

OFFICIAL STATEMENT

Dated February 28, 2008

Ratings: Moody's: "Aaa"
Standard & Poor's: "AAA"
Fitch: "AAA"

(See "OTHER RELEVANT INFORMATION – Ratings" and "BOND INSURANCE")

NEW ISSUE – Book-Entry-Only

In the opinion of Bond Counsel, interest on the Bonds for federal income tax purposes under existing statutes, regulations, published rulings and court decisions is NOT intended to be excluded from the gross income of the owners thereof (See "TAX MATTERS" herein).

\$50,000,000
CITY OF AUSTIN, TEXAS
(Travis and Williamson Counties)
Electric Utility System Revenue Refunding Bonds, Taxable Series 2008

Dated: March 1, 2008

Due: November 15, on the inside cover

The bonds offered hereby are the \$50,000,000 City of Austin, Texas (the "City") Electric Utility System Revenue Refunding Bonds, Taxable Series 2008 (the "Bonds"). The Bonds are the eighth series of "Parity Electric Utility Obligations" issued pursuant to the master ordinance governing the issuance of electric utility system indebtedness (the "Master Ordinance") and are authorized and being issued in accordance with a Supplemental Ordinance (the "Eighth Supplement"). The Master Ordinance provides the terms for the issuance of Parity Electric Utility Obligations and the covenants and security provisions related thereto. The City must comply with the covenants and security provisions relating to the Prior First Lien Obligations (as hereinafter defined) and Prior Subordinate Lien Obligations (as hereinafter defined) while they remain outstanding. The Master Ordinance provides that no additional revenue obligations shall be issued on a parity with the Prior First Lien Obligations or Prior Subordinate Lien Obligations. Commercial Paper Obligations (as hereinafter defined) currently authorized having a combined pledge of Electric Light and Power System and Water and Wastewater System revenues may continue to be issued on a subordinate lien basis to the Parity Electric Utility Obligations. The Bonds are special obligations of the City, payable as to both principal and interest solely from, and together with the outstanding Parity Electric Utility Obligations and Prior Subordinate Lien Bonds, equally and ratably secured only by a lien on and pledge of the Net Revenues of the City's Electric Utility System as provided in the Master Ordinance and the Eighth Supplement. **Neither the taxing power of the City nor the State of Texas is pledged as security for the Bonds.** See "SECURITY FOR THE BONDS" herein.

The definitive Bonds will be issued in fully registered form in denominations of \$5,000 or any integral multiple thereof within a maturity. Interest on the Bonds will accrue from March 1, 2008 and shall be payable on November 15, 2008 and each May 15 and November 15 thereafter until maturity or prior redemption. The Bonds will be registered initially in the name Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). The City reserves the right to discontinue such book-entry system. See "DESCRIPTION OF THE BONDS" herein. U.S. Bank National Association, Houston, Texas will serve as the initial paying agent/registrar (the "Paying Agent/Registrar") for the Bonds.



The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under a insurance policy issued concurrently with the delivery of the Bonds by Assured Guaranty Corp. See "BOND INSURANCE" herein.

MATURITY SCHEDULE

See Schedule on Inside of Cover Page

The City reserves the right, at its option, to redeem Bonds maturing on any date as described herein. See "DESCRIPTION OF THE BONDS – Optional Redemption".

It is expected that the Bonds will be delivered through the facilities of DTC on or about March 27, 2008.

Banc of America Securities LLC

First Southwest Company
Ramirez & Co., Inc.

Goldman, Sachs & Co.
RBC Capital Markets
UBS Investment Bank

JPMorgan
Siebert Brandford Shank & Co., LLC

The Bonds are offered for delivery when, as, and if issued and subject, among other things, to the opinions of the Attorney General of the State of Texas and Fulbright & Jaworski L.L.P., Bond Counsel for the City, as to the validity of the issuance of the Bonds under the Constitution and laws of the State of Texas. Certain legal matters will be opined on for the Underwriters by their counsel, Andrews Kurth LLP, Austin, Texas and for the City by McCall, Parkhurst & Horton L.L.P., Dallas, Texas. The opinion of Bond Counsel will be printed or attached to the Bonds. (See “APPENDIX E - Form of Bond Counsel’s Opinion”.)

MATURITY SCHEDULE

<u>Maturity</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Price or Yield</u>	<u>Maturity</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Price or Yield</u>
11-15-2009	\$1,085,000	3.079%	3.079%	11-15-2012	\$1,205,000	4.004%	4.004%
11-15-2010	1,120,000	3.229%	3.229%	11-15-2013	1,255,000	4.154%	4.154%
11-15-2011	1,160,000	3.429%	3.429%				

\$5,700,000 5.218% Term Bonds Due November 15, 2017; Priced to Yield 5.218%
 \$3,325,000 5.200% Term Bonds Due November 15, 2019; Priced to Yield 5.288%
 \$35,150,000 6.262% Term Bonds Due November 15, 2032; Priced to Yield 6.262%

(Plus Accrued Interest from March 1, 2008)

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CITY OF AUSTIN

Elected Officials

	<u>Term Expires June 20</u>
Will Wynn	Mayor 2009
Lee Leffingwell	Councilmember Place 1 2008
Mike Martinez	Councilmember Place 2 2009
Jennifer Kim	Councilmember Place 3 2008
Betty Dunkerley, Mayor Pro Tem	Councilmember Place 4 2008
Brewster McCracken	Councilmember Place 5 2009
Sheryl Cole	Councilmember Place 6 2009

Appointed Officials

Marc Ott	City Manager
Laura Huffman	Assistant City Manager
Rudy Garza	Assistant City Manager
Mike McDonald	Assistant City Manager
Bert Lumbreras	Assistant City Manager
Leslie Browder, CPA	Chief Financial Officer
Vickie Schubert, CPA	Deputy Chief Financial Officer
Jeff Knodel, CPA	Deputy Chief Financial Officer
David Allan Smith	City Attorney
Shirley A. Gentry	City Clerk

BOND COUNSEL

Fulbright & Jaworski L.L.P.
Austin and Dallas, Texas

SECURITIES COUNSEL FOR THE CITY

McCall, Parkhurst & Horton L.L.P.
Austin and Dallas, Texas

FINANCIAL ADVISOR

The PFM Group
Austin, Texas

AUDITORS

KPMG LLP and R. Mendoza & Company, PC
Austin, Texas

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SELECTED FINANCIAL INFORMATION

Combined Electric, Water and Wastewater Systems

The selected financial information below presents selected historical information related to the Electric Utility System and the Water and Wastewater System of the City, presented on a combined basis. The financial information for the years ended September 30, 2003 through 2006 is derived from the City's audited financial statements. This information should be read in conjunction with the audited financial statements included in APPENDIX B – "Excerpts From the Annual Financial Report".

Operating Summary (000's)

	Fiscal Year Ended September 30				
	(Unaudited) 2007	2006	2005	2004	2003
Combined Gross Revenues	\$1,393,344	\$1,412,853	\$1,260,401	\$1,076,511	\$1,189,672
Combined Maintenance and Operating Expenses	<u>846,005</u>	<u>824,870</u>	<u>730,697</u>	<u>626,412</u>	<u>663,651</u>
Combined Net Revenues	<u>\$ 547,339</u>	<u>\$ 587,983</u>	<u>\$ 529,704</u>	<u>\$ 450,099</u>	<u>\$ 526,021</u>
Principal and Interest on Revenue Bonds (1)	\$ 137,553	\$ 108,258	\$ 131,749	\$ 169,039	\$ 173,010
Debt Service Coverage on Revenue Bonds (1)	3.98x	5.43x	4.02x	2.66x	3.05x

(1) Prior First Lien Bonds and Prior Subordinate Lien Bonds only.

Electric Utility System Only

The selected financial information below presents selected historical information related to the Electric Utility System of the City. The financial information for the years ended September 30, 2003 through 2006 is derived from the City's audited financial statements. This information should be read in conjunction with the audited financial statements included in APPENDIX B – "Excerpts From the Annual Financial Report."

Operating Summary (000's)

	Fiscal Year Ended September 30				
	(Unaudited) 2007	2006	2005	2004	2003
Gross Revenues	\$1,096,869	\$1,103,665	\$989,534	\$841,541	\$943,729
Maintenance and Operating Expenditures	<u>711,181</u>	<u>695,271</u>	<u>614,219</u>	<u>516,857</u>	<u>554,235</u>
Net Revenues	<u>\$ 385,688</u>	<u>\$ 408,394</u>	<u>\$375,315</u>	<u>\$324,684</u>	<u>\$389,494</u>
Principal and Interest on Prior First Lien/Prior Subordinate Lien Revenue Bonds	\$ 117,951	\$ 88,681	\$111,944	\$131,788	\$132,280
Net Revenues available for Separate Lien Obligations (1)	\$ 267,737	\$ 319,713	\$263,371	\$192,896	\$257,114
Principal and Interest on Separate Lien Obligations (1)	\$ 50,035	\$ 50,282	\$ 45,911	\$ 42,384	\$ 18,718
Debt Service Coverage (Separate Lien Obligations)	5.35x	6.36x	5.74x	4.55x	13.79x

(1) Parity Electric Utility Obligations.

THE COVER PAGE CONTAINS CERTAIN INFORMATION FOR GENERAL REFERENCE ONLY AND IS NOT INTENDED AS A SUMMARY OF THIS OFFERING. INVESTORS SHOULD READ THE ENTIRE OFFICIAL STATEMENT, INCLUDING ALL APPENDICES ATTACHED HERETO, TO OBTAIN INFORMATION ESSENTIAL TO MAKING AN INFORMED INVESTMENT DECISION.

No dealer, salesman or any other person has been authorized by the City or by the Underwriters to give any information or to make any representations, other than the information and representations contained herein, in connection with the offering of the Bonds, and, if given or made, such information or representations must not be relied upon as having been authorized by the City or the Underwriters. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of, any of the Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

THE BONDS ARE EXEMPT FROM REGISTRATION WITH THE SEC AND CONSEQUENTLY HAVE NOT BEEN REGISTERED THEREWITH. THE REGISTRATION, QUALIFICATION, OR EXEMPTION OF THE BONDS IN ACCORDANCE WITH APPLICABLE SECURITIES LAW PROVISIONS OF THE JURISDICTION IN WHICH THESE SECURITIES HAVE BEEN REGISTERED, QUALIFIED OR EXEMPTED FROM REGISTRATION SHOULD NOT BE REGARDED AS A RECOMMENDATION THEREOF.

The information and expressions of opinion contained herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City since the date hereof. The delivery of this Official Statement at any time does not imply that the information herein is correct as to any time subsequent to its date. See “CONTINUING DISCLOSURE OF INFORMATION” for a description of the City’s undertaking to provide certain information on a continuing basis.

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in the Official Statement in accordance with, and as part of, their responsibility to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

IN CONNECTION WITH THE OFFERING OF THE BONDS, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICES OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

CUSIP numbers have been assigned to this issue by the CUSIP Service Bureau, and the City, The PFM Group and the Underwriters are not responsible for the selection or correctness of CUSIP numbers.

Assured Guaranty makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, Assured Guaranty makes no representation regarding, nor does it accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding Assured Guaranty supplied by Assured Guaranty and presented under the heading “BOND INSURANCE” and APPENDIX F – Specimen Financial Guaranty Insurance Policy.

Neither the City, The PFM Group, nor the Underwriters make any representation regarding the information contained in this Official Statement regarding DTC or its book-entry-only system, as such information has been furnished by DTC or the information under the caption “BOND INSURANCE”.

This Official Statement contains “forward-looking” statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. Such statements may involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance and achievements to be different from the future results, performance and achievements expressed or implied by such forward-looking statements. **Investors are cautioned that the actual results could differ materially from those set forth in the forward-looking statements.** See “OTHER RELEVANT INFORMATION – Forward-Looking Statements.”

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OFFICIAL STATEMENT
\$50,000,000
City of Austin, Texas
Electric Utility System Revenue Refunding Bonds, Taxable Series 2008

INTRODUCTION

This Official Statement is being furnished in connection with the proposed issuance by the City of Austin, Texas (the "City") of its \$50,000,000 Electric Utility System Revenue Refunding Bonds, Taxable Series 2008 (the "Bonds"). The Bonds are to be issued pursuant to authority conferred by the laws of the State of Texas, a master ordinance of the City Council (the "Master Ordinance") providing the terms for the issuance of Parity Electric Utility Obligations and the covenant and security provisions related thereto, and a supplemental ordinance of the City Council (the "Eighth Supplement") providing for the specific terms relating to the issuance of the Bonds in accordance with the Master Ordinance. A summary of certain provisions of the Master Ordinance is attached hereto as APPENDIX C. As noted under "Plan of Financing" below, the City will not issue any additional Prior First Lien Obligations or Prior Subordinate Lien Obligations but must comply with the covenants contained in the ordinances (collectively, the "Bond Ordinance"), authorizing their issuance while such obligations are outstanding. A summary of certain provisions of the Bond Ordinance is attached hereto as APPENDIX D. **Capitalized terms not otherwise defined herein have the meanings assigned in the Master Ordinance as modified by the Eighth Supplement, or the Bond Ordinance, as applicable (see APPENDICES C and D).** All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document.

PLAN OF FINANCING

The Bonds are being issued to refund \$48,800,000 of the City's outstanding taxable commercial paper issued for the Electric Utility System (the "Refunded Notes"), thereby enabling the City to restore the available capacity under its taxable commercial paper note program, which will permit the City to issue commercial paper notes pursuant to its current program in the principal amount of the Refunded Notes. Proceeds from the Bonds in an amount equal to the principal amount of the Refunded Notes will be deposited with the Issuing and Paying Agent for the Refunded Notes. (Any interest on the Refunded Notes due is expected to be paid from available Electric Utility System Revenues.) Proceeds from the Bonds will also be used to pay costs of issuance. The Bonds represent the eighth encumbrance to be issued or incurred as Parity Electric Utility Obligations under the Master Ordinance. The City has issued certain Prior First Lien Obligations, Prior Subordinate Lien Obligations and Commercial Paper Obligations secured by a joint and several pledge of the net revenues of the City's Water and Wastewater System and Electric Utility System. Pursuant to the Master Ordinance no additional Prior First Lien Obligations or Prior Subordinate Lien Obligations may be issued. At such time as the Prior First Lien Obligations, Prior Subordinate Lien Obligations and the Commercial Paper Obligations have been fully paid or discharged in a manner that such obligations are no longer deemed to be outstanding under the terms of their respective ordinances and by law, all Electric Utility System revenue obligations then outstanding shall be Parity Electric Utility Obligations, or obligations subordinate to the Parity Electric Utility Obligations then outstanding, and shall be payable only from and secured only by a lien on and pledge of the Net Revenues of the Electric Utility System and the revenues deposited to the credit of the accounts and funds established and maintained in the ordinances providing for their issuance. The Master Ordinance governs the issuance of Parity Electric Utility Obligations and contains covenants and security provisions related thereto. The City must comply with the covenants and security provisions relating to the Prior First Lien Obligations and Prior Subordinate Lien Obligations while any such obligations remain outstanding.

The City has also issued revenue obligations secured solely by the net revenues of the Water and Wastewater System pursuant to a master ordinance, the terms and provisions of which differ substantially from those of the Master Ordinance. As noted under "Debt Payable from Systems Revenues" herein, approximately \$540.9 million of Prior First Lien Obligations and Prior Subordinate Lien Obligations were outstanding as of February 1, 2008 and no assurances can be given as to when or if such obligations will be defeased or paid so as to allow the Parity Electric Utility Obligations (including the Bonds) to be first lien obligations of the Net Revenues of the Electric Utility System.

