

**STATE OF TEXAS
COUNTY OF BEXAR
CITY OF SAN ANTONIO**

A SPECIAL MEETING OF THE CITY COUNCIL OF THE CITY OF SAN ANTONIO WAS HELD IN THE COUNCIL CHAMBERS, MUNICIPAL PLAZA BUILDING, MONDAY, FEBRUARY 1, 2010.

The San Antonio City Council convened in a Special Meeting at 5:30 pm Monday, **February 1, 2010**, in the Municipal Plaza Building with the following Councilmembers present: Cisneros, Ramos, Cortez, Medina, Lopez, Rodriguez, Williams, Chan, Clamp, and Mayor Castro. **ABSENT:** Taylor.

1. BRIEFING BY CPS ENERGY REGARDING REVENUE REQUIREMENTS TO SUPPORT THE FY 2011 PROPOSED OPERATING AND CAPITAL BUDGETS

Jelynn Burley, CPS Energy Acting General Manager recognized CPS Board Members Charles Foster and Derrick Howard who were in attendance and thanked the City Council for the opportunity to present said item. She stated that the presentation did not include a recommendation for STP 3 and 4 and that the issue would be considered by the CPS Energy Board on February 10, 2010. She reported that CPS Energy managed a \$523 million Capital Plan and a \$1.2 billion Operations and Maintenance Budget Plan. She stated that revenues for FY 2011 were projected at \$2 billion and expenditures at \$1.7 billion. She noted that although their growth has slowed, they must maintain overall system reliability and deal with aging infrastructure. She explained that they had worked diligently to reduce overhead while balancing the need to meet workforce mandates, health and pension requirements, and electricity reliability.

Ms. Burley spoke of the highly skilled analytical and technical CPS Energy workforce, noting that 74% of jobs require a degree, certification or technical skills. She stated that their priorities included system safety and reliability; customer connectivity and satisfaction; and coordination of Civic Improvements generated by the City of San Antonio and Bexar County. She noted that they would address changes in the utility industry and maintain their environmental commitment to broaden the scope of conservation and efficiency programs. She added that there were many challenges ahead and that it was important to adapt to changing customer expectations for expanded programs and renewable resources. She stated that they needed rate relief and financing to accomplish their goals and to keep the utility strong. At this time, a short video was presented to the Mayor and Council regarding CPS Energy operations to illustrate the need for assets and revenue.

Paula Gold-Williams, CPS Energy Chief Financial Officer presented the CPS Statistics regarding Generation; Electric Distribution and Transmission; and Natural Gas Distribution. She covered the Age of the Plants and noted that the average age was 26 years. She stated that CPS Energy was the largest Municipal Purchaser of Wind Energy and the largest Municipally Owned Combined Electric and Gas Utility in the United States. Regarding the Financials of CPS Energy, she indicated that in Fiscal Year 2009 Revenues were \$2 billion and Assets totaled \$9.4 billion as of 12/31/09. She added that total debt as of 12/31/09 was \$4.7 billion with an average interest rate of 4.7%. She reported that the revenue requirement drivers on the electric side included new generation; environmental/regulatory requirements; maintaining safety and reliability; covering operating costs; and supporting customer growth. She noted that on the gas side, they required Civic Improvements while maintaining safety and reliability. She explained that revenue requirements followed a sequence in which obligations were addressed by priority

beginning with Operating and Maintenance (O&M) Expenses and ending with the remainder allocated toward Repair and Replacement. She added that proper balance between cash and debt funding for construction is important for maintaining financial integrity.

Ms. Gold-Williams provided an overview of the application of Total Revenue, noting that the projected amounts assumed future rate support. She mentioned that the increased debt levels to fund capital programs resulted in increasing debt service requirements that totaled \$478 million by 2015. She noted that projected FY 2011 revenue requirements totaled \$1.97 billion and that the proposed electric and gas rate adjustment would account for \$99 million of that total. She outlined the Projected Flow of Funds through FY 2012 and Construction Funding through FY 2015, noting that the projected amounts assumed rate support. She highlighted the Debt Percentage Trend and stated that the target was to be below 60% by 2020.

