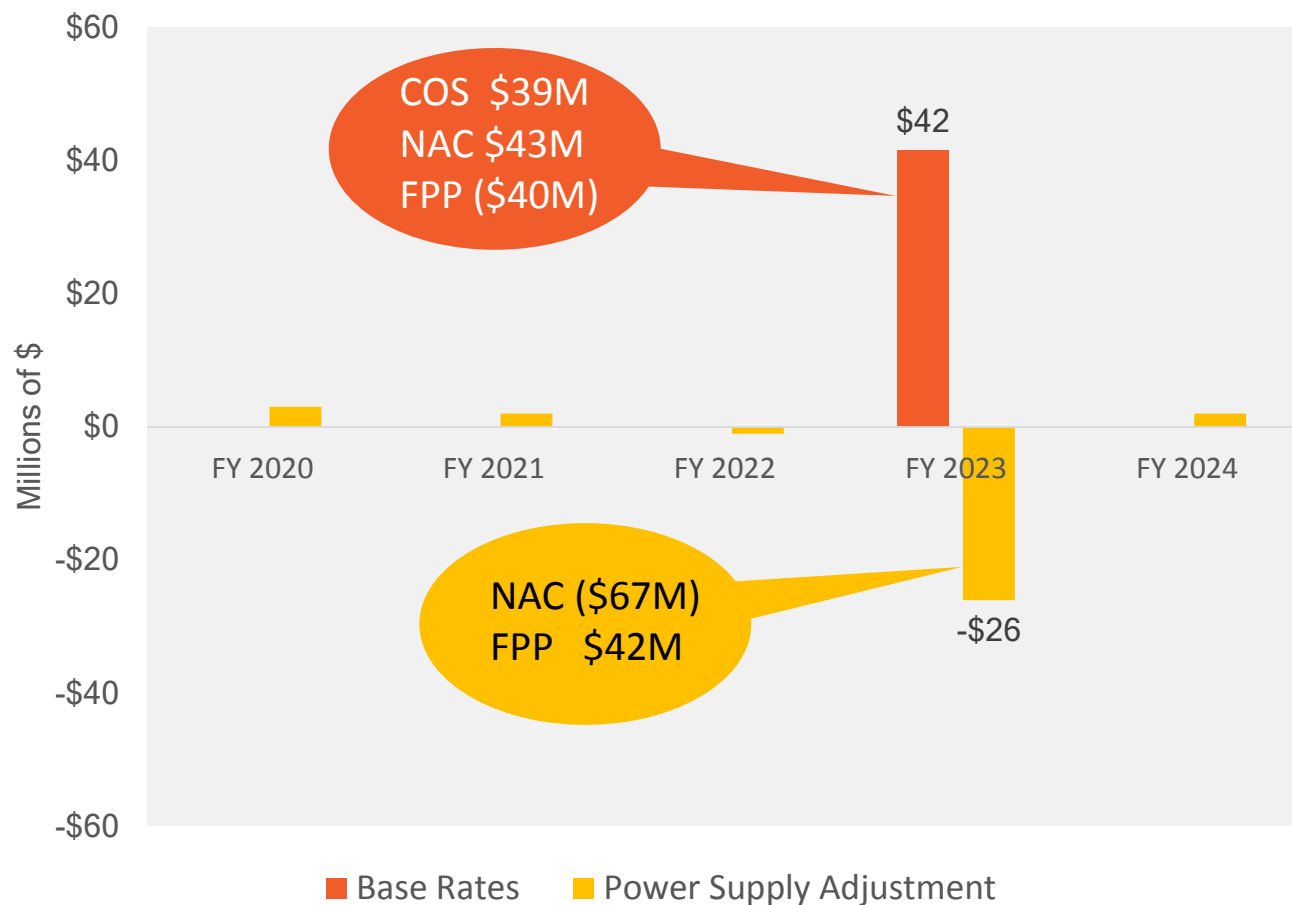


Key Financial Milestones for Nacogdoches

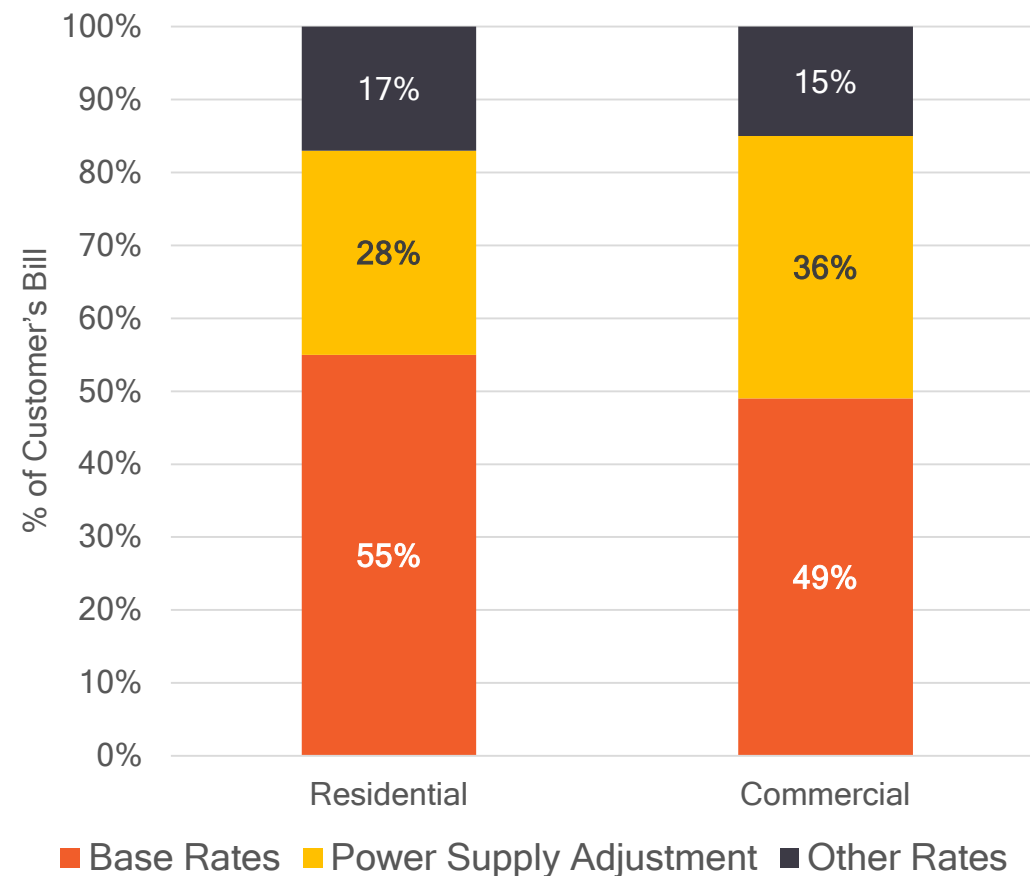


Deferred Rate Adjustment Impact to Customers

Projected Changes Impacting Retail Rates



Impact Effects Customers Differently



Based on 20016 Cost of Service