SOURCES AND USES OF FUNDS

The sources and uses of funds are as follows.

Sources*:	
Par Amount of Bonds	\$50,000,000
Original Issue Discount	25,436
Accrued Interest	<u>208,083</u>
	<u>\$50,182,647</u>
Uses*:	
Payment of Refunded Notes	\$48,800,000
Cost of Issuance, including Bond Insurance Premium	895,915
Underwriter's Discount	278,649
Deposit to Interest & Sinking Fund	<u>208,083</u>
	<u>\$50,182,647</u>

*Amounts rounded to nearest dollar.

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DEBT PAYABLE FROM SYSTEMS REVENUES

(As of February 1, 2008)

<u>Combined Utility Systems Obligations</u>	
Prior Lien Bonds (a)	\$ 292,456,086
Subordinate Lien Bonds	<u>248,454,512</u>
Sub-Total	\$ 540,910,598
<u>Parity Electric Utility Obligations (b)</u>	\$ 877,520,000
<u>Water & Wastewater System Separate Lien Obligations (a) (c)</u>	
Parity Water & Wastewater Obligations	\$1,365,740,000
North Austin MUD No. 1	<u>1,695,000</u>
Sub-Total	\$1,367,435,000
<u>Commercial Paper (d)</u>	\$ 193,943,000
<u>General Obligation Bonds (e)</u>	\$ 8,379,695
<u>Assumed Bonds and Obligations</u>	
Assumed District Bonds (f)	<u>\$ 7,628,768</u>
TOTAL (f)	<u>\$2,995,817,061</u>

- (a) Excludes Prior Lien and Water and Wastewater Separate Lien Obligations to be refunded by the \$174,165,000 Water and Wastewater System Variable Rate Revenue Refunding Bonds, Series 2008 scheduled to be delivered on March 27, 2008.
- (b) Includes the Bonds.
- (c) The Water and Wastewater System Separate Lien Obligations are payable from the Net Revenues of the Water and Wastewater System only. Includes the \$174,165,000 Water and Wastewater System Variable Rate Revenue Refunding Bonds, Series 2008 scheduled to be delivered on March 27, 2008.
- (d) The City has a Tax-Exempt Commercial Paper Program in place for the Combined Utility Systems in an amount not to exceed \$350,000,000 and a Taxable Commercial Paper Program for the Combined Utility Systems in an amount not to exceed \$50,000,000. The outstanding amount shown above excludes the Refunded Notes. See "Plan of Financing". The Commercial Paper Notes and the reimbursement obligation to the respective banks providing the direct pay letter of credit supporting the Commercial Paper Notes are payable from the Net Revenues of both the Electric Utility System and the Water and Wastewater System after providing for the payment of the Prior First Lien Bonds, the Prior Subordinate Lien Bonds, the Parity Electric Utility Obligations and the Water and Wastewater System Separate Lien Obligations. The City's current Financial Policy provides that the proceeds of Commercial Paper Notes issued for the Electric Utility can only be utilized (i) to finance capital improvements required for normal business operation for Electric System additions, extensions, and improvements or improvements to comply with local, state and federal mandates or regulations without prior voter authorization; however, this shall not apply to new nuclear or conventional coal generation, or (ii) for voter authorized projects (although such voter authorization is not required by State law).
- (e) Contractual Obligations and Public Improvement Bonds payable from City ad valorem taxes, but are currently being paid from surplus Net Revenues of the Electric Utility System and Water and Wastewater System.
- (f) Such bonds are payable from City ad valorem taxes, but are currently being paid from surplus Net Revenues of the Water and Wastewater System.

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DEBT SERVICE REQUIREMENTS (a)

Fiscal Year Ending 09/30	Outstanding Prior Lien Bonds (b)	Outstanding Subordinate Lien Bond	Total Prior & Subordinate Lien Bond Requirements	The Bonds		Electric Utility System Obligations	Water & WW Separate Lien Obligation Bonds (b)(c)	Assumed MUD Obligations (d)	Total Separate Lien and Combined Utility Systems Requirements
				Principal	Interest				
2008	\$ 25,474,244	\$ 8,317,074	\$ 33,791,318	\$ -	\$ -	\$ 21,100,550	\$ 40,802,285	\$ 765,671	\$ 96,459,824
2009	110,487,438	15,447,071	125,934,509	-	3,473,384	68,168,344	109,080,584	906,295	307,563,116
2010	110,553,144	15,117,876	125,671,020	1,085,000	2,864,445	72,416,569	98,349,968	911,470	301,298,472
2011	106,530,006	15,912,755	122,442,761	1,120,000	2,829,659	76,970,475	89,431,651	914,612	293,709,158
2012	101,218,069	16,861,853	118,079,921	1,160,000	2,791,688	75,184,175	94,187,878	915,777	292,319,440
2013	61,565,588	17,129,078	78,694,665	1,205,000	2,747,676	102,824,800	110,224,792	930,072	296,627,005
2014	5,967,175	18,579,978	24,547,153	1,255,000	2,697,485	143,923,938	139,889,899	1,077,183	313,390,658
2015	6,045,000	30,478,963	36,523,963	1,315,000	2,637,111	94,197,050	121,063,824	1,078,343	256,815,290
2016	6,045,000	31,239,715	37,284,715	1,385,000	2,566,668	57,351,013	125,654,551	1,088,425	225,330,371
2017	42,150,000	21,563,885	63,713,885	1,460,000	2,492,442	55,561,450	100,274,803	947,019	224,449,598
2018	62,050,000	21,805,425	83,855,425	1,540,000	2,414,172	41,736,250	78,703,398	650,355	208,899,599
2019	31,735,000	21,129,813	52,864,813	1,620,000	2,331,873	41,577,500	79,182,024	-	177,576,209
2020	-	23,728,400	23,728,400	1,705,000	2,245,423	41,290,125	86,065,804	-	155,034,752
2021	-	23,806,325	23,806,325	1,805,000	2,144,578	38,586,500	85,104,572	-	151,446,975
2022	-	29,843,513	29,843,513	1,925,000	2,027,792	32,551,250	81,790,076	-	148,137,631
2023	-	28,853,025	28,853,025	2,050,000	1,903,335	32,515,250	82,504,113	-	147,825,723
2024	-	28,640,038	28,640,038	2,180,000	1,770,894	32,440,000	83,253,607	-	148,284,538
2025	-	25,298,938	25,298,938	2,320,000	1,629,999	32,617,500	70,026,656	-	131,893,092
2026	-	9,630,775	9,630,775	2,470,000	1,480,024	32,535,000	70,240,279	-	116,356,077
2027	-	10,046,013	10,046,013	2,630,000	1,320,343	32,592,500	68,373,205	-	114,962,060
2028	-	10,138,313	10,138,313	2,800,000	1,150,329	32,585,000	68,491,705	-	115,165,347
2029	-	-	-	2,985,000	969,201	32,415,000	68,079,918	-	104,449,119
2030	-	-	-	3,175,000	776,331	19,217,500	60,023,065	-	83,191,896
2031	-	-	-	3,380,000	571,094	19,300,000	40,367,568	-	63,618,662
2032	-	-	-	3,600,000	352,551	9,490,000	25,994,988	-	39,437,538
2033	-	-	-	3,830,000	119,917	9,402,500	26,074,881	-	39,427,299
2034	-	-	-	-	-	9,397,500	26,105,875	-	35,503,375
2035	-	-	-	-	-	9,372,500	26,070,375	-	35,442,875
2036	-	-	-	-	-	9,327,500	17,559,500	-	26,887,000
2037	-	-	-	-	-	-	17,554,250	-	17,554,250
2038	-	-	-	-	-	-	8,743,250	-	8,743,250

- (a) Debt outstanding as of 02/28/08.
- (b) Excludes the bonds to be refunded by the Water and Wastewater System Variable Rate Revenue Refunding Bonds, Series 2008 to be delivered on March 27, 2008. Preliminary, subject to change.
- (c) Includes \$174,165,000 Water and Wastewater System Variable Rate Revenue Refunding Bonds, Series 2008 to be delivered on March 27, 2008. Preliminary, subject to change.
- (d) Includes Assumed MUD's, each payable from City ad valorem taxes and additionally payable from surplus Net Revenues of the Waterworks and Sewer System.

SECURITY FOR THE BONDS

Pledges of Net Revenues

Prior First Lien Obligations/Prior Subordinate Lien Obligations. . . . The Net Revenues of both the City's Electric Utility System and Water and Wastewater System have been pledged, jointly and severally, (i) on a first lien basis to the payment and security of the Prior First Lien Obligations and (ii) on a second lien basis to the payment and security of the Prior Subordinate Lien Obligations. In the Ordinances authorizing the issuance of the Prior First Lien Obligations and the Prior Subordinate Lien Obligations, the City retained the right to issue "Separate Lien Obligations", which are defined as obligations payable solely from the Net Revenues of either the Electric Utility System or the Water and Wastewater System, but not both, and such payments for their retirement by the terms of the ordinance authorizing their issuance are secured solely by a lien on and pledge of the Net Revenues of the Electric Utility System or the Net Revenues of the Water and Wastewater System, but not both, of equal dignity with the lien on and pledge of said Net Revenues securing the payment of the Prior Subordinate Lien Obligations.

Parity Electric Utility Obligations. . . . The Bonds are "Separate Lien Obligations" under the terms of the Bond Ordinance, and represent the eighth issue or series of Separate Lien Obligations of the City's Electric Utility System. The Master Ordinance and the Eighth Supplement pledge the Net Revenues of the Electric Utility System to the payment of the "Parity Electric Utility Obligations" (the Outstanding Parity Electric Utility Obligations, the Bonds and additional parity obligations hereafter issued or incurred), and the Parity Electric Utility Obligations, together with the Prior Subordinate Lien Obligations, are equally and ratably secured by a parity lien on and pledge of the Net Revenues of the Electric Utility System, subject to the prior claim on and lien on the Net Revenues of the Electric Utility System to the payment and security of the Prior First Lien Obligations currently Outstanding, including the funding and maintenance of the special funds established and maintained for the payment and security of such Prior First Lien Obligations.

Additionally, the Parity Electric Utility Obligations are secured by a lien on the funds, if any, deposited to the credit of the Debt Service Fund, any special fund or funds created and maintained for the payment and security of the Parity Electric Utility Obligations pursuant to a Supplemental Ordinance and funds on deposit in any construction fund maintained and established with the proceeds of sale of Parity Electric Utility Obligations pending expenditure in accordance with the terms of the Master Ordinance and any Supplemental Ordinance. The Eighth Supplement affirms that a Reserve Fund will be created and established only when the "Pledged Net Revenues" of the System for a Fiscal Year are less than one hundred fifty per cent (150%) of the Annual Debt Service Requirements of the Parity Electric Utility Obligations due and payable in such Fiscal Year. When a Reserve Fund is required to be maintained, the amount to be accumulated is to be based on the amount of the shortfall in the Pledged Net Revenues below 150% of the annual Debt Service Requirements for the Parity Electric Utility Obligations and range from a maximum amount of 50% of the Maximum Annual Debt Service when the Pledged Net Revenues for a Fiscal Year are less than 110% of the annual Debt Service Requirement for such Fiscal Year to a minimum of 10% of the Maximum Debt Service Requirement for all Parity Electric Utility Obligations then Outstanding if the Pledged Net Revenues for the previous Fiscal Year were less than 150% of the annual Debt Service Requirement for such Fiscal Year, but greater than or equal to 140% of the annual Debt Service Requirement for such Fiscal Year. Currently, the Pledged Net Revenues are in excess of 150% of the Annual Debt Service Requirements, and therefore the City is not required, and currently does not intend, to fund a reserve fund for the Bonds (see "No Reserve Fund for Parity Electric Utility Obligations" below).

Rate Covenant Required By Prior First Lien Obligations and Prior Subordinate Lien Obligations

The City has agreed to establish rates and charges for the facilities and services of the Electric Light and Power System and the Water and Wastewater System to provide Gross Revenues in each Fiscal Year sufficient (i) to pay the Maintenance and Operating Expenses, (ii) to fund the reserves required for Prior First Lien Obligations, Prior Subordinate Lien Obligations, Separate Lien Obligations and other obligations or evidences of indebtedness payable only from and secured solely by a lien on and pledge of the combined Net Revenues of the Systems, and (iii) to produce Net Revenues (after satisfaction of the amount required in (ii) above) equal to at least (a) 1.25 times the annual principal and interest requirements (or other similar payments) for the then outstanding Prior First Lien Obligations and Separate Lien Obligations plus (b) 1.10 times the total annual principal and interest requirements (or other similar payments) for the then outstanding Prior Subordinate Lien Obligations and all other indebtedness, except Prior First Lien Obligations and Separate Lien Obligations, payable only from and secured solely by a lien on and pledge of the Net Revenues of either the Electric Light and Power System or the Water and Wastewater System, or both.

Rate Covenant Required by Master Ordinance

The City will fix, establish, maintain and collect such rates, charges and fees for electric power and energy and services furnished by the Electric Utility System and to the extent legally permissible, revise such rates, charges and fees to produce Gross Revenues each Fiscal Year sufficient: (i) to pay all current Operating Expenses; (ii) to produce Net Revenues, after (x) deducting amounts expended during the Fiscal Year from the Electric Utility System's Net Revenues for the payment of debt service requirements of the Prior First Lien Obligations and Prior Subordinate Lien Obligations and (y) taking into account ending fund balances in the System Fund to be carried forward in a Fiscal Year, equal to an amount sufficient to pay the annual debt service due and payable in such Fiscal Year of the then Outstanding Parity Electric Utility Obligations; and (iii) to pay after deducting the amounts determined in (i) and (ii) above, all other financial obligations of the Electric Utility System reasonably anticipated to be paid from Gross Revenues.

If the Net Revenues in any Fiscal Year are less than the aggregate amount specified above, the City shall promptly upon receipt of the annual audit for such Fiscal Year cause such rates, charges and fees to be revised and adjusted to comply with such rate covenant or obtain a written report from a Utility System Consultant, after a review and study of the operations of the Electric Utility System has been made, concluding that, in their opinion, the rates, charges and fees then in effect for the current Fiscal Year are sufficient or adjustments and revisions need to be made to such rates, charges and fees to comply with the rate covenant described in the immediately preceding paragraph and such adjustments and revisions to electric rates, charges and fees are promptly implemented and enacted in accordance with such Utility System Consultant's report. The City shall be deemed to be in compliance with the rate covenant described in the immediately preceding paragraph if either of the actions mentioned in the preceding sentence are undertaken and completed prior to the end of the Fiscal Year next following the Fiscal Year the deficiency in Net Revenues occurred.

Reserve Fund for Prior First Lien Obligations and Prior Subordinate Lien Obligations

A separate reserve fund has been established under the Prior Lien Ordinance for the benefit of the Prior First Lien Bonds and Prior Subordinate Lien Bonds. In 2002, the City obtained the consent of the Holders of at least 51% of the principal amount and Maturity Amount of the outstanding Prior First Lien Obligations and Prior Subordinate Lien Obligations to amend the provisions of the Prior Lien Ordinances relating to the Reserve Fund to allow for the funding of all or a part of the amount required to be maintained in the Reserve Fund (the "Required Reserve") with Financial Commitments (defined below) and change the Required Reserve to an amount equal to the average annual requirement (calculated on a calendar year basis) for the payment of principal of and interest (or other similar payments) on all outstanding Prior First Lien Obligations and Prior Subordinate Lien Obligations, as determined on (i) the date of the initial deposit of a Financial Commitment to the Reserve Fund or (ii) the date one or more rating agencies announces the rating of the insurance company or association providing the Financial Commitment for the Reserve Fund falls below the minimum requirement, whichever date is the last to occur. The term "Financial Commitments" means an irrevocable and unconditional policy of bond insurance or surety bond in full force and effect issued by an insurance company or association duly authorized to do business in the State of New York and the State of Texas and with financial strength rated in the highest rating category by Moody's Investors Service, Inc. ("Moody's"), Standard & Poor's Ratings Services, a Division of The McGraw-Hill Companies, Inc. ("S&P") and Fitch Ratings ("Fitch") and, if rated, by A.M. Best on the date the Financial Commitment is deposited to the credit of the Reserve Fund.