Ms. Gold-Williams stated that all capital projects were analyzed and prioritized as part of the Financial Planning process and were planned in designated capital program categories. She noted that the First Priority Projects were mandated; Second Priority Projects were required with some discretion on timeframe; and Third Priority Projects were not required but provided customer benefits. She reported that the FY 2011 Capital Budget totaled \$523 million, while FY 2012 totaled \$433 million. She mentioned that approximately 90% of the proposed Capital Budget would be utilized to complete strategic projects in process including Spruce 2; connect new customers; and respond to civic improvement requests. She provided a construction history and projected costs and stated that the current cycle would focus on Spruce 2 and Environmental/ Sustainability Projects. She spoke of the initiatives to delay Electric Base Rate Increases since 1992 that included bond re-financings; Spruce Unit 1 Lease Regulations changed; sale of Lignite Coal Assets; Staffing Attrition; and Wholesale marketing of excess generation capacity that resulted in \$1 billion in savings to the community.

Ms. Gold-Williams reported that Environmental Initiatives were being addressed through expenditures in the Capital Plan and Operation and Maintenance Plan. She stated that they were monitoring new possible developments in the area of water and coal combustion byproduct and could require more financial support in the future. She outlined CPS Energy's sustainability efforts within the categories of STEP; AMI; Renewable Energy; Environmental; and Energy Research and Development and noted a commitment of \$5.5 billion through 2020. She stated that CPS Energy was the largest municipal purchaser of wind energy in the US and had 859 Megawatts (MW) under contract. She noted that various programs were in progress to purchase solar energy with 40.9 MW under contract and that the Solartricity Program would add 10 MW of local solar. She reported that through the STEP Program, they would target a savings of 771 MW by 2020 at a cost of \$850 million.

Ms. Gold-Williams provided the projected FY 2011 and FY 2012 Operating Budgets, noting that 70% was comprised of fuel, purchased power, partnership costs, and regulatory costs. She stated that combined with STP 1 and 2 Operating and Maintenance, CPS Energy was projecting continued O&M cost increases.

2. CITY COUNCIL DISCUSSION AND QUESTION-AND-ANSWER FORUM WITH CPS ENERGY

Councilmember Williams thanked CPS Energy for the presentation and spoke of the importance of transparency. He asked of CPS Energy's revenue requirement for FY 2011. Ms. Gold-Williams stated

that it was \$99 million. Councilmember Williams asked if CPS Energy had conducted an analysis regarding delaying projects to reduce the revenue requirement. Ms. Gold-Williams replied that they had gone through a prioritization process and had delayed various capital projects. She added that they were working on big projects including Spruce 2 and the Braunig Peakers and had decided against spending more on the AMI Project. Councilmember Williams asked if the operating expenses for FY 2011 were achievable. Ms. Gold-Williams stated that they were achievable and noted that they had deeply cut employee initiatives, contractors, and had cancelled Operating and Maintenance Projects. Councilmember Williams asked of Off-System Sales projections for FY 2011. Ms. Gold-Williams replied that they had forecasted FY 2011 similar to FY 2010 and did not expect gas prices to be as high as in FY 2009. She added that the projections were conservative.

Councilmember Rodriguez recognized CPS Energy staff for the improvement in transparency and communication and asked of the projected assumption regarding rate support. Ms. Gold-Williams stated that they were assuming a bill impact of approximately 4% every other year and could provide more detail on Wednesday. Councilmember Rodriguez asked of the FGD Scrubbers referenced on the Capital Prioritization Slide. Ms. Gold-Williams replied that they expected to have stricter regulations regarding FGD Scrubbers in 2015 and would begin in order to meet the timeline. She noted that more power plants would be retired by 2020 and those projects would move up in priority based on additional power requirements. Councilmember Rodriguez asked of the sustainability commitment. Ms. Gold-Williams stated that the \$2.1 billion allocated for Environmental included SCRs, Scrubbers, and Carbon Sequestration and assumed rate support.