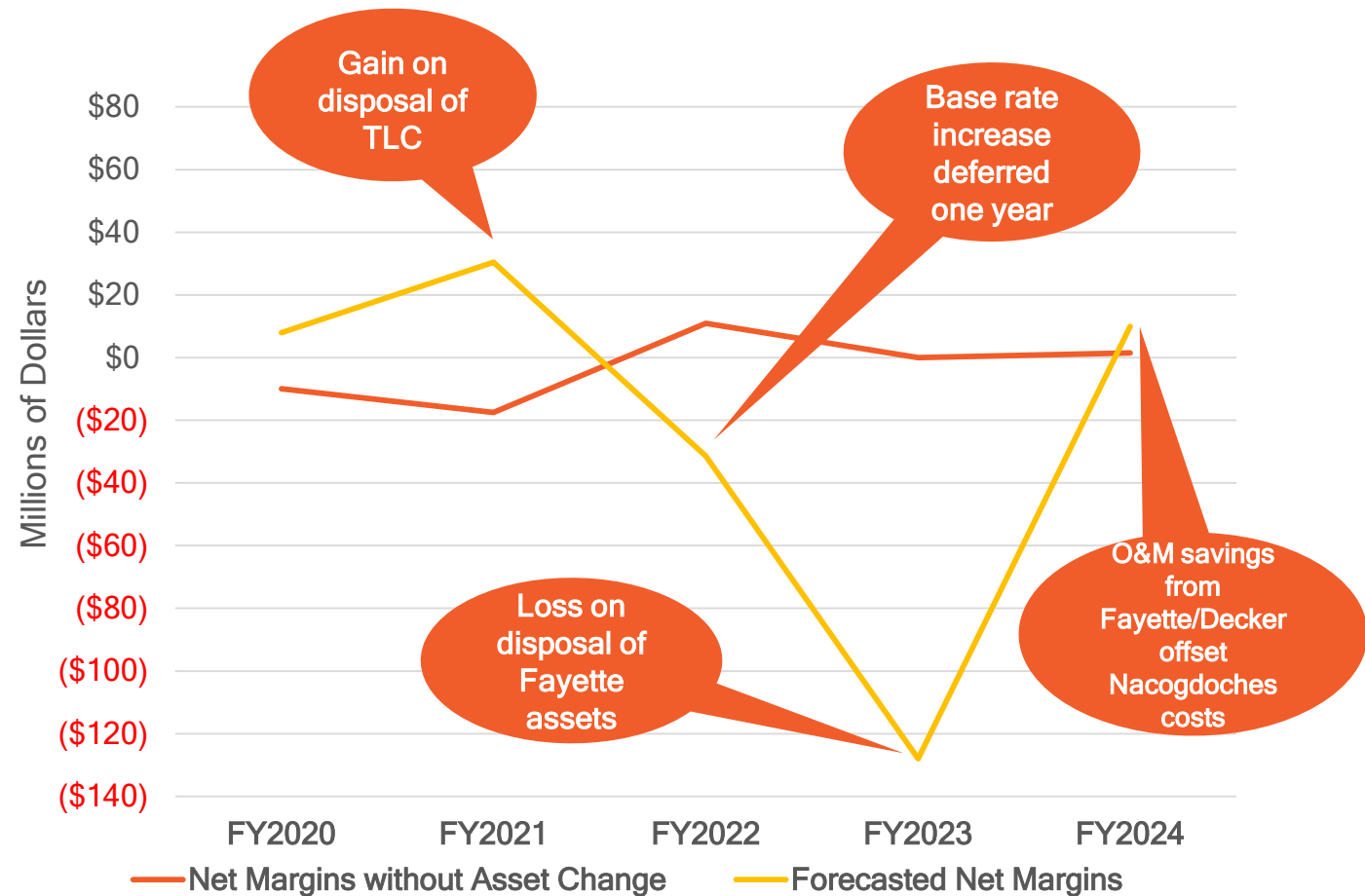
Gains and Losses On Assets Impact Forecasted Net Income

Net Income

The forecast uses the current 5-year CIP that assumes Austin Energy relocates from Town Lake Center (TLC) to Mueller Development in FY 2021 and that Austin Energy receives \$50M for TLC in that same year. This assumption increases the net income forecasted for FY 2021.

The forecast also assumes that Austin Energy uses cash to defease the debt associated with Fayette in 2023, ceases operations and impairs the assets causing a reduction in net income for FY 2023.