The amount on deposit to the credit of the Reserve Fund under the Prior Lien Ordinance as of February 1, 2008 is \$106,790,325.15 and such amount is funded with Financial Commitments issued by Financial Security Assurance Inc., a municipal bond insurance company having ratings in the highest respective rating category of Moody's, S&P and Fitch ("FSA"). The City may at any time substitute one or more Financial Commitments for the cash and securities deposited to the credit of the Reserve Fund, and following such substitution, the cash and securities released from the Reserve Fund shall be deposited to the credit of one or more special accounts maintained on the books and records of the City and expended only to pay, discharge and defease Prior First Lien Obligations and Prior Subordinate Lien Obligations in a manner that reduces the principal amount and Maturity Amount of outstanding Prior First Lien Obligations and Prior Subordinate Lien Obligations.

No Reserve Fund for Parity Electric Utility Obligations

The Master Ordinance does not provide for a Reserve Fund for the Parity Electric Utility Obligations. The Eighth Supplement, however, affirms that a Reserve Fund shall not be required to be established or maintained by the City for the payment of the Parity Electric Utility Obligations so long as the "Pledged Net Revenues" of the System for a Fiscal

Year (the Net Revenues of the System in a Fiscal Year remaining after deducting the amounts, if any, expended to pay the annual debt service requirements for Prior First Lien Obligations and Prior Subordinate Lien Obligations in such Fiscal Year) equal or exceed one hundred fifty per cent (150%) of the Annual Debt Service Requirements of the Parity Electric Utility Obligations due and payable in such Fiscal Year. If for any Fiscal Year such “Pledged Net Revenues” do not exceed 150% of the Annual Debt Service Requirements of the Parity Electric Utility Obligations, the City shall be obligated to establish and maintain on the books of the City a separate fund or account designated as the “Electric Utility System Revenue Obligation Reserve Fund” (the “Reserve Fund”). When a Reserve Fund is required to be established, the Required Reserve Amount to be accumulated and maintained in such Fund shall be determined and redetermined as follows:

- (i) ten per cent (10%) of the Maximum Debt Service Requirement for all Parity Electric Utility Obligations then Outstanding if the Pledged Net Revenues for the previous Fiscal Year were less than 150% of the annual Debt Service Requirement for such Fiscal Year, but greater than or equal to 140% of the annual Debt Service Requirement for such Fiscal Year;
- (i) twenty per cent (20%) of the Maximum Debt Service Requirement for all Parity Electric Utility Obligations then Outstanding if the Pledged Net Revenues for the previous Fiscal Year were less than 140% of the annual Debt Service Requirement for such Fiscal Year, but greater than or equal to 130% of the annual Debt Service Requirement for such Fiscal Year;
- (i) thirty per cent (30%) of the Maximum Debt Service Requirement for all Parity Electric Utility Obligations then Outstanding if the Pledged Net Revenues for the previous Fiscal Year were less than 130% of the annual Debt Service Requirement for such Fiscal Year, but greater than or equal to 120% of the annual Debt Service Requirement for such Fiscal Year;
- (i) forty per cent (40%) of the Maximum Debt Service Requirement for all Parity Electric Utility Obligations then Outstanding if the Pledged Net Revenues for the previous Fiscal Year were less than 120% of the annual Debt Service Requirement for such Fiscal Year, but greater than or equal to 110% of the annual Debt Service Requirement for such Fiscal Year;
- (i) fifty per cent (50%) of the Maximum Debt Service Requirement for all Parity Electric Utility Obligations then Outstanding if the Pledged Net Revenues for the previous Fiscal Year were less than 110% of the annual Debt Service Requirement for such Fiscal Year.

When a Reserve Fund is required, the City may deposit cash to such Fund or acquire and deposit a surety bond to provide the Required Reserve Amount or a combination of such cash and a surety bond. In funding such Required Reserve Amount, or to increase the Required Reserve Amount pursuant to a Supplement, the Required Reserve Amount or increase in the Required Reserve Amount, as applicable, may be funded in up to twelve (12) substantially equal consecutively monthly deposits commencing not later than the month following that receipt of audited financial statements for the System for the preceding Fiscal Year.

Issuance of Additional Prior First Lien Obligations and Prior Subordinate Lien Obligations Precluded

The Master Ordinance provides that no additional revenue obligations will be issued on parity with the Prior First Lien Obligations or the Prior Subordinate Lien Obligations.

Issuance of Parity Electric Utility Obligations

Under the Master Ordinance the City reserves and shall have the right and power to issue or incur Parity Electric Utility Obligations for any purpose authorized by law pursuant to the provisions of the Master Ordinance and any Supplement. The City may issue, incur, or otherwise become liable in respect of any Parity Electric Utility Obligations if a Designated Financial Officer shall certify in writing: (i) the City is in compliance with all covenants contained in the Master Ordinance and any Supplement, is not in default in the performance and observance of any of the terms, provisions and conditions in the Master Ordinance and any Supplement thereof, and the Funds and Accounts established for the payment and security of the Parity Electric Utility Obligations then Outstanding contain the amounts then required to be deposited therein or the proceeds of sale of the Parity Electric Utility Obligations then to be issued are to be used to cure any deficiency in the amounts on deposit to the credit of such Funds and Accounts, if any, and (ii) the Net

Revenues of the Electric Utility System, for the last completed Fiscal Year preceding the date of the then proposed Parity Electric Utility Obligations, or for any twelve consecutive calendar month period ending not more than ninety days prior to the date of the then proposed Parity Electric Utility Obligations and after deducting amounts expended from the Electric Utility System's Net Revenues during the last completed Fiscal Year for the payment of debt service requirements of the Prior First Lien Obligations and Prior Subordinate Lien Obligations, exceed one hundred ten percent (110%) of the maximum Annual Debt Service Requirement of the Parity Electric Utility Obligations to be Outstanding after giving effect to the Parity Electric Utility Obligations then being issued.

For purposes of clause (ii) in the preceding paragraph, if Parity Electric Utility Obligations are issued to refund less than all of the Parity Electric Utility Obligations then Outstanding, the required Designated Financial Officer's certificate described above shall give effect to the issuance of the proposed refunding Parity Electric Utility Obligations (and shall not give effect to the Parity Electric Utility Obligations being refunded following their cancellation or provision being made for their payment).

In making a determination of Net Revenues, the Designated Financial Officer may take into consideration a change in the rates and charges for services and facilities afforded by the Electric Utility System that became effective at least 30 days prior to the last day of the period for which Net Revenues are determined and, for purposes of satisfying the Net Revenues coverage test described above, make a pro forma determination of the Net Revenues of the Electric Utility System for the period of time covered by such certification based on such change in rates, charges and fees being in effect for the entire period covered.

Short-Term Parity Electric Utility Obligations

The City may issue or incur Parity Electric Utility Obligations issued in the form of commercial paper that matures by its terms, or that is renewable at the option of the City to a date, more than one year after the date of its issuance by the City. The terms and conditions pertaining to the issuance of Parity Electric Utility Obligations in the form of commercial paper, including, without limitation, the security, liquidity and reserves necessary to support such commercial paper obligations, shall be contained in a Supplement relating to their issuance.

Special Facilities Debt and Subordinated Debt

Special Facilities Debt and Subordinated Debt may be incurred by the City without limitation.

Credit Agreements

Payments to be made under a Credit Agreement may be treated as Parity Electric Utility Obligations if the governing body of the City makes a finding in the Supplement authorizing and approving the Credit Agreement that Gross Revenues will be sufficient to meet the obligations of the Electric Utility System, including sufficient Net Revenues to satisfy the Annual Debt Service Requirements of Parity Electric Utility Obligations then outstanding and the financial obligations of the City under the Credit Agreement, and such finding is supported by a certificate executed by a Designated Financial Officer of the City.

System Fund

The Master Ordinance recites that in accordance with the provisions of the ordinances authorizing the issuance of the Prior First Lien Obligations, Prior Subordinate Lien Obligations and the Commercial Paper Obligations, the City has created and there shall be maintained on the books of the City while the Parity Electric Utility Obligations are Outstanding a separate fund or account known and designated as the "Electric Light and Power System Fund" (the "Electric Fund" or "System Fund"). All funds deposited to the credit of the System Fund and disbursements from such Fund shall be recorded in the books and records of the City and moneys deposited to the credit of such Fund shall be in an account or fund maintained at an official depository of the City. The Gross Revenues of the Electric Utility System shall be deposited, as collected, to the credit of the System Fund and such Gross Revenues deposited to the credit of the System Fund shall be allocated, budgeted and appropriated to the extent required for the following uses and in the order of priority shown:

FIRST: To the payment of Operating Expenses, as defined herein or required by statute to be a first charge on and claim against the Gross Revenues.

SECOND: To the payment of the amounts required to be deposited in any special funds or accounts created for the payment and security of the Prior First Lien Obligations, including the amounts required to be deposited to the credit of the common reserve fund established for the Prior First Lien Obligations and Prior Subordinate Lien Obligations.

THIRD: Equally and ratably to the payment of the amounts required to be deposited to the credit of (i) the special fund created and established for the payment of principal of and interest on the Prior Subordinate Lien Obligations as the same becomes due and payable, and (ii) the special Funds and Accounts for the payment of the Parity Electric Utility Obligations.

FOURTH: To pay Subordinated Debt, including amounts for the payment of the Commercial Paper Obligations, and the amounts, if any, due and payable under any credit agreement executed in connection therewith.

Any Net Revenues remaining in the System Fund after satisfying the foregoing payments, or making adequate and sufficient provision for the payment thereof, may be appropriated and used for any other City purpose now or hereafter permitted by law.

BOND INSURANCE

The following information is not complete and reference is made to APPENDIX F for a specimen of the financial guaranty insurance policy (the "Policy") of Assured Guaranty Corp. ("Assured Guaranty").

The Insurance Policy

Assured Guaranty has made a commitment to issue the Policy relating to the Bonds, effective as of the date of issuance of the Bonds. Under the terms of the Policy, Assured Guaranty will unconditionally and irrevocably guarantee to pay that portion of principal of and interest on the Bonds that becomes Due for Payment but shall be unpaid by reason of Nonpayment (the "Insured Payments"). Insured Payments shall not include any additional amounts owing by the City solely as a result of the failure by the Paying Agent/Registrar to pay such amount when due and payable, including without limitation any such additional amounts as may be attributable to penalties or to interest accruing at a default rate, to amounts payable in respect of indemnification, or to any other additional amounts payable by the Paying Agent/Registrar by reason of such failure. The Policy is non-cancelable for any reason, including without limitation the non-payment of premium.

"Due for Payment" means, when referring to the principal of the Bonds, the stated maturity date thereof, or the date on which such Bonds shall have been duly called for mandatory sinking fund redemption, and does not refer to any earlier date on which payment is due by reason of a call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity (unless Assured Guaranty in its sole discretion elects to make any principal payment, in whole or in part, on such earlier date) and, when referring to interest on such Bonds, means the stated dates for payment of interest.

"Nonpayment" means the failure of the City to have provided sufficient funds to the Paying Agent/Registrar for payment in full of all principal and interest Due for Payment on the Bonds. It is further understood that the term Nonpayment in respect of a Bond also includes any amount previously distributed to the holder of such Bond in respect of any Insured Payment by or on behalf of the City, which amount has been recovered from such holder pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court having competent jurisdiction that such payment constitutes an avoidable preference with respect to such holder. Nonpayment does not include nonpayment of principal or interest caused by the failure of the Paying Agent/Registrar, to pay such amount when due and payable.

Assured Guaranty will pay each portion of an Insured Payment that is Due for Payment and unpaid by reason of Nonpayment, on the later to occur of (i) the date such principal or interest becomes Due for Payment, or (ii) the business day next following the day on which Assured Guaranty shall have received a completed notice of Nonpayment therefor in accordance with the terms of the Policy.

Assured Guaranty shall be fully subrogated to the rights of the holders of the Bonds to receive payments in respect of the Insured Payments to the extent of any payment by Assured Guaranty under the Policy.

The Policy is not covered by any insurance or guaranty fund established under New York, California, Connecticut or Florida insurance law.

The Insurer

Assured Guaranty is a Maryland-domiciled insurance company regulated by the Maryland Insurance Administration and licensed to conduct financial guaranty insurance business in all fifty states of the United States, the District of Columbia and Puerto Rico. Assured Guaranty commenced operations in 1988. Assured Guaranty is a wholly owned, indirect subsidiary of Assured Guaranty Ltd. (“AGL”), a Bermuda-based holding company whose shares are publicly traded and are listed on the New York Stock Exchange under the symbol “AGO.” AGL, through its operating subsidiaries, provides credit enhancement products to the U.S. and global public finance, structured finance and mortgage markets. Neither AGL nor any of its shareholders is obligated to pay any debts of Assured Guaranty or any claims under any insurance policy issued by Assured Guaranty.

Assured Guaranty is subject to insurance laws and regulations in Maryland and in New York (and in other jurisdictions in which it is licensed) that, among other things, (i) limit Assured Guaranty’s business to financial guaranty insurance and related lines, (ii) prescribe minimum solvency requirements, including capital and surplus requirements, (iii) limit classes and concentrations of investments, (iv) regulate the amount of both the aggregate and individual risks that may be insured, (v) limit the payment of dividends by Assured Guaranty, (vi) require the maintenance of contingency reserves, and (vii) govern changes in control and transactions among affiliates. Certain state laws to which Assured Guaranty is subject also require the approval of policy rates and forms.

Assured Guaranty’s financial strength is rated “AAA” by Standard & Poor’s, a division of The McGraw-Hill Companies, Inc. (“S&P”), “AAA” by Fitch, Inc. (“Fitch”) and “Aaa” by Moody’s Investors Service, Inc. (“Moody’s”). Each rating of Assured Guaranty should be evaluated independently. An explanation of the significance of the above ratings may be obtained from the applicable rating agency. The above ratings are not recommendations to buy, sell or hold any security, and such ratings are subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of any security guaranteed by Assured Guaranty. Assured Guaranty does not guaranty the market price of the securities it guarantees, nor does it guaranty that the ratings on such securities will not be revised or withdrawn.

Capitalization of Assured Guaranty Corp.

As of December 31, 2007, Assured Guaranty had total admitted assets of \$1,361,538,502 (unaudited), total liabilities of \$961,967,238 (unaudited), total surplus of \$399,571,264 (unaudited) and total statutory capital (surplus plus contingency reserves) of \$982,045,695 (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of December 31, 2006, Assured Guaranty had total admitted assets of \$1,248,270,663 (audited), total liabilities of \$962,316,898 (audited), total surplus of \$285,953,765 (audited) and total statutory capital (surplus plus contingency reserves) of \$916,827,559 (audited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. The Maryland Insurance Administration recognizes only statutory accounting practices for determining and reporting the financial condition and results of operations of an insurance company, for determining its solvency under the Maryland Insurance Code, and for determining whether its financial condition warrants the payment of a dividend to its stockholders. No consideration is given by the Maryland Insurance Administration to financial statements prepared in accordance with accounting principles generally accepted in the United States (“GAAP”) in making such determinations.