Councilmember Rodriguez asked of the bond re-financings referenced on Slide 18 and of the conclusion that there are limited new opportunities. Ms. Gold-Williams noted that the long-term debt rate was 4.75% but rates are predicted to increase and there will not be opportunities for re-funding. Ms. Gold-Williams also stated that from a funding requirement, investment in renewables has been in the form of purchase power agreements and not in the form of capital. She added that they had focused on wind investment and would look toward more investment in solar energy. Cris Eugster added that their goal was to have 1,200 MW of renewable power by 2020 and already had 850 MW through wind and 40 MW of solar under contract. Councilmember Rodriguez asked that information be provided to ratepayers on the impact of rate increases and renewables. Mr. Eugster noted that wind contracts were structured through Power Purchase Agreements and did not require rate support.

Councilmember Clamp recognized CPS Energy for their work and increased communication with the City Council. He stated that he would like to receive clarification on whether the rate increase supports capital or maintenance and noted that there was deferred maintenance that was capital in nature but could be covered by a base rate increase and would like to have a discussion on same. He requested a comparison of previous and future projected rate increases to include capacity and utilization, as well as a traditional cash flow financial statement. He asked that CPS Energy continue to monitor strategy in terms of rate increases and provide information regarding benefits to the ratepayers. He requested information in regard to the 3.5% rate increase that was approved in 2008 and the effect on the CPS Energy Financial Statements. He asked CPS Energy to dedicate a slide to include the impact of rate increases to the utility. He stated that he would like to receive more information on the STEP Program and its impact to operations. Lastly, he expressed concern with the high debt structure and asked of the plan to drive it down.

Councilmember Cortez thanked CPS Energy for the presentation. He asked of the funding for STP 1 and 2 and asked if any funds were being spent on STP 3 and 4. Ms. Gold-Williams stated that funding for STP 3 and 4 was not included in the base rate and that funding for STP 1 and 2 was utilized for operational costs, capital maintenance, and planned outages. Councilmember Cortez asked of the STEP Program. Ms. Gold-Williams reported that the STEP Program had funding in the amount of \$849 million through 2020 and was funded through the fuel adjustment cost. Ms. Burley added that CPS Energy had not made a final determination on STP 3 and 4.

Councilmember Cisneros asked of CPS Energy's plan to continue savings in the future. Ms. Gold-Williams replied that they would keep staffing levels low. Councilmember Cisneros asked of the possible developments within Water and the Coal Combustion Byproduct Initiative. Ms. Gold-Williams stated that there were new environmental regulations that could increase the water usage and byproducts on their generation. She noted that they were currently recycling 100% of their coal combustion byproducts but may not be able to recycle in the future due to increased costs. She confirmed that Spruce 2 would be operational this summer. Councilmember Cisneros asked of the increase in the fuel adjustment charge. Ms. Gold-Williams stated that the fuel adjustment charge was driven by the market price of gas and there was a 60-day delay from the market price expended to what ratepayers experience on their bill. She added that during the Summer, the demand increases and causes costs to increase.

Councilmember Cisneros asked of CPS Energy's sustainability commitment. Mr. Eugster stated that funding was allocated toward Energy Research and Development and were exploring ways to increase funding as technology evolves. Councilmember Cisneros asked if CPS Energy had assessed the qualifications required for rebates to customers investing in solar panels. Mr. Eugster stated that they had a good solar rebate program that paid \$3 per watt and were seeing more activity regarding solar activity. Councilmember Cisneros requested that CPS Energy continue its commitment to the principles of Mission Verde for sustainability and spoke of the sustainability needs of the inner city. She also asked that CPS Energy provide other creative revenue options besides a rate increase.