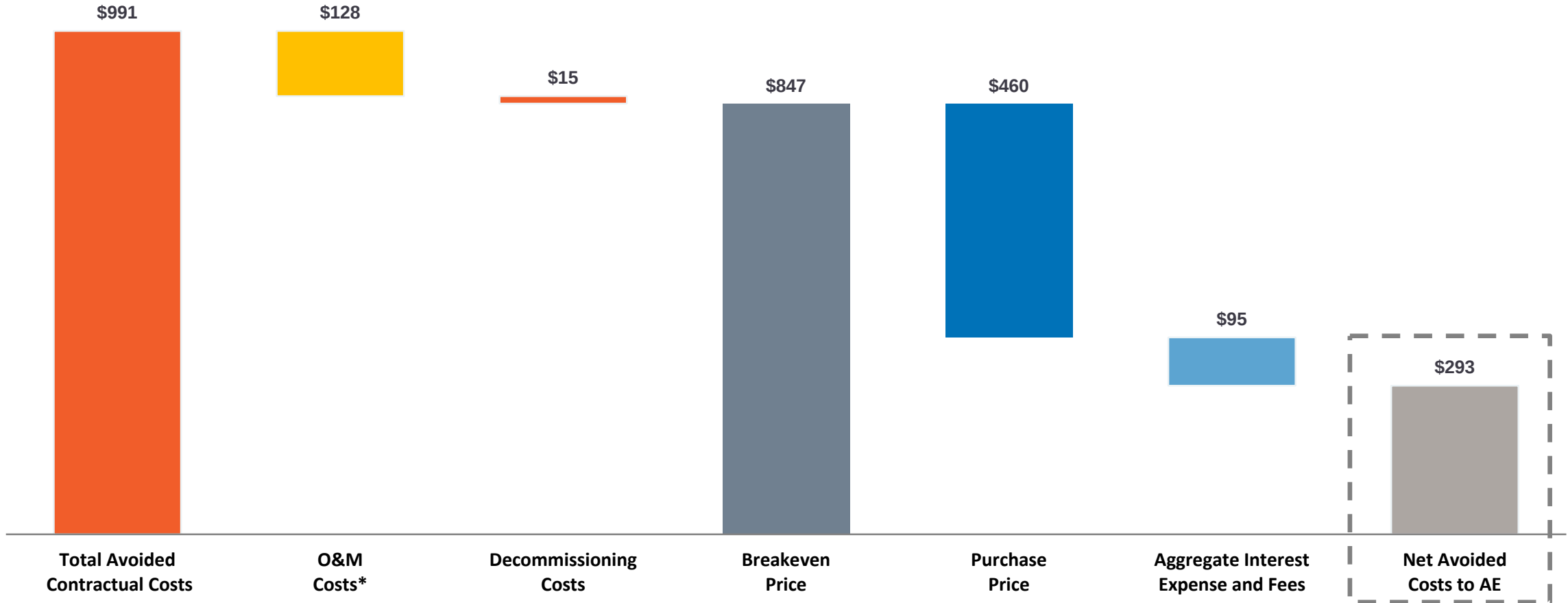
O&M savings from Fayette and Decker fund the additional interest expense and regulatory asset amortization on Nacogdoches.



Nacogdoches Biomass Facility Transaction Summary

Transaction Costs and Benefits

(Millions of \$)