Incorporation of Certain Documents by Reference

The portions of the following documents relating to Assured Guaranty are hereby incorporated by reference into this Official Statement and shall be deemed to be a part hereof:

- The Annual Report on Form 10-K of AGL for the fiscal year ended December 31, 2007 (which was filed by AGL with the Securities and Exchange Commission (the “SEC”) on February 29, 2008); and
- The Current Reports on Form 8-K filed by AGL with the SEC, as they relate to Assured Guaranty.

All consolidated financial statements of Assured Guaranty and all other information relating to Assured Guaranty

included in documents filed by AGL with the SEC pursuant to Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934, as amended, subsequent to the date of this Official Statement and prior to the termination of the offering of the Bonds shall be deemed to be incorporated by reference into this Official Statement and to be a part hereof from the respective dates of filing such consolidated financial statements.

Any statement contained in a document incorporated herein by reference or contained herein under the heading "Bond Insurance-The Insurer" shall be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any subsequently filed document which is incorporated by reference herein also modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

Copies of the consolidated financial statements of Assured Guaranty incorporated by reference herein and of the statutory financial statements filed by Assured Guaranty with the Maryland Insurance Administration are available upon request by contacting Assured Guaranty at 1325 Avenue of the Americas, New York, New York 10019 or by calling Assured Guaranty at (212) 974-0100. In addition, the information regarding Assured Guaranty that is incorporated by reference in this Official Statement that has been filed by AGL with the SEC is available to the public over the Internet at the SEC's web site at <http://www.sec.gov> and at AGL's web site at <http://www.assuredguaranty.com>, from the SEC's Public Reference Room at 450 Fifth Street, N.W., Room 1024, Washington, D.C. 20549, and at the office of the New York Stock Exchange at 20 Broad Street, New York, New York 10005.

Assured Guaranty makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, Assured Guaranty has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding Assured Guaranty supplied by Assured Guaranty and presented under the heading "Bond Insurance".

DESCRIPTION OF THE BONDS

The Bonds will be dated March 1, 2008, and interest will accrue from their dated date and will be payable on each May 15 and November 15, commencing November 15, 2008, until maturity or prior redemption. The Bonds will mature on November 15 in the years and in the principal amounts set forth on the inside cover page hereof. Principal of the Bonds is payable at maturity, subject only to prior redemption as is hereinafter defined.

Optional Redemption

The Bonds are subject to redemption prior to maturity at the option of the City, in whole or in part at any time, at a redemption price equal to the greater of (i) 100% of the principal amount of the Bonds then being redeemed or (ii) the sum of the present values of the remaining scheduled payments of principal and interest on such Bonds discounted to the date of redemption on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Yield (defined below) plus 12.5 basis points, subject to the provisions of Texas Government Code Chapter 1204, as amended, in either case plus accrued interest to the date of redemption. "Treasury Yield" means, with respect to any redemption date, the rate per annum equal to the semi-annual equivalent yield to maturity of the Comparable Treasury Issue (defined below), assuming a price for the Comparable Treasury Issue (defined below and expressed as a percentage of its principal amount) equal to the Comparable Treasury Price (defined below) for such redemption date. "Comparable Treasury Issue" means the United States Treasury security selected by an Independent Investment Banker (defined below) as having a maturity comparable to the remaining term of the Bonds that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of the Bonds. "Independent Investment Banker" means Banc of America Securities LLC or, if such firm is unwilling or unable to select the Comparable Treasury Issue, an independent investment banking institution of national standing appointed by the City. "Comparable Treasury Price" means, with respect to any redemption date, (i) the average of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) on the third business day preceding such redemption date, as set forth in the daily statistical release (or any successor release) published by the Federal Reserve Bank of New York and designated "Composite 3:30 p.m. Quotations for U.S. Government Securities LLC" or (ii) if such release (or any successor release) is not published or does not contain such prices on such business day, the average of the Reference Treasury Dealer Quotations (defined below) for such redemption date. "Reference Treasury Dealer Quotations" means, with respect to the Reference Treasury Dealer (defined below) and any redemption date, the average, as determined by

the Paying Agent/Registrar, of the bid and asked prices of the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Paying Agent/Registrar by the Reference Treasury Dealer at 5:00 p.m. on the third business day preceding such redemption date. "Reference Treasury Dealer" means Banc of America Securities LLC and its successors and any other primary U.S. Government securities dealer in New York City appointed by the City. The Paying Agent/Registrar will calculate the redemption price determined as described above and such redemption price will be final and conclusive for all purposes.

Mandatory Redemption

The Bonds maturing on November 15 in each of the years 2017, 2019 and 2032 (the "Term Bonds") are subject to mandatory redemption prior to maturity in part at random, by lot or other customary method selected by the Paying Agent/Registrar, at 100% of the principal amount thereof plus accrued interest to the date of redemption on the dates, in the years and principal amounts as follows:

<u>Bonds due November 15, 2017</u>		<u>Bonds due November 15, 2019</u>	
<u>Redemption Date</u> <u>(November 15)</u>	<u>Amount</u>	<u>Redemption Date</u> <u>(November 15)</u>	<u>Amount</u>
2014	\$1,315,000	2018	\$1,620,000
2015	1,385,000	2019 (a)	1,705,000
2016	1,460,000		
2017 (a)	1,540,000		

<u>Bonds due November 15, 2032</u>	
<u>Redemption Date</u> <u>(November 15)</u>	<u>Amount</u>
2020	\$1,805,000
2021	1,925,000
2022	2,050,000
2023	2,180,000
2024	2,320,000
2025	2,470,000
2026	2,630,000
2027	2,800,000
2028	2,985,000
2029	3,175,000
2030	3,380,000
2031	3,600,000
2032 (a)	3,830,000

(a) Maturity.

The principal amount of the Term Bonds of a stated maturity required to be redeemed pursuant to the operation of such mandatory redemption provisions may be reduced, at the option of the City, by the principal amount of Term Bonds of like maturity which, at least 50 days prior to the mandatory redemption date, (1) shall have been acquired by the City at a price not exceeding the principal amount of such Term Bonds plus accrued interest to the date of purchase thereof, and delivered to the Paying Agent/Registrar for cancellation, or (2) shall have been redeemed pursuant to the optional redemption provisions and not theretofore credited against a mandatory redemption requirement.

Notice of Redemption

Not less than thirty (30) days prior to a redemption date for the Bonds, a notice of redemption shall be sent by United States mail, first-class postage prepaid, in the name of the City and at the City's expense, to the registered owner of each Bond to be redeemed in whole or in part at the address of the bondholders appearing on the registration book of the Paying Agent/Registrar at the close of business on the business day next preceding the date of mailing such notice, and any notice of redemption so mailed shall be conclusively presumed to have been duly given irrespective of whether received by the bondholder.

Defeasance

The City may defease and discharge its obligation to the Holders of any or all of the Bonds to pay the principal of, redemption premium, and interest thereon by depositing with the Paying Agent/Registrar, or other authorized escrow agent, in trust: (a) cash in an amount equal to the principal amount of, redemption premium, and interest to become due on the Bonds to the date of maturity or prior redemption, or (b) Government Obligations, consisting of (i) direct non-callable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America; (ii) non-callable obligations of an agency or instrumentality of the United States, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and are rated as to investment quality by a nationally recognized investment rating firm no less than “AAA” or its equivalent; or (iii) non-callable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date of acquisition by the City are rated as to investment quality by a nationally recognized investment rating firm not less than “AAA” or its equivalent. Government Obligations deposited in trust to defease the Bonds are required to be affirmed by an independent public accounting firm of national reputation to mature as to principal and interest in such amounts and at such times as will insure the availability, without reinvestment, of sufficient money to pay the principal of, redemption premium, and interest on such Bonds.

Paying Agent/Registrar

The initial Paying Agent/Registrar for the Bonds is U.S. Bank National Association, Houston, Texas. The City retains the right to replace the Paying Agent/Registrar. Upon any change in the Paying Agent/Registrar for the Bonds, the City will promptly cause written notice thereof to be given to each registered owner of the Bonds, which notice will also give the address of the new Paying Agent/Registrar. Any Paying Agent/Registrar selected by the City shall be a bank, trust company, financial institution or other entity duly qualified and legally authorized to act as and perform the duties of Paying Agent/Registrar for the Bonds.

Interest on the Bonds shall be paid to the registered owners appearing on the registration books of the Paying Agent/Registrar at the close of business on the Record Date (hereinafter defined), and such interest shall be paid (i) by check sent United States Mail, first-class postage prepaid, to the address of the registered owner recorded in the registration books of the Paying Agent/Registrar or (ii) by such other method, acceptable to the Paying Agent/Registrar requested by, and at the risk and expense of, the registered owner. Principal of the Bonds will be paid to the registered owner at their stated maturity upon their presentation to designated payment/transfer office of the Paying Agent/Registrar. If a date for making a payment on the Bonds, the taking any action or the mailing of any notice by the Paying Agent Registrar shall be a Saturday, Sunday, a legal holiday, or a day when banking institutions in the city where the designated corporate office of the Paying Agent/Registrar is located are authorized by law or executive order to close, then the date for such payment, taking action or mailing of a notice shall be the next succeeding day which is not such a Saturday, Sunday, legal holiday, or day when banking institutions are authorized to close; and a payment, action or mailing on such date shall have the same force and effect as if made on the original date the payment was due or the action was required to be taken or the mailing was required to be made.

Record Date for Interest Payment

The record date (“Record Date”) for the interest payable on any interest payment date with respect to the Bonds means the close of business on the last business day of the month preceding each interest payment date. In the event of a non-payment of interest on the Bonds on one or more maturities on a scheduled payment date, and for 30 days thereafter, a new record date for such interest payment for such maturity or maturities (a “Special Record Date”) will be established by the Paying Agent/Registrar, if any, when funds for the payment of such interest have been received from the City. Notice of the Special Record Date and of the scheduled payment date of the past due interest (the “Special Payment Date” which shall be 15 days after the Special Record Date) shall be sent at least five business days prior to the Special Record Date by United States mail, first-class postage prepaid, to the address of each registered owner of a bond of such maturity or maturities appearing on the books of the Paying Agent/Registrar at the close of business on the last business day next preceding the date of mailing of such notice.

Transfer, Exchange and Registration

In the event the Book-Entry-Only System should be discontinued, printed certificates delivered to the Holders and thereafter the Bonds may be transferred and assigned on the registration books of the Paying Agent/Registrar only

upon presentation and surrender thereof to the Paying Agent/Registrar, and such registration shall be at the expense of the City, except for any tax or other governmental charge with respect thereto. A Bond may be assigned by execution of an assignment form on the Bonds or by other instruments of transfer and assignment acceptable to the Paying Agent/Registrar. A new Bond or Bonds of like series and aggregate principal amount will be delivered by the Paying Agent/Registrar to the last assignee (the new registered owner) in exchange for such transferred and assigned Bonds not more than three days after receipt of the Bonds to be transferred in proper form. Such new Bond or Bonds must be in the denomination of \$5,000 or any integral multiple thereof within a maturity.

Bondholders Remedies

Neither the Master Ordinance nor the Eighth Supplement specify events of default with respect to the Bonds. If the City defaults in the payment of principal, interest or redemption price on the Bonds when due, or the City defaults in the observation or performance of any other covenants, conditions, or obligations set forth in either the Master Ordinance or the Eighth Supplement, the registered owners may seek a writ of mandamus to compel the City or City officials to carry out the legally imposed duties with respect to the Bonds if there is no other available remedy at law to compel performance of the Bonds, the Master Ordinance or the Eighth Supplement authorizing the issuance of the Bonds, and the City's obligations are not uncertain or disputed. The issuance of a writ of mandamus is controlled by equitable principles, and rests with the discretion of the courts, but may not be arbitrarily refused. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. Neither the Master Ordinance nor the Eighth Supplement provide for the appointment of a trustee to represent the interest of the holders of the Bonds upon any failure of the City to perform in accordance with the terms of the Eighth Supplement, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be finance by, the registered owners. On June 30, 2006, the Texas Supreme Court ruled in *Tooke v. City of Mexia*, 197 S.W.3d 325 (Tex. 2006) that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. Because it is unclear whether the Texas legislature has effectively waived the City's sovereign immunity from a suit for money damages, holders of the Bonds may not be able to bring such a suit against the City for breach of the Bonds or covenants contained in either the Master Ordinance or the Eighth Supplement. Even if a judgment against the City could be obtained, it could not be enforced by direct levy and execution against the City's property.

Furthermore, the City is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenue, such provision is subject to judicial construction. Chapter 9 also includes an automatic stay provision that would prohibit, with Bankruptcy Court approval, the prosecution of any other legal action by creditors or holders of the Bonds of an entity which has sought protection under Chapter 9. Therefore, should the City avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could required that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Bonds are qualified with respect to the customary rights of debtors relative to their creditors.

For a more detailed explanation of the various covenants and agreements with the Holders of the Bonds, including provisions for amendments to the Master Ordinance and any supplements thereto, and defeasance of the Bonds, see APPENDIX C attached hereto.

BOOK-ENTRY-ONLY SYSTEM

DTC will act as securities depository for the Bonds (the "Securities"). The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Security certificate will be issued for each maturity of the Securities, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and

money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, FICC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: "AAA." The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC's records. The ownership interest of each actual purchaser of each Security ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Securities are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Securities, except in the event that use of the book-entry system for the Securities is discontinued.

To facilitate subsequent transfers, all Securities deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Securities with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Securities; DTC's records reflect only the identity of the Direct Participants to whose accounts such Securities are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Securities may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Securities, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of Securities may wish to ascertain that the nominee holding the Securities for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Securities within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Securities unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Securities will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the Paying Agent/Registrar, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial

Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in “street name,” and will be the responsibility of such Participant and not of DTC [nor its nominee], the Paying Agent/Registrar, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Principal and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or the Paying Agent/Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Securities at any time by giving reasonable notice to the City or the Paying Agent/Registrar. Under such circumstances, in the event that a successor depository is not obtained, Security certificates are required to be printed and delivered.

The City may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Security certificates will be printed and delivered.

The information in this section concerning DTC and DTC’s book-entry-only system has been obtained from sources that the City believes to be reliable, but the City takes no responsibility for the accuracy thereof.

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THE SYSTEMS

The City owns and operates an Electric Utility System (also referred to herein as “Austin Energy”) and a Water and Wastewater System (also referred to herein as the “Water and Wastewater Utility”) which provide the City, adjoining areas of Travis County and certain adjacent areas of Williamson County with electric, water and wastewater services. The City owns all the facilities of the Water and Wastewater System. The City jointly participates with other electric utilities in the ownership of coal-fired electric generation facilities and a nuclear powered electric generation facility. Additionally, the City individually owns gas/oil-fired electric generation facilities, which are available to meet system demand. The Electric Utility System had approximately 1,642 full-time regular employees as of September 30, 2007. The Water and Wastewater System had approximately 1,033 full-time regular employees as of the same date.

“AUSTIN ENERGY”

Management

<u>Name</u>	<u>Title</u>	<u>Length of Service with City*</u>
Roger Duncan	General Manager	18 Years
Michael McCluskey	Deputy General Manager	21 Years
Elaine Hart, CPA	Senior Vice President, Finance and Corporate Services	19 Years**
Chris Kirksey	Senior Vice President, Power Production	22 Years
Cheryl Mele	Senior Vice President, Electric Service Delivery	16 Years
Kerry Overton	Senior Vice President, Customer Care	8 Years

* As of January 31, 2008.