Councilmember Lopez asked how the rate adjustment would be divided between debt service and operations and maintenance. Ms. Gold-Williams referenced Slide 8 and stated that the \$99 million would cover the increases in operating expenses from \$1.155 billion in FY 2010 to \$1.191 billion in FY 2011, and the increase in debt service from \$341 million in FY 2010 to \$375 million in FY 2011. Councilmember Lopez asked of the term of the incurred debt. Ms. Gold-Williams noted that they tried to stay within a 20-25 year range. Councilmember Lopez asked of the variations in Environmental/Sustainability projections referenced on Slide 17. Ms. Gold-Williams stated that the fluctuations were due to timing and that some years included maintenance, capital, and long-term projects.

Councilmember Chan thanked CPS Energy for their increased communication and requested detailed information regarding capital projects and their funding requirements. She asked if the sustainability commitment of \$5.5 billion included the proposed rate increase. Ms. Gold-Williams confirmed that it did. Councilmember Chan asked what category would be increased with the new rate increase. Ms. Gold-Williams stated that the rate increase was not focused on the STEP Program but covered new capital programs and operating costs. She added that there were some capital and O&M funds for Energy Research and Development that would be funded by the rate increase. Councilmember Chan asked of CPS Energy's commitment to solar energy. Mr. Eugster stated that 40.9 MW of solar energy were under contract and that a Request for Proposals had been solicited for 200 MW of all renewables to include

wind, solar, and biomass. He added that the goal for solar energy was 100 MW of the 1,200 MW by 2020. Councilmember Chan asked of the current plan for CPS Energy's Annual RFP for renewable energy. Mr. Eugster replied that they would like to have a broader discussion with the community regarding the goal for renewables since they were funded by the fuel adjustment charge and would impact the overall customer bill. He added that CPS Energy's goal was for the overall bill to be 10% lower than the competitive market in Texas and more aggressive renewable goals would have an impact on that.

Councilmember Medina clarified that none of the proposed rate increase would be utilized toward STP 3 and 4 or the STEP Program. Ms. Gold-Williams confirmed that the rate increase would be utilized to address the base capital plan and debt service and that no funding would be for STP 3 and 4 or STEP. Councilmember Medina expressed concern regarding the impact of a rate increase to individuals on a fixed income and stated that he looked forward to future discussions on the benefits.

Councilmember Ramos stated that the communication between CPS Energy and the City Council had greatly improved and thanked CPS Energy Staff. She expressed concern with the proposed rate increases every other year and was hesitant to move forward without better understanding the need. She asked if CPS Energy planned to increase the STEP and Renewable Programs. Ms. Gold-Williams stated that they did not have the information readily available but could provide it on Wednesday. Councilmember Ramos asked of funding for STP 3 and 4. Ms. Gold-Williams stated that they would bring forth recommendations for STP 3 and 4 and that \$30 million dollars had been spent on the project in January. Ms. Burley added that they were meeting all of their contractual obligations for STP 3 and 4.

Councilmember Cortez asked of the funds that were spent on STP 3 and 4 in January. Ms. Gold-Williams stated that the funds had been previously budgeted. Councilmember Cortez asked if another proposed rate increase would be necessary for STP 3 and 4. Ms. Burley replied that they would provide options to the City Council once they were approved by the Board. Councilmember Cortez expressed concern with two back-to-back rate increases. Mayor Castro thanked CPS Energy Staff for the presentation and Board Members in attendance. He requested a more specific break down of expenses and asked of the status of the Solartricity Program. Mr. Eugster stated that it has been put on hold and would be moving forward with a pilot program.

Mayor Castro asked for information regarding the direction that CPS Energy is going in regarding all of their programs and asked of the Advanced Metering Project. Mr. Eugster stated that they had reduced spending on the project thus it has slowed down. Mayor Castro expressed concern with the delay of projects that could get individuals to spend less on their energy bills. He asked of the status of the Weatherization Program. Maria Cadores of CPS Energy stated that they have begun outreach on the grant funded Weatherization Program and all forms are available on-line. She noted that they were working closely with the Office of Environmental Policy and preparing to award three contracts this month. She added that they were preparing a Request for Proposals for weatherization projects through the STEP Program and hoped to begin work in March. It was noted that 45,000 homes over the next 10 years would be weatherized. Ms. Burley stated that they were prepared to discuss STEP Weatherization, Affordability Program, and REAP on Wednesday. She explained that the Advanced Metering Project had been delayed in order to understand the customer requirements through automated metering. Mayor Castro mentioned that there should be more of a significant investment on research. He added that no elected official relishes a rate increase due to the challenging economic conditions, but sees a very substantive need for one.