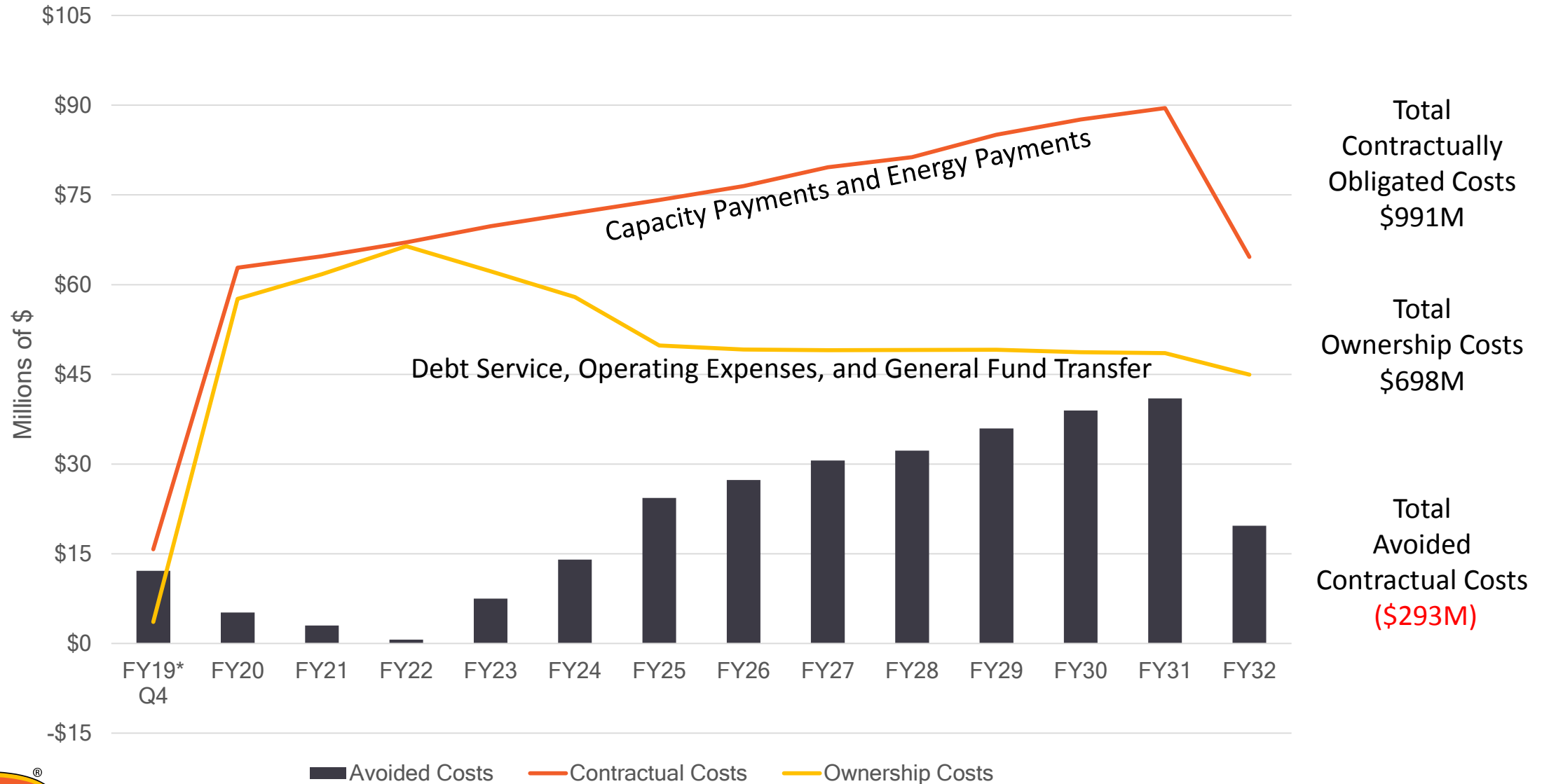


Source: Management estimates

* O&M Costs includes fixed and variable O&M, property taxes, fuel, and general fund transfer; assumes plant operates at 10% capacity.



Cost of Ownership vs Contractually Obligated Costs



Taxable Revenue Bond Financing

- Routine funding source for capital assets
- Total debt financed \$465M
- Interest rate of 3.09%
- 13-year debt period ending in 2032 – same time frame as existing PPA
- Annual debt service payment of \$42.6M
- Total principal and interest = \$554.7M
- After bond issuance, Austin Energy expects to maintain internal debt-to-capitalization targets and retain additional debt capacity to fund future routine capital needs

Bid Price	\$460M
Fees	\$5M
Total Debt	\$465M



Agency-by-Agency Rating Considerations

Rating Agencies Saw Value in Acquisition



Aa3 / Stable

Credit Opinions:

- Prudent decision by management to acquire the Nacogdoches Biomass Facility
- Strong financial and debt policies to maintain coverage above 2.0x, liquidity above 150 days cash on hand
- Austin Energy's board and management maintain financial policies to achieve financial integrity while allowing for flexibility
- Stable outlook reflects our expectation that Austin Energy will continue to effectively implement its operating and financial strategies, allowing the utility to achieve its targeted goals and support its strong credit quality going forward



AA / Stable

Credit Opinions:

- We consider the system's financial management policies and practices credit supportive
- Strong coverage metrics, reflecting our view of the issuer's historically robust fixed-charge coverage and the issuer's projected fixed-charge coverage
- The stable outlook reflects our expectation that Austin's deep and steadily growing customer base, diverse generation resource mix, and its rate-setting and financial policies will enable the system to achieve strong fixed-charge coverage levels



AA / Stable **UPGRADED**

Credit Opinions:

- Purchase allows reduction to overall project cost and provides flexibility to make long-term decisions about facility operation as a component of its overall resource strategy
- Operating costs remained low despite significant strides made toward the City of Austin's renewable- and clean-energy goals
- The upgrade also reflects strong financial performance and service area growth
- Financial profile is very strong, characterized by very low leverage, coverage of full obligations in excess of 1.8x over the past three years and robust liquidity
- Financial profile is 'aa' based on moderate debt levels and improved financial performance and liquidity over the past four years



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