**Length of service not continuous.

Service Area

The service area for Austin Energy was established by the Public Utility Commission of Texas (“PUCT”) pursuant to a certificate of convenience and necessity on April 3, 1978. The City’s service area encompasses 206.41 square miles within the City itself and 230.65 square miles of surrounding Travis and Williamson Counties. The establishment of such a service area entitles Austin Energy to provide electric service within this area. As presently constituted, the City’s service area overlaps with approximately 11 square miles of the service area of TXU Electric Delivery in Travis and Williamson Counties.

The City may not extend the service area for Austin Energy to an area receiving similar utility service from another utility service provider without first obtaining a certificate of convenience and necessity from the PUCT. The City has no plans to expand its present service area.

Customer Base

Average Monthly Number of Customers

<u>As of September 30, 2007</u>	<u>Average Monthly Number of Customers</u>	<u>Percent</u>
Residential	345,197	88.83%
Commercial	41,825	10.76%
Industrial	75	0.02%
Public Street & Highway	4	0.00%
Sales to Governmental Authorities	<u>1,519</u>	<u>0.39%</u>
Total Service Area Customers	<u>388,620</u>	<u>100.00%</u>

DESCRIPTION OF PHYSICAL PROPERTY

Generation

The City either owns or has an ownership interest in a diverse mix of generation sources, including coal, nuclear and natural gas facilities. In addition, Austin Energy has renewable energy installations or contracts for purchased power from wind and landfill methane projects. Generation capacity is adequate to meet native load.

Generation – TABLE ONE

The present generating facilities, or interest of Austin Energy therein, are as follows.

<u>Unit</u>	<u>Year Installed</u>	<u>Nameplate Rating (MW)</u>	<u>Fuel</u>
Fayette Power Project			
Unit No. 1	1979	285.0	Coal
Unit No. 2	1980	285.0	Coal
Decker Power Station			
Unit No. 1	1970	325.0	Gas/No. 2 oil backup
Unit No. 2	1977	405.0	Gas or Nos. 1 through 5 oil
Gas Turbines	1988	200.0	Gas/No. 1 oil backup
Sand Hill Energy Center			
Gas Turbines	2001	180.0	Gas
Combined Cycle	2004	300.0	Gas
Domain Combined Heat & Power	2004	4.5	Gas
FM 812 Landfill	2004	.2	Landfill Methane
RMEC CHP (Dell Children’s Hospital)	2006	4.6	Gas
South Texas Project Electric Generating Station			
Unit No. 1	1988	200.0	Nuclear
Unit No. 2	1989	<u>200.0</u>	Nuclear
Total Capacity owned by Austin Energy		2,389.3	
Purchased Power (1):			
LCRA Texas Wind Contract	1995	10.0	Wind
FPL Energy Upton Wind I, LP.	1999-2001	76.7	Wind
RES North America Sweetwater Wind	2005	128.0	Wind
Whirlwind Energy LLC	2007	60.0	Wind
Gas Recovery System, Inc	1994-2003	4.0	Landfill Methane
Ecogas Inc. and Energy Developments, Inc	2002-2003	<u>7.8</u>	Landfill Methane
Total Capability including Purchase Power		2,675.8	

(1) The City has also signed contracts to purchase electric energy to be provided in future years. See “CUSTOMER STATISTICS - Power and Energy Purchase Contracts”.

See “Generation and Use Data - TABLE FOUR”, “System Peak Demand” for more information on peak demand and generation capacity. Generation capacity is adequate to meet native load. Based on historical availability patterns, the Electric Reliability Council of Texas (“ERCOT”) expects that only 8.7% of wind facilities’ nameplate ratings will be included in capacity requirements to meet system peak demand.

Fuel Supply

The cost and availability of fuel are two of the factors that affect Austin Energy’s finances. Fuel mix percentages (based on generation) are provided below.

Percent of Power by Fuel Type

<u>% Generation</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Coal	40.5%	37.8%	34.6%	29.7%	32.2%
Natural Gas & Oil	21.4%	20.2%	25.2%	27.9%	27.3%
Nuclear	19.4%	31.2%	27.9%	27.3%	25.8%
Renewable Energy	2.6%	2.6%	4.3%	5.7%	5.1%
Purchased Power	<u>16.1%</u>	<u>8.2%</u>	<u>8.0%</u>	<u>9.4%</u>	<u>9.6%</u>
Total	100.0%	100.0%	100.0%	100.0%	100.0%

Fuel Type

Coal . . . Coal supplies are procured through a portfolio of contracts with transportation specifically managed to minimize cost. Typically several months of coal inventory are maintained to protect against disruptions. During 2005, coal inventory levels fell below typical levels as a result of poor rail service; a problem experienced by coal burning utilities across the U.S. Austin Energy took several steps to mitigate delivery shortfalls, including power purchases, increased production from natural gas units and truck based deliveries of imported coal. In 2007 new rail agreements were signed. These agreements will improve delivery service but at a higher cost.

Natural Gas and Oil . . . Austin Energy utilizes a portfolio of gas contracts and multiple pipelines in an effort to diversify risk and minimize cost. In case of a curtailment in natural gas supplies, fuel oil may be used to replace the natural gas shortfall at Decker Power Station. Austin Energy maintains an oil reserve equivalent to several days of operation.

Nuclear . . . The South Texas Project Nuclear Operating Company, a Texas non-profit corporation (“STPNOC”), on behalf of the owners of the South Texas Project (see “South Texas Project Ownership” below), is responsible for the supply of nuclear fuel and for the disposal of spent fuel for the South Texas Project Electric Generation Station (“STP”). Sharp increases in uranium prices and a number of industry-wide challenges to security of supply in the past few years have led to decisions to enter into long term supply contracts and to carry a full reload of natural uranium hexafluoride (“NUF6”).

Fayette Power Project

The Fayette Power Project is a joint power project owned by the Lower Colorado River Authority (“LCRA”) (hereinafter defined) and Austin Energy. Austin Energy is a 50% owner in Units 1 & 2 of the Fayette Power Project. A third unit is also at the facility, but it is 100% owned by LCRA. Pursuant to the participation agreement, LCRA was appointed Project Manager and a Management Committee was established, supported by four Subcommittees (Environmental, Fiscal/Budget, Fuels and Technical) composed of two representatives from each participant to direct the operation of the project. The Fayette Power Project is located 8½ miles east of LaGrange, Texas, which is approximately 65 miles southeast of the City.

The Clean Air Act and other regulations require all existing coal plants to reduce the levels of SO2 and NOX by 2010. As a result, the Fayette Power Project is in the process of installing scrubbers on Units 1 & 2. It is estimated that the project cost will be in the range of \$125-150 million for Austin Energy’s share. The Design Phase was completed in February of 2006. Procurement of equipment and Phase II Engineering and Construction are currently underway. Project completion is scheduled for April 30, 2010.

Austin Energy Gas Generation Facilities

All four (4) of Austin Energy’s gas generation facilities are located in Austin Energy’s service territory. Austin Energy began commercial operation of a 300 MW combined cycle gas-fired electric generating facility at the Sand Hill Energy Center on September 1, 2004. The “one-on-one” combined cycle unit consists of one (1) “F” class combustion turbine (“CT”), one (1) natural circulation, duct fired, heat recovery steam generator (“HRSG”), one (1) steam turbine and balance of plant equipment and controls. The unit was designed so that a future “F” technology CT/HRSG train may be added to achieve a nominal rating of 500 MW for this power block. The facility was funded with cash from operations.

In July 2006, Austin Energy added electric generation at a central utility plant located at the redevelopment site of the former Robert Mueller Airport. The plant is a tri-generation facility producing steam and chilled water for adjacent buildings and electric power for the electric grid. The electric power is produced by a Mercury 50 gas turbine. The nameplate rating at ISO conditions is 4.6 MW. The gas turbine exhaust passes through a heat recovery steam generator producing steam for use by an adjoining hospital and/or in an absorption chiller. A 1.5 MW standby diesel generator gives the plant “Black Start” capability.

South Texas Project Electric Generation Station (“STP”)

STP is a two-unit pressurized water reactor nuclear power plant, each unit nominally rated to produce 1,281.25 MW, located on a 12,220 acre site in Matagorda County, Texas, near the Texas Gulf Coast, approximately 200 miles southeast of the City.

South Texas Project Ownership

<u>Participants</u>	<u>Ownership %</u>	<u>Nominal MW Output</u>
City of Austin – Austin Energy	16.0	410.0
NRG South Texas LP	44.0	1,127.5
CPS Energy	<u>40.0</u>	<u>1,025.0</u>
Total	100.0	2,562.5

STP is operated by STPNOC, financed and controlled by the owners pursuant to an operating agreement among the owners and STPNOC. Currently, a four-member board of directors governs the STPNOC, with each owner appointing one member to serve. The fourth member is the STPNOC’s chief executive officer and president. All costs and generation output continue to be shared in proportion to each participant’s ownership interest.

STP Units 1 and 2 each have a 40-year Nuclear Regulatory Commission (“NRC”) license that expires in 2027 and 2028, respectively. No firm decision has been made with respect to license renewal; however, under NRC regulations the STP owners can request a 20-year license renewal.

NRG South Texas LP has applied for an expansion at STP to include Units 3 & 4 at the STP site. While it is unknown whether this application for expansion will be approved, Austin Energy recommended and City Council resolved to not participate in this proposed expansion.

Five-Year South Texas Project Capacity Factor

For the calendar year ended December 31, 2007, the STP capacity factor for Unit 1 was 107.7%, and for Unit 2 the capacity factor was 94.4%, resulting in a total capacity factor of 101.5%. Low Pressure Upgrade turbines were completed in 2007. The replacement resulted in an additional 136.9 MW of capacity, of which Austin Energy’s share is 21.9 MW. A scheduled major capital project will be the replacement of the reactor vessel heads in 2008 and 2010. This is a proactive move to eliminate reactor head corrosion issues found throughout the industry and reported at other facilities. This project will be performed during regular scheduled refueling outages and the cost of the project is estimated to be in the range of \$100 million. Austin Energy’s share of this total will be approximately \$16 million, and is anticipated to be funded from current revenue.

CUSTOMER RATES

Retail Service Rates

The City’s retail service rates are regulated by the City Council. Ratepayers can appeal rate changes to the PUCT under section 33.101 of the Public Utility Regulatory Act (Texas Utilities Code, Chapter 33, as amended, herein defined as “PURA”) by the filing of a petition with the PUCT containing the requisite number of valid signatures from residential ratepayers who take service outside the City’s corporate limits.

The Texas courts have held that the PUCT may apply the same ratemaking standards to the City as are applied to utilities over which the PUCT has original jurisdiction. Austin Energy has not filed any requests with the City Council to change base rates since 1994. In December 1996, the Austin City Council approved changes to offer customers more

choices, although the existing base electric rates did not change. TABLE THREE shows the current Electric Utility System rates by customer class.

Fuel Adjustment Clause

The City assesses an annually updated Fuel Adjustment Clause charge based on a formula designed to recover the actual cost of fuel, purchased power, and wholesale fees and charges to meet the City's service area obligations. The intent of the fuel formula is to avoid any over or under recovery of costs associated with fuel.

Typical Residential Electric Bills of Seven Largest Texas Cities

<u>City</u>	<u>Electric Bill*</u>
San Antonio	\$ 76.97
AUSTIN	91.51
El Paso	123.29
Dallas/Fort Worth	138.63
Houston	149.27
Corpus Christi	154.38

*Average Residential Bill for 1,000 KWh during the period October 2006 – September 2007 including fuel costs. The cities shown, other than Austin and San Antonio, are served by investor owned utilities. Source: Public Utility Commission of Texas and powertochoose.org.

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CUSTOMER STATISTICS

TABLE TWO shows service area billed customer sales since the year ended September 30, 2003. The revenue per year varies in large degree due to the price of fuel which is passed through to customers in the fuel adjustment clause as stated above. MWH sales variances are due to a combination of customer growth and weather.

Five Year Electric Customer Statistics – TABLE TWO

	Fiscal Year Ended September 30				
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
<u>Revenue (000's)</u>					
Residential	\$ 328,704	\$ 299,107	\$ 348,281	\$ 387,540	\$ 356,143
Commercial	318,258	301,151	335,859	367,017	365,991
Industrial	82,683	77,497	93,448	108,491	113,248
Public Street & Highway	9,417	7,805	7,578	8,128	8,106
Sales to Government Authorities	<u>71,786</u>	<u>65,947</u>	<u>74,110</u>	<u>80,334</u>	<u>76,358</u>
Total	\$ 810,850	\$ 751,505	\$ 859,278	\$ 951,510	\$ 918,846
<u>MWH</u>					
Residential	3,730,629	3,605,111	3,879,940	4,079,909	3,908,318
Commercial	3,982,273	4,013,463	4,195,212	4,287,176	4,350,912
Industrial	1,496,590	1,536,813	1,662,458	1,779,333	1,930,289
Public Street & Highway	47,635	48,177	46,366	46,873	47,230
Sales to Government Authorities	<u>1,064,271</u>	<u>1,058,566</u>	<u>1,081,420</u>	<u>1,103,589</u>	<u>1,088,320</u>
Total	10,321,398	10,262,130	10,865,396	11,296,880	11,325,069
<u>Average Monthly Number of Customers</u>					
Residential	320,710	325,905	331,490	338,184	345,197
Commercial	37,317	38,414	39,691	40,934	41,825
Industrial	67	65	68	75	75
Public Street & Highway	4	4	4	4	4
Sales to Government Authorities	<u>1,428</u>	<u>1,486</u>	<u>1,482</u>	<u>1,501</u>	<u>1,519</u>
Total	359,526	365,874	372,735	380,698	388,620
<u>Average Monthly KWH per Customer</u>					
Residential	969	922	975	1,005	943
Commercial	8,893	8,707	8,808	8,728	8,669
Industrial	1,861,430	1,970,273	2,037,325	1,974,842	2,135,275
Public Street & Highway	992,394	1,003,687	965,967	976,519	983,969
Sales to Government Authorities	62,107	59,403	60,809	61,283	59,712
<u>Average Monthly Bill per Customer</u>					
Residential	\$ 85.41	\$ 76.48	\$ 87.55	\$ 95.30	\$ 85.98
Commercial	710.71	653.30	705.15	747.17	729.21
Industrial	102,840.01	99,354.79	114,519.75	120,411.70	125,274.28
Public Street & Highway	196,184.42	162,609.10	157,883.58	169,328.09	168,883.61
Sales to Government Authorities	4,189.22	3,700.70	4,167.25	4,460.99	4,134.63
<u>Average Revenues per KWH</u>					
Residential	\$0.08811	\$0.08297	\$ 0.08976	\$0.09499	\$0.09112
Commercial	0.07992	0.07504	0.08006	0.08561	0.08412
Industrial	0.05525	0.05043	0.05621	0.06097	0.05867
Public Street & Highway	0.19769	0.16201	0.16345	0.17340	0.17164
Sales to Government Authorities	0.06745	0.06230	0.06853	0.07279	0.06924

Source: Austin Energy.

Electric Rates – TABLE THREE

The following electric rates were effective March 17, 1997 by Ordinance 970306-P (1).