3. CITIZENS TO BE HEARD

Mayor Castro called upon the citizens registered to speak.

Tom Smith addressed the Council and asked that no more money be invested in nuclear energy. He stated that an outside investigation should be conducted of CPS Energy due to the lack of information they provided regarding the costs of nuclear energy. He noted that due diligence was not done in gathering information from others throughout the country and taking into account that the City of Austin is looking at a 22% increase on a system that is two-thirds the size of San Antonio's. He reported that the Texas Legislature would be reviewing municipal utilities and whether or not their decisions about generation planning are appropriate. He spoke in support of the Mission Verde Plan and noted that other municipal utilities were looking to emulate same. He stated that conservation was important and suggested reducing peak energy use at buildings by scheduling energy usage. Lastly, he asked that CPS Energy look at environmental cost and investing in better scrubbers in an effort to keep the City out of non-attainment for ozone.

Orlando Gutierrez of the Ratepayers Protection Coalition addressed the Council and thanked Mayor Castro and Councilmember Chan for acknowledging him. He stated that he wanted what was best for the city and nuclear was not a good energy option. He noted that the process was still too closed and that CPS Energy should be more open. He stated that if STP 3 and 4 were approved, it would be the City Council's Legacy.

Alice Canestaro-Garcia stated that she was a retired school teacher and expressed concern that \$300 million had already been invested in nuclear energy. She spoke in opposition to the low energy rates provided to corporations and asked that ratepayers be allowed to provide input regarding the decision for nuclear energy. She asked that there be "Citizens to be Heard" at CPS Energy Board Meetings.

Karen Hadden of the SEED Coalition thanked the City Council for their questions and expressed concern that ratepayers had not received the information regarding what the funds would be utilized for. She asked how much more funding was needed for the new coal plant and urged the Council to conduct a technical and financial audit. She noted that the coal plant was built through a fixed-price contract and therefore, did not see the need for a rate increase.

Robert Wright spoke in support of an outside investigation being conducted on CPS Energy and asked that issues related to the coal plant be addressed. He expressed concern that there was not a real commitment to clean air and that most of the renewables would be funded through an increase in the fuel adjustment charge.

Faris Hodge, Jr. expressed concern with the furnace at City Hall and requested that the gas unit be replaced. He stated that he was not in support of nuclear energy due to the high cost and safety concerns. He spoke in favor of renewable energy sources and gas, stating he used gas for many years. He expressed concern with the rate increase and mentioned that he was part of the working poor. He requested that there be "Citizens to be Heard" at CPS Energy Board Meetings.

Cindy Weehler addressed the Council and thanked Councilmember Cisneros for her question regarding a limit on rebates for solar panels. She stated that the City Council approved CPS Bond requests but asked if they were aware of how the funds were utilized. She asked of the status of the 3.5% rate increase that

was approved in 2008 and of the \$206 million that was allocated toward STP 3 and 4. She mentioned that there were many innovative ideas for renewable energy including a program in which small loans were provided and paid through a customer's bill. She asked that innovation be researched for renewable energy.

ADJOURNMENT

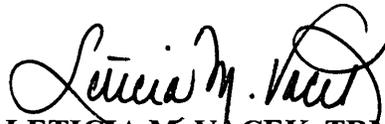
There being no further discussion, Mayor Castro adjourned the meeting at 8:45 pm.

APPROVED



**JULIÁN CASTRO
MAYOR**

Attest:



LETICIA M. VACEK, TRMC/CMC
City Clerk