Customer Class	Fuel Adjustment Clause (2)	Customer Charge	Energy Charge	
			Winter	Summer
Residential Service (E01)	All kWh	\$6.00	November – April \$.0602 All kWh Above 500 kWh .0464 All kWh .0319 All kWh	May - October \$.0782 All kWh Above 500 kWh .0644 All kWh .0499 All kWh
General Service Non-Demand (E02)	All kWh	6.00		
State Accounts Non-Demand (E13)	All kWh	6.00		
Water and Wastewater (E03)	All kWh	<u>Minimum Bill (3)</u> \$12.00		
Other City (Including Electric) (E04)	All kWh	12.00	.0277 All kWh .0354 All kWh .1498 All kWh	.0648 All kWh .0521 All kWh .1498 All kWh
Streetlight/Traffic (E05)	All kWh	12.00		
General Service Demand (E06)	All kWh	12.00	<u>Energy Charge</u> \$12.65 All kW 5.68 All kW 11.11 All kW 11.81 All kW 10.94 All kW 10.94 All kW 10.94 All kW 10.94 All kW	<u>Demand Charge</u> \$14.03 All kW 7.95 All kW 12.10 All kW 12.60 All kW 11.64 All kW 11.64 All kW 11.64 All kW 11.72 All kW
General Service Demand - Public Schools (E10) (3)	All kWh	12.00		
Primary Service (E07)	All kWh	12.00		
Large Primary Service (E08) (3)	All kWh	12.00		
State Accounts – Demand Secondary Service (E14)	All kWh	12.00		
State Accounts – Primary Service (E17)	All kWh	12.00		
State/Large Primary Service (E15) (3)	All kWh	12.00		
Transmission Service (E11)	All kWh	12.00		
Nightwatchman	<u>Fuel Charge</u>			<u>Customer Charge</u>
175 Watt Mercury Vapor	60 kWh Per Light			\$ 7.34 Per Light
100 Watt High Pressure Sodium	35 kWh Per Light			4.28 Per Light
400 Watt Mercury Vapor	140 kWh Per Light			17.11 Per Light
250 Watt High Pressure Sodium	90 kWh Per Light			11.00 Per Light

(1) Does not include special contracts, time-of-use and economic development rates.

(2) The Fuel Adjustment Clause recovers fuel costs. Customers also have the option for Green Choice rider in lieu of the Fuel Adjustment Clause, discussed on the following page.

(3) Minimum Bill is applied when the sum of energy, demand and fuel charges is less than \$12.00.

Transmission Rates

The PUCT has exclusive jurisdiction over rates and terms and conditions for the provision of transmission services by the City. On June 9, 2006, the PUCT approved the City's most recent wholesale transmission rate of \$1.002466/kW. Transmission revenues totaled approximately \$60 million in 2007. Austin Energy will continue to manage and review the need for wholesale transmission rate increases as necessitated by its investment and cost to serve.

Green Choice Energy Rider

In March 2001, Austin Energy adopted a Green Choice Energy charge for renewable energy. Customers who subscribe to the Green Choice program will pay a renewable energy charge in lieu of the fuel adjustment factor as determined by Austin Energy. Austin Energy's Green Choice program has been recognized as the leading utility-sponsored green power program in the nation for sales. Subscribers see the fuel charge on their electric bill replaced with a Green Choice charge that remains fixed for up to 15 years, based on Austin Energy's contracts for wind-generated power.

Green Choice Sales (kWh)

2002	206,566,601
2003	235,478,890
2004	344,446,101
2005	434,040,739
2006	580,580,401
2007	577,636,840

Power and Energy Sales Contracts

Austin Energy has numerous enabling agreements in place with various market participants. The agreements are designed to facilitate energy transactions by providing a standard agreement and may be cancelled by either party upon thirty days written notice. Any transactions are by mutual agreement; no party is obligated to offer, sell or buy energy under the agreements. At certain times, Austin Energy has surplus capacity and energy and is an active participant in the Texas wholesale power market.

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Generation And Use Data – TABLE FOUR

Fiscal Year Ended September 30

	2003		2004		2005		2006		2007	
	Average Customers	kWh	Average Customers	kWh	Average Customers	kWh	Average Customers	kWh	Average Customers	kWh
Net kWh Generated		8,762,574,000		9,973,751,000		10,734,106,000		10,730,704,000		10,999,758,000
kWh Received from ERCOT		2,322,933,000		1,278,302,000		1,272,202,000		1,472,202,000		1,661,154,000
Less: kWh Delivered to ERCOT		(117,125,000)		(213,820,000)		(223,536,000)		(196,935,000)		(571,210,000)
Less: kWh Delivered to Other Utilities		(157,465,000)		(183,125,000)		(318,678,000)		(207,998,000)		(151,020,000)
Total kWh Delivered to Service Area		<u>10,810,917,000</u>		<u>10,855,108,000</u>		<u>11,464,308,000</u>		<u>11,797,973,000</u>		<u>11,938,682,000</u>
Service Area Energy Use:										
Residential	320,710	3,730,628,647	325,905	3,605,110,769	331,490	3,879,940,471	338,184	4,079,909,225	345,197	3,908,317,955
General Service (Less UT & ENW)	<u>37,987</u>	<u>6,235,607,964</u>	<u>39,102</u>	<u>6,302,070,677</u>	<u>40,380</u>	<u>6,620,136,778</u>	<u>41,650</u>	<u>6,829,923,758</u>	<u>42,559</u>	<u>7,042,867,290</u>
	<u>358,697</u>	<u>9,966,236,611</u>	<u>365,007</u>	<u>9,907,181,446</u>	<u>371,870</u>	<u>10,500,077,249</u>	<u>379,834</u>	<u>10,909,832,983</u>	<u>387,756</u>	<u>10,951,185,245</u>
Public Street Lighting	4	35,072,993	4	35,538,803	4	33,713,031	4	34,145,561	4	34,486,701
City Utility Departments	177	194,839,055	176	192,467,642	173	200,818,623	172	213,515,923	180	200,560,827
Other City Departments	<u>647</u>	<u>112,687,157</u>	<u>686</u>	<u>114,304,014</u>	<u>687</u>	<u>118,133,880</u>	<u>687</u>	<u>126,657,490</u>	<u>679</u>	<u>126,263,735</u>
	<u>828</u>	<u>342,599,205</u>	<u>866</u>	<u>342,310,459</u>	<u>864</u>	<u>352,665,534</u>	<u>863</u>	<u>374,318,974</u>	<u>863</u>	<u>361,311,263</u>
Total Service Area Sales	359,525	10,308,835,816	365,873	10,249,491,905	372,734	10,852,742,783	380,697	11,284,151,957	388,619	11,312,324,408
Sales to UT & ENW (Nightwatchman)	1	12,561,939	1	12,638,165	1	12,653,375	1	12,727,340	1	12,743,795
Loss and Unaccounted For		<u>489,519,245</u>		<u>592,977,930</u>		<u>598,911,842</u>		<u>501,093,703</u>		<u>613,613,797</u>
Total kWh Delivered to Service Area	<u>359,526</u>	<u>10,810,917,000</u>	<u>365,874</u>	<u>10,855,108,000</u>	<u>372,735</u>	<u>11,464,308,000</u>	<u>380,698</u>	<u>11,797,973,000</u>	<u>388,620</u>	<u>11,938,682,000</u>
System Peak Demand (kW)		2,350,000		2,280,000		2,445,000		2,430,000		2,391,000

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Energy Risk Management

In an effort to mitigate the financial and market risk associated with the purchase of natural gas and energy price volatility, Austin Energy has established an Energy Risk Management Program. This program is authorized by the City Council to an \$800 million limit and is led by the Risk Oversight Committee. Under this program, Austin Energy enters into futures contracts, options, and swaps for the purpose of reducing exposure to natural gas and energy price risk over a five year time horizon. Use of these types of instruments for the purpose of reducing exposure to price risk is performed as a hedging activity. These contracts may be settled in cash or delivery of certain commodities. Austin Energy typically settles these contracts in cash. See “INVESTMENTS – Legal Investments”.

The realized gains and losses related to these transactions are netted to fuel expense in the period realized. As of September 28, 2007, the netting of Austin Energy’s options, futures, and basis swaps, valued at mark-to-market, resulted in an unrealized gain of \$8,332,063. The unrealized gain/loss refers to the difference between the cost and fair market value of the contracts, which is not included in the notes to the City’s financial statements. For further information, refer to the footnotes from the Comprehensive Annual Financial Report for the fiscal year ended September 30, 2006 (APPENDIX B).

Power and Energy Purchase Contracts

The City has signed several long-term energy purchase agreements for conventional, wind, solar and landfill gas (Methane) electric generation.

In December 1994, the City signed a 25-year contract with Alternative Power Limited Partnership (“APLP”) to purchase electric energy generated by APLP’s 3-megawatt landfill gas plant in Austin. After dissolution of APLP in 2002, the seller of electric energy under the contract is now Gas Recovery Systems, LLC, the former general partner of APLP. Another megawatt of capacity was added in 2003, bringing the total capacity to 4 MW.

In March 1995, the City signed a 25-year contract with LCRA to purchase up to 10 MW of electric energy per year from the LCRA Texas Wind Power Project located in the Delaware Mountains east of El Paso. The project went into commercial operation in September 1995.

In December 1999, Austin Energy signed a 10-year contract to purchase the output of a 20 MW wind energy project built by Texas Wind Power Company (“Texas Wind”) in Upton County. Texas Wind assigned the contract to King Wind, LP in December 1999. The original contract provided Austin Energy an option to agree to purchase an additional 78.4 MW of electricity from the project to be provided by an increase in the project capacity. In October 2000, the City Council approved execution of a contract amendment representing a partial exercise of that option and necessitating an increase in the project capacity by an additional 56.7 MW. In December 2000 King Wind LP assigned the contract to FPL Energy Upton Wind I, LP. The 76.7 MW wind farm began full-scale operation in September 2001. See “LITIGATION” for information concerning a lawsuit filed by FPL Energy Upton Wind I, LP.

In December 1999, Austin Energy signed two contracts for the purchase of energy from landfill methane-recovery projects to be developed by Ecogas Inc. and Energy Developments, Inc. (“EDI”). Ecogas Inc. assigned its rights to EDI in October 2000. In October 2002, EDI brought on the first 5.2 MW of landfill methane generation at its Tessman Road facilities located in San Antonio, Texas. Another 2.6 MW of landfill methane generation was added in 2003, bringing the total capacity to 7.8 MW.

In February 2005, Austin Energy began purchasing 93 MW of wind power from the Sweetwater Phase II wind project near Sweetwater, Texas under a 12-year contract. In December 2005, Austin Energy increased its purchase to a total of 128 MW with additional capacity from Sweetwater Phase III.

In September 2006, Austin Energy signed a contract with J. Aron & Company, a subsidiary of The Goldman Sachs Group, Inc., to purchase 100 to 150 MW of energy per month in May-September of 2008, 2009 and 2010.

In September 2006, Austin Energy signed a 20-year contract with Renewable Energy Systems (“RES”) America Development, Inc. to purchase the output of a 60 MW wind energy project located in Floyd County, Texas. On October 10, 2006, RES assigned the contract to Whirlwind Energy, L.L.C. The project began full-scale commercial operation in December 2007.

In August 2007, Austin Energy signed a 15-year contract with RES to purchase the output of a 165 MW wind energy project located near Abilene, Texas. On September 6, 2007, RES assigned the contract to Hackberry Wind, LLC. The project is expected to begin full-scale commercial operation in December 2008.

In September 2007, Austin Energy signed a 20-year contract with Sun Edison LLC to purchase the output of a 710 KW solar energy project to be located on Austin Energy’s Decker Creek Power Station property in eastern Travis County. The project is expected to begin full-scale commercial operation in December 2008.

With respect to the contracts described above, Austin Energy is obligated to purchase all of the energy generated by each of the facilities up to the maximum amount as described above, to the extent energy is so generated. Many of the facilities described above do not run at full capacity for 24 hours a day; therefore, Austin Energy may be purchasing energy in amounts less than the maximum amounts that are shown above.

Transmission and Distribution System

The transmission and distribution plant statistics of Austin Energy as of September 30, 2007, are as follows:

Electric Transmission & Distribution System Statistics

	<u>Number of Substations</u>	<u>Miles of Lines</u>	<u>Kilovolts</u>
Transmission	11	619	345/138/69
Distribution	56	10,956	35/12.5/7.2
Overhead Primary		2,363	
Overhead Secondary		3,164	
Underground Primary		2,621	
Underground Secondary		2,808	

The City and LCRA entered into the Fayette Power Project Transmission Agreement dated March 17, 1977, setting forth the duties, obligations and responsibilities with respect to the transmission of energy from the Fayette Power Project. The City has also entered into the STP 345 kV Transmission Line Agreement dated as of January 1, 1976 with the participants in STP, setting forth the duties, obligations and responsibilities with respect to transmission facilities associated with STP.

Austin Energy is interconnected with LCRA, with whom Austin Energy has a power interchange agreement. Austin Energy is also interconnected with CenterPoint Energy (formerly Houston Lighting & Power Co., and referred to herein as “CenterPoint”), CPS Energy and American Electric Power. Austin Energy is a member of ERCOT. As a participant in ERCOT, Austin Energy is able to provide and be provided with a reliable backup supply of generation under emergency conditions. The diversification of fuel sources of the member systems increases the potential for economic interchanges among the respective systems. Sale and purchase transactions generally maximize the use of less expensive fuel sources by all members of the interconnected system.

Historically, electric utilities operating in Texas have not had any significant interstate connections, and hence investor owned utilities have not been subject to regulation by the Federal Energy Regulatory Commission (“FERC”) and its predecessor agencies under the Federal Power Act. Over the past several years, successful efforts have been made to provide interstate connections. These efforts have resulted in protracted judicial and administrative proceedings involving ERCOT members. The settlement of such proceedings permits the ERCOT members to avoid federal regulation as the result of any interstate interconnection with another interstate connected utility.

ISO 9001 Registration

The Austin Energy division responsible for the construction, maintenance and operation of Austin’s electric system has become the first of any utility in the nation to earn ISO 9001 registration. ISO (International Organization for Standardization) 9000 is a series of international quality standards designed to ensure that all activities related to providing and delivering a product or service are appropriately quality assured. To earn the registration, applicants must develop a Quality Management System that reflects standards of performance for every major task, in this case, related to building, maintaining and repairing the electric system. Auditors from the National Standards Authority of Ireland (NSAI), the worldwide entity that administers the ISO quality management program, issued the registration on

January 3, 2008. The certification followed a rigorous four-day review in December of the electric Service Delivery Quality Management System by NSAI auditors. The ISO Auditors noted that procedures and written work instructions have been implemented for more than 530 work activities. More than 250,000 companies worldwide, including 25,000 in the U.S., are certified in the ISO 9000 series. Austin Energy transmission and distribution work units however, are the first of any utility in the country to be so certified.

Conventional System Improvements

In September 2007, the 2008-2012 Capital Improvements Spending Plan was approved by the City Council in the amount of \$998,836,000. Austin Energy's five-year spending plan provides continued funding for distribution and street lighting additions including line extensions for new service, system modifications for increased load, and relocations or replacements of distribution facilities in the central business district and along major thoroughfares. It also includes funding for transmission, generation and other general additions. Funding for the total Capital Plan is expected to be provided from current revenues and commercial paper.

RESPONSE TO COMPETITION

Austin Climate Protection Plan

On February 7, 2007, Austin Mayor Will Wynn presented an aggressive plan to address global warming from a City perspective. The Austin Climate Protection Plan is intended to eliminate carbon dioxide emissions from virtually all municipal activities by the year 2020. This includes powering all City facilities with 100% renewable energy by 2012, converting the entire city fleet of vehicles to alternative fuels and electric power by 2020, and implementing greenhouse gas reduction plans in every City department. The Plan calls for Austin Energy to aggressively ramp up its clean energy programs, achieving 700 megawatts of new conservation and efficiency savings, and having 30 percent of its energy needs come from renewable resources by 2020. It also calls for making all new single-family homes zero net-energy capable by 2015 and increasing efficiency in all new commercial buildings by 75 percent in the same period. This plan was adopted by City Council on February 15, 2007.

Further, on December 13, 2007, City Council passed a resolution directing the City Manager to conduct an open, extended Energy Resource Planning Public Participation Process to assist Austin Energy with the development of its future resource management plans, including generation planning in line with the Austin Climate Protection Plan goals; and that through the Energy Resource Planning Public Participation Process, Austin Energy will:

- Educate its customers on facts, issues and trends regarding the electric utility industry,
- Inform its customers in depth about Austin Energy's operations, particularly those involving power production, and
- Obtain suggestions from its customers and other outside sources for business approaches and proposed solutions designed to meet the future needs of the utility.

The City Manager is directed to report back to Council within 90 days with specific recommendations and timetables for implementing the Energy Resource Planning Public Participation Process.

Strategic Plan

In December 2003, the City Council approved a strategic plan for Austin Energy. The plan identified three strategies to position Austin Energy for continued success.

First, an overarching Risk Management Strategy guides Austin Energy to carefully manage its exposure when considering future courses of action. This approach allows Austin Energy to prepare for future options without prematurely investing and allows for more information to become known before major commitments are made.

Second, a strategy to provide Excellent Customer Service positions Austin Energy to compete in the rapidly changing energy industry. Under this strategy Austin Energy intends to build employee and customer satisfaction so that it is positioned for competition or regulation in the future.

Third, an Energy Resource strategy directs Austin Energy to first seek cost-effective renewable energy and conservation

solutions to meet customers' new energy needs before resorting to traditional fossil fuel sources. In keeping with the risk management approach, Austin Energy intends not to prematurely commit to unproven technologies; however, Austin Energy intends to pursue a leading-edge position that will allow Austin Energy to readily identify, evaluate and deploy emerging renewable technologies.

Five objectives were identified to support the strategies including:

- Maintain Financial Integrity - Austin Energy's goal is to achieve an "AA" (Standard & Poor's) Credit Rating by 2010 on its separate lien revenue bonds. Austin Energy provides a return to its citizen owners in the form of financial support for local government.
- Create and Sustain Economic Development - Austin Energy will create and sustain economic development by providing contract opportunities for local businesses, attracting new businesses, and supporting the development of a clean energy industry. Austin Energy's goal is to exceed the City's M/WBE goals by 2008.
- Customer Satisfaction - Austin Energy will develop a better understanding of its customers by monitoring indicators and conducting customer surveys. Austin Energy's target is a customer satisfaction score of 83/100 by 2010.

Additionally, Austin Energy understands the link between customer satisfaction and employee satisfaction, and includes an Employee Satisfaction goal in this strategy. Austin Energy will prepare its employees to work successfully in a competitive environment by providing the skill development and information necessary to make informed business decisions. Austin Energy targets an employee satisfaction index showing a 10% improvement in positive responses on the City's Listening to the Workforce Survey by 2010.

- Exceptional System Reliability - Austin Energy will pursue best operating and maintenance practices for its utility assets power plants to ensure unit availability and reliability. Austin Energy will target specific metrics to reduce the frequency (SAIFI) and duration (SAIDI) of power outages. A common measure of reliability for generating units is the Equivalent Availability Factor (EAF). The EAF is a measure of the number of hours a generating unit's full capacity is available for use per the total period hours.
 - SAIFI (system average interruption frequency index) = 0.8 interruptions per year
 - SAIDI (system average interruption duration index) = 60 minutes per year
 - Maintain an intermediate/peaking peak season EAF of 95% or better
- Renewable Portfolio Standard - Austin Energy intends to continue its nationally recognized renewable resources and Green Building programs. By 2020, Austin Energy will achieve a Renewable Portfolio Standard of 30%, as well as 15% increase in demand side management impacts. Austin Energy will also achieve 700 MW of peak demand savings by 2020. Austin Energy demonstrates its commitment to solar energy through its Solar Rebate Program and its plan to achieve 100 MW of solar generation by 2020.

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The Strategic Plan is reviewed and updated annually. The following table outlines the results over the last 4 years:

STRATEGIC PLANNING PERFORMANCE MEASURES 2003-2006

STRATEGY	OBJECTIVE	TARGET				2002-2003		2003-2004		2004-2005		2005-2006	
		“AA” (S&P) credit rating by 2010	“A”	“A”	“A+”	“A+”	“A+”	“A+”	“AA-”				
Risk Management	Maintain Financial Integrity	“AA” (S&P) credit rating by 2010	“A”	“A”	“A+”	“A+”	“A+”	“A+”	“AA-”				
Excellent Customer Service	Create and Sustain Economic Development	Exceed M/WBE Goals by 2008	MBE (%)	WBE (%)	MBE (%)	WBE (%)	MBE (%)	WBE (%)	MBE (%)	WBE (%)	MBE (%)	WBE (%)	
		Construction	12.90	12.60	10.27	13.46	30.50	34.64	6.86	9.62	1.07	5.48	
		Commodity	3.50	6.20	4.66	13.56	0.49	7.71	2.55	5.00	0.87	6.20	
		Non-Professional	14.10	15.00	11.42	4.61	17.21	4.22	7.83	3.07	4.24	3.37	
		Professional	16.50	14.20	0.50	0.04	0.00	0.16	0.00	0.04	0.08	0.00	
Customer Satisfaction	Customer Satisfaction	Employee Satisfaction target of 10% improvement on LIW Survey by 2010, i.e. 70% positive rating overall			64%		57%		55.25%		58%		
Exceptional System Reliability	Exceptional System Reliability	Customer Satisfaction target of 83/100 by 2010			76/100		79/100		79/100		80/100		
Energy Resource	Renewable Portfolio Standard & Energy Efficiency	SAIDI @ 60 minutes by 2005			64.93		62.72		79.06		86.10		
		SAIFI of 0.8 interruptions/yr by 2005			0.85		0.88		1.05		0.99		
		SATLPI of 4.1 average/ yr by 2005			N/A		4.50		4.10		4.20		
		20% renewable energy by 2020			2.94%		2.16%		3.80%		6.00%		
		15% energy efficiency by 2020			5.50%		6.00%		6.70%		7.30%		
		100MW solar generation by 2020			0.24 MW		0.33 MW		0.85 MW		1.0 MW		

Financial Policies

With increasing competition in the electric utility industry due to regulatory and market changes, Austin Energy continues to maintain strong financial policies aimed at keeping financial integrity while allowing for flexibility should the market change. Some of the more significant financial policies adopted by City Council during the budget process are:

- Current revenue, which does not include the beginning balance, will be sufficient to support current expenditures (defined as “structural balance”). However, if projected revenue in future years is not sufficient to support projected requirements, ending balance may be budgeted to achieve structural balance.
- A fund named Strategic Reserve Fund shall be created and established, replacing the Debt Management Fund. It will have three components:
 - An Emergency Reserve with a minimum of 60 days of operating cash.
 - Up to a maximum of 60 days additional operating cash set aside as a Contingency Reserve.
 - Any additional funds over the maximum 120 days of operating cash may be set aside in a Competitive Reserve.
- The Emergency Reserve shall only be used as a last resort to provide funding in the event of an unanticipated or unforeseen extraordinary need of an emergency nature, such as costs related to a natural disaster, emergency or unexpected costs created by Federal or State legislation. The Emergency Reserve shall be used only after the Contingency Reserve has been exhausted. The Contingency Reserve shall be used for unanticipated or unforeseen events that reduce revenue or increase obligations such as extended unplanned plant outages, insurance deductibles, unexpected costs created by Federal or State legislation, and liquidity support for unexpected changes in fuel costs or purchased power which stabilize fuel rates for our customers. In the event any portion of the Contingency Reserve is used, the balance will be replenished to the targeted amount within two (2) years. The Competitive Reserve may be used to improve the strategic position of Austin Energy including, but not limited to, funding capital needs in lieu of debt issuance, reduction of outstanding debt, rate reductions, acquisitions of new products and services, and new technologies. Funding may be provided from net revenue available after meeting the General Fund Transfer (described below), capital investment (equity contributions from current revenue), Repair and Replacement Fund, and 45 days of working capital.
- The General Fund Transfer shall not exceed 12% of Austin Energy’s three-year average revenues, calculated using the current year estimate and the previous two years’ actual revenues from the City’s Comprehensive Annual Financial Report. (Actual percentage has been 9.1% for the last 8 years, with the exception of 2002 at 8.9%.)
- A decommissioning trust shall be established external to the City to hold the proceeds for moneys collected for the purpose of decommissioning the STP. An external investment manager may be hired to administer the trust investments. See “INVESTMENTS – Legal Investments”.
- A Non-Nuclear Plant Decommissioning Fund shall be established to fund plant retirement. The amount set aside will be based on a decommissioning study of the plant site. Funding will be set aside over a minimum of four (4) years prior to the expected plant closure.

A complete listing of Austin Energy’s financial policies can be found at <http://www.ci.austin.tx.us/budget/07-08/downloads/pb0708support.pdf>

Real Estate Taxes

Austin Energy pays no real property taxes on facilities inside or outside the City, nor payments in lieu of taxes with respect to Austin Energy.

CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY

Rate Regulation

The City’s rates, except for wholesale transmission, are regulated by the City Council. Ratepayers can appeal rate

changes to the PUCT under section 33.101 of the PURA by the filing of a petition with the PUCT containing the requisite number of valid signatures from residential ratepayers who take service outside the City limits. Texas courts have held that the PUCT may apply the same ratemaking standards to the City as are applied to utilities over which the PUCT has original jurisdiction

Section 35.004 of PURA requires the City to provide transmission service at wholesale to another utility, a qualifying facility, an exempt wholesale generator, a power marketer, power generation company, or a retail electric provider. Section 35.004 of PURA requires the City to provide wholesale services at rates, terms of access, and conditions that are not unreasonably preferential, prejudicial, discriminatory, predatory, or anti-competitive.

An Independent System Operator (“ISO”) was established for ERCOT as a part of the rules that were adopted by the PUCT to open access to the wholesale electric market in Texas and was approved by the PUCT on August 21, 1996. The ISO received approval on May 5, 2000, of its certification under Senate Bill 7, adopted by the Texas legislature and signed into law in 1999 (“SB7”). The ISO’s responsibilities as detailed in SB 7 are to (1) ensure nondiscriminatory access to the ERCOT transmission system; (2) ensure the reliability and adequacy of the ERCOT network; (3) ensure timely and accurate customer switching; and (4) ensure the accuracy of accounts among wholesale buyers and sellers. Austin Energy is a member of ERCOT, and Austin Energy staff are very active participants in the ERCOT stakeholder process.

SB 7 amended PURA to provide for retail deregulation of the electric utility industry in Texas. SB 7 opened retail competition for Investor Owned Utilities (“IOUs”) beginning January 1, 2002. SB 7 allowed local authorities to choose when to bring retail competition to their Municipally Owned Utilities (“MOU”), and leaves key municipal utility decisions (like local rate setting and utility policies) in the hands of those who have a stake in the local community. Once a resolution to “opt in” for retail competition is adopted by the municipal utility’s governing body, the decision is irrevocable.

General Market Framework: Beginning on January 1, 2002, IOUs were required to unbundle their regulated (wires) operations from their competitive operations. There is a strong ISO established with responsibility over the operations and planning for the ERCOT bulk electric system. The PUCT has established comprehensive clear and enforceable market power protections: no utility can control more than 20% of ERCOT generation and wholesale market participants must follow a detailed code of conduct.

MOUs That Do Not Choose Retail Competition

- There is no retail choice for MOU customers. MOU cannot sell at retail outside its area.
- Current regulatory scheme continues.
- Continued MOU access to buy and sell power in the wholesale market.

MOUs Choosing Retail Competition On or After January 1, 2002

(City councils or governing boards make an affirmative choice to bring retail competition to their MOU)

- Retail competitors can sell “generation” to MOU customers. MOU provides “wires” access to its distribution system for Retail Electric Providers, other MOUs and Electric Cooperatives. MOU has an “obligation to connect” and provides wire services and local reliability. Wires are not subject to competition.
- MOU can sell at retail outside its service area, per prevailing market rules.

MOU Local Control Preserved

- Exclusive MOU jurisdiction to set local distribution and other rates. Local wires services and rates remain in exclusive jurisdiction of the MOU.
- Local determination of the stranded investment amount and recovery mechanism.
- MOUs are not required to unbundle (structurally separate functions).
- Local authorities determine and provide customer services and protections.
- Local control of MOU power resource acquisition.
- Customers in multi-certified areas cannot switch wires companies to avoid stranded investment charges.
- Securitization is available to MOUs.
- MOU retains metering.

Participation By MOU In Markets Outside Its Area After Choosing Retail Competition

- Limited PUCT jurisdiction over terms and conditions for access, not rates.
- Subject to market power limits and PUCT customer safeguard code of conduct.

Other Key MOU Provisions

- Existing contracts are preserved. Tax-exempt status is preserved. MOU “competitiveness provisions” were included in SB 7 to “level” the field for MOUs when preparing for competition including relaxation of open meetings/records and purchasing provisions. No mandated MOU rate reductions.
- The City has not yet made a decision whether to “opt in” for retail competition or not, and the City cannot predict the short term or long term impact on the Electric Utility System or its revenues resulting from a decision to “opt in” or not, or resulting from the deregulation process in general.

State Wholesale Market Design Developments

In the summer of 2002, the PUCT initiated an investigation to convert the wholesale market in the ERCOT region from a zonal-based market design to a nodal market design. On September 22, 2003, the PUCT adopted a rule requiring that ERCOT use a stakeholder process to develop a nodal market design. The PUCT’s purpose in ordering the change is to promote economic efficiency in the production and consumption of electricity, support wholesale and retail competition, support the reliability of electric service, and reflect the physical realities of the ERCOT electric system. The key components of the nodal market as ordered by the PUCT include: continued reliance on bilateral markets for energy and ancillary services; establishment of a day-ahead energy market; resource-specific bid curves for energy and ancillary services; congestion pricing incorporating direct assignment of all congestion rents to resources causing the congestion; tradable congestion revenue rights (“CRRs”) made available through auctions; nodal energy prices for resources; energy trading hubs; and zonal energy prices for load settlement.

On September 23, 2005, ERCOT filed with the PUCT the nodal market Protocols developed through the ERCOT stakeholder process. The nodal Protocols incorporate specific provisions that will allow Austin Energy to hedge congestion risk in the new market. For its generation resources in operation prior to September 1, 1999, Austin Energy will receive preassigned CRRs at a discount to the market price which are available prior to the auction of CRRs. The service territory of Austin Energy will be identified as a load zone for settlement purposes. On February 23, 2006, the PUCT voted to approve the nodal Protocols for the ERCOT region. The nodal market will begin operation on January 1, 2009. In anticipation of the opening of the nodal market, Austin Energy employees are active participants in ERCOT’s Transition Plan Task Force (TPTF), the joint ERCOT-stakeholder effort to assure ERCOT-wide readiness with the market change. Austin Energy’s Energy and Market Operations staff, system planning and operations staff, and finance and accounting staff are actively taking steps to modify key systems and processes to assure Austin Energy’s capability to participate fully in the ERCOT nodal market on schedule.

Federal Rate Regulation

Austin Energy is not subject to Federal regulation in the establishment of rates, the issuance of securities or the operation, maintenance or expansion of Austin Energy under current Federal statutes and regulations. Austin Energy submits various reports to FERC and voluntarily utilizes the FERC System of Accounts in maintaining its books of accounts and records. On April 24, 1996, the FERC issued a Final Rule (the “Final Rule”) proposing significant changes regarding transmission service performed by electric utilities subject to the FERC’s jurisdiction under sections 205 and 206 of the Federal Power Act. Among other things, the FERC requires utilities to submit open-access, mandatory transmission tariffs. The goal of the Final Rule, according to the FERC, is to deny to an owner of transmission facilities any unfair advantage over its competitors that exists by virtue of such owner’s control of its transmission system.

On December 20, 1999, the FERC issued “Order No. 2000” (the “Order”) related to the formation of voluntary Regional Transmission Organizations (“RTOs”). The Order required all utilities subject to the FERC’s authority under section 205 (Rates and Charges; Schedules; Suspension of New Rates) and 206 (Fixing Rates and Charges; Determination of Cost of Production or Transportation) of the Federal Power Act to file by October 2000 a proposal to participate in an RTO or an alternative describing plans to participate in an RTO. The essential characteristics of an RTO are its independence from individual market participants, a regional scope, operational authority of transmission facilities under the RTO’s control, and authority over short-term system reliability. The essential functions of an RTO

are tariff administration, congestion management, parallel path flow, administering ancillary services, operating Open Access Scheduling Information System (“OASIS”), market monitoring, planning and expansion, and interregional coordination.

Austin Energy is not subject to the FERC’s jurisdiction under section 205 and 206 of the Federal Power Act. Nevertheless, Austin Energy participates in a stakeholder organization established under Texas law that is similar to the RTOs envisioned in the Order and which predates the Order by several years. Since 1995, the PURA has required open access to the transmission network in ERCOT under comparable terms and conditions for all users of the transmission network. ERCOT is a stakeholder organization that includes stakeholders from all segments of the Texas electric market. The ISO formed by ERCOT in 1996 and mandated by State law in 1999 carries out many of the functions of the RTO discussed in the Order. On January 17, 2008, FERC approved an additional eight Critical Infrastructure Protection (“CIP”) reliability standards to protect the nation’s bulk power system against potential disruptions from cyber security breaches. Under PURA, the PUCT has specific responsibilities to oversee ERCOT operations and market participant compliance with ERCOT Protocols.

Under the Energy Policy Act of 2005, municipal entities are now subject to certain FERC authority on reliability. Specific reliability requirements rules have been developed by the FERC. On July 20, 2006, the FERC certified the North American Electric Reliability Council (“NERC”) as the nation’s Electric Reliability Organization (“ERO”), which will be responsible for developing and enforcing mandatory electric reliability standards under the FERC’s oversight. On April 19, 2007, FERC approved the Delegation Agreement between the NERC and ERCOT, which will govern the responsibilities of ERCOT as the Regional Entity responsible for overseeing the NERC reliability standards in the ERCOT region. On June 4, 2007, FERC approved an initial set of 83 NERC reliability standards that apply to entities operating in the ERCOT region. An additional eight Critical Infrastructure Project standards as well as other reliability standards approved by NERC are awaiting formal approval from the FERC. Austin Energy has established compliance programs in its Energy Markets; transmission systems planning, operations and reliability; and Information Technology and Telecommunications units to examine the requirements for compliance with the new standards and to evaluate and implement any needed changes to systems and procedures.

Austin Energy Environmental Policy

Austin Energy, a community-owned utility, is dedicated to protecting and continually enhancing the quality of its surrounding environment while providing affordable, reliable energy to its customers. It has demonstrated this commitment as a recognized leader among electrical energy service providers in environmental stewardship and conservation and will uphold its leadership role within the energy industry and the Austin community.

Austin Energy will endlessly improve its environmental performance, scrutinized through the operation of its Environmental Care Program and evaluation of environmental objectives and targets. We will always seek opportunities for preventing pollution by implementing solutions that reflect the values of our customers while ensuring compliance with all applicable environmental laws, regulations and permit conditions

Environmental Regulation General

Austin Energy’s operations are subject to environmental regulation by Federal, State and local authorities. Austin Energy has a formal environmental management system called the Environmental Care Program for assuring compliance with applicable environmental regulations and addressing environmental impacts associated from its operations. The Environmental Care and Protection (ECP) section within AE consists of a staff of environmental professionals from various educational backgrounds who are responsible for maintaining the Environmental Care Program. The Environmental Care and Protection section interprets existing Federal, State and local regulations and routinely track changes to regulations, which affect Austin Energy processes. Austin Energy has prepared documentation which details roles and responsibilities for environmental compliance throughout the organization. The Environmental Care and Protection section staff and facility personnel monitor conformance with the environmental requirements and report deficiencies to facility management. ECP coordinates with the Technical Support Section within Power Production to administer and conduct environmental training for the organization.

Environmental Regulation Related to Air Emissions

Congress enacted the Clean Air Act Amendments of 1990, which included permitting requirements for power

production facilities. All of Austin Energy's large generating units have been issued Federal Operating Permits and Federal Acid Rain Permits for the individual units by the TCEQ (hereinafter defined) and the USEPA (hereinafter defined). References to the TCEQ in this Official Statement are intended to include agencies whose duties and responsibilities have been delegated to the TCEQ.

SB 7 Requirements for NOx Reductions

In 1999, as part of SB 7, defined above, the Texas Legislature imposed new environmental regulations on power plants constructed prior to 1971 (30 Texas Administration Code ("TAC") 116, Electric Generating Facility Permits, and 30 TAC 101.330, Emissions Banking and Trading of Allowances). All of Austin Energy's then operational units were "grandfathered" from State permitting requirements at the time of the passage of the Texas Clear Air Act in 1971. The SB 7 permitting program instituted a "cap and trade" program for NOx emissions. "Grandfathered" units were allocated allowances of NOx based on an emission rate of 0.14 lbs. of NOx per mmBtu times the 1997 heat input to the unit. Austin Energy's SB 7 permitted units must have enough SB 7 emission allowances available to cover the actual emissions from these units on a yearly basis. A total of 1,741 tons of NOx were allocated to the "grandfathered" units.

In addition to the NOx reductions made to comply with SB 7, Austin Energy has made voluntary commitments to cap the emissions of NOx from Decker, Holly Street and Sand Hill Energy Center to a total of 1,500 tons per year. This commitment was made in order to assist with the Early Action Compact or EAC made between the governmental bodies of the Austin Area and USEPA. Austin Energy's total NOx emissions were 1,178 tons for the latest compliance reporting year ending May 2007.

The TCEQ has also implemented further NOx reduction rules under 30 TAC 117. The TCEQ now requires that coal-fired units that were placed into service prior to December 31, 1995 and located in the east side of Texas (east of I-35) have a yearly average NOx emission rate of 0.165 lb/mmBtu or less. This rule also requires that gas-fired boilers and gas turbines in this same geographic region that were placed into service prior to December 31, 1995 have a yearly average NOx emission rate of 0.14 lb/mmBtu or less. Modifications made to the Decker and Holly Street units resulted in an average emission rate of approximately 0.10 lb/mmBtu for 2007. Modifications have been made to the Fayette Power Project Units 1 & 2 (which Austin Energy co-owns with the LCRA) and current emission rates are averaging approximately 0.10 lb/mmBtu. All of the Holly Street and Decker units will be in compliance with their emission limits. The Decker gas turbine units fall under an exemption from this rule due to their limited run times. The Holly St. Power Plant was closed as of October 1, 2007 and will be decommissioned.

FPP Flex Permit

AE and LCRA agreed to Flex Permit with EPA and TCEQ, which required the installation scrubbers for Fayette Power Project Units 1 & 2 by 2010. These scrubbers will reduce the emissions of SO2 from these units by at least 95%.

Clean Air Interstate Rule

On March 10, 2005, the EPA issued the Clean Air Interstate Rule (CAIR), requiring reductions in emissions of sulfur dioxide (SO2) and nitrogen oxides (NOx) from electricity generating units (EGUs) in 28 eastern states and the District of Columbia. The purpose of the CAIR rules was to address the interstate transport of pollutants. The CAIR rules will also reduce the interstate transportation of fine particles. The CAIR rules were adopted by the TCEQ in The CAIR basically establishes an EPA-administered cap-and-trade program for EGUs. The rules apply to stationary boilers and combustion turbines with nameplates of more than 25MWe. Initially, under Phase I, only NOx emissions will be capped. Phase I for NOx runs from 2009-2014. Phase II will begin 2015 and the cap will be set much lower than Phase I. Sulfur dioxide caps under Phase I will be from 2010-2014. Phase II for SO2 will commence in 2015. The Decker Units 1& 2 and the Decker Gas Turbines will be subject to the CAIR rules. The Decker units will start reporting emissions under the CAIR program starting in 2008.

Climate Change

The Mayor and City Council of Austin have created the Austin Climate Protection Plan which directs Austin Energy to cap its greenhouse gas emissions and develop a reduction strategy. The cap and reduction strategy is being developed along with current generation planning activities.

The U.S. Congress has proposed several climate change strategies and within the 2010 - 2015 timeframe, Austin Energy may be subject to a mandatory cap on greenhouse gas emissions.

AE is a member of the California Climate Action and submits annual inventories of its green house gas emissions each year. The inventories are certified by a third party auditor. AE has joined The Climate Registry as a Founding Reporter and will begin reporting annual green house emissions to TCR in 2009 for 2008 emissions.

Environmental Regulation Water

Wastewater discharges are regulated pursuant to the Clean Water Act National Pollution Discharge Elimination System (“NPDES”). Stormwater run-off is similarly regulated. The USEPA has granted the TCEQ authority to implement these programs in Texas as the Texas Pollution Discharge Elimination System (“TPDES”). Austin Energy’s larger power generation facilities, Decker, Holly Street and Sand Hill Energy Center, have TPDES and Stormwater Permits, which require monitoring and limitations of discharges.

USEPA has suspended the final regulations for cooling water intake structures on existing facilities. These regulations would have affected Decker Power Plant and Sand Hill Energy Center. The TCEQ is currently accessing future plans for management of 316(b) issues.

Austin Energy maintains plans for preventing and responding to spills of oil and hazardous materials at its power plants and substations as required by the Clean Water Act Spill Prevention Control and Countermeasure and Facility Response Plan requirements. Austin Energy’s spill response team responds to spills in less than one hour from the time the spills are reported.

Environmental Other

The Decker Creek Power Station was recognized as a Clean Texas Gold Level Leader for its environmental management system and commitments for reducing environmental impacts. Both the Kramer Lane Service Center and Austin Energy Laboratory are Clean Texas Bronze Level Leaders.

Since 2001, Austin Energy has funded a program for removing distribution electrical equipment at risk for having polychlorinated biphenyls (“PCBs”) from its service area beyond what is ordinarily removed due to equipment failures or line improvements. Austin Energy crews inspect and test overhead transformers and remove equipment at risk for having PCBs. Austin Energy has increased the inspections of its underground distribution system and is replacing rusted pad-mounted transformers that pose a risk for spills. Furthermore, substation equipment and soils are routinely tested prior to construction activities in the event that there is contamination from historical activities.

The Holly St. Power Plant has ceased operations as of October 1, 2007 and will be decommissioned. After the removal of the plant structures and remediation of any contaminated areas, certain areas of the plant will be turned over for public use.

Austin Energy has assessed the types and quantities of waste resulting from all of its operations. A waste reduction plan will be prepared in FY2008 which will include strategies for waste minimization including recycling and source reduction.

Austin Energy will continue to make the necessary changes to assure future compliance with the evolving regulatory requirements. Non-compliance with environmental standards or deadlines could result in reduced operating levels. Further compliance with environmental standards or deadlines could increase capital and operating costs.

Nuclear Regulation

Nuclear generation facilities are subject to regulation by the Nuclear Regulatory Commission (“NRC”) and are required to obtain liability insurance and a United States Government indemnity agreement in order for the NRC to issue operating licenses. This primary insurance and the retrospective assessment discussed below are to insure against the maximum liability under the Price-Anderson Act for any public claims arising from a nuclear incident which occurs at any of the licensed nuclear reactors located in the United States.

STP is protected by provisions of the Price-Anderson Act, a comprehensive statutory arrangement providing limitations on nuclear liability and governmental indemnities. The Price-Anderson Act originally expired on August 1, 2002, but was renewed on August 8, 2005 as part of the National Energy Legislation. The new Price-Anderson Act expires on December 31, 2025. The limit of liability under the Price-Anderson Act for licensees of nuclear power plants remains at \$10.76 billion per unit per incident. The maximum amount that each licensee may be assessed following a nuclear incident at any insured facility is \$100.59 million per unit, subject to adjustment for inflation, for the number of operating nuclear units and for each licensed reactor, payable at \$15 million per year per reactor for each nuclear incident. The City and each of the other participants of STP are subject to such assessments, which will be borne on the basis of their respective ownership interests in STP. For purposes of the assessments, STP has two licensed reactors. The participants have purchased the maximum limits of nuclear liability insurance, as required by law, and have executed indemnification agreements with the NRC, in accordance with the financial protection requirements of the Price-Anderson Act.

A Master Worker Nuclear Liability policy, with a maximum limit of \$300 million for the nuclear industry as a whole, provides protection from nuclear-related claims of workers employed in the nuclear industry after January 1, 1988 who do not use the workers' compensation system as sole remedy and bring suit against another party.

NRC regulations require licensees of nuclear power plants to obtain on-site property damage insurance in a minimum amount of \$1.06 billion. NRC regulations also require that the proceeds from this insurance be used first to ensure that the licensed reactor is in a safe and stable condition so as to prevent any significant risk to the public health or safety, and then to complete any decontamination operations that may be ordered by the NRC. Any funds remaining would then be available for covering direct losses to property.

The owners of STP currently maintain \$2.75 billion of nuclear property insurance, which is above the legally required amount of \$1.06 billion, but is less than the total amount available for such losses. The \$2.75 billion of nuclear property insurance consists of \$500 million in primary property damage insurance and \$2.25 billion of excess property damage insurance, both subject to a retrospective assessment being paid by all members of Nuclear Electric Insurance Limited ("NEIL"). In the event that property losses as a result of an accident at any nuclear plant insured by NEIL exceed the accumulated fund available to NEIL, a retrospective assessment could occur. The maximum aggregate assessment under current policies for both primary and excess property damage insurance is \$26.8 million during any one-policy year.

Finally, the NRC maintains its regulations setting forth minimum amounts required to demonstrate reasonable financial assurance of funds for decommissioning of nuclear reactors. Beginning in 1990, each Holder of an operating license was required to submit to the NRC a report indicating how reasonable assurance would be provided. The City provided the required report to the NRC which was based on the minimum amount for decommissioning as required by the NRC regulations of \$105 million per unit (January 1986 dollars). This minimum is required to be adjusted annually in accordance with the adjustment factor formula set forth in the regulations. The report provided by the City based reasonable assurance on the minimum amount (January 1986 dollars) as adjusted by the adjustment factor formula set forth in the regulations. The City has established an external irrevocable trust for decommissioning with JPMorgan Chase Bank, N.A. The City has been collecting for decommissioning through its rates since Fiscal Year 1989. The decommissioning account balance at January 31, 2008 was \$132.3 million. For Fiscal Year 2007, Austin Energy estimates that it will continue to collect approximately \$5 million for decommissioning expense. In current dollars (at August 31, 2006), the minimum amount for decommissioning is \$342.4 million per unit. See "INVESTMENTS – Legal Investments".

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