

## The Smart Grid is “smart” because...?

A question for Mr. Chris Eugster, CPS Group Executive VP

At the June 11, 2014 City Council meeting you told our Council your Smart Grid project, “...was **\$290 million in upfront costs and would take 12 years to be paid back.**” Four CPS executives helped us quantify **three of your statement’s major omissions**. Based on CPS’ 20-year “Unlevered Free Cash Flow” spreadsheet (termed “Uh-Oh” below), these omissions invalidate your **12-year payback** claim:

1. “Unlevered” means “excluding financing costs.” If the cost of money required to finance the project is 4.5%, the project’s payback period increases to **20 years**.
2. Your Uh-Oh addresses only the 73% of the project that includes the benefit of eliminated meter readers. When the rest of the project investment is included, along with its assumed 4.5% cost of capital, the project’s 20-year cash flow turns negative.
3. CPS assigns a 15-year life to Smart Meters, requiring wholesale replacement during your 20-year projection but you excluded the meter replacement investment, a third Uh-Oh omission.

Your Uh-Oh, with these omissions restored, provides no payback but generates a **\$285.5 million negative cash flow** over the 20 years you have projected. But there’s more...

Frank Almaraz, your Senior VP of Finance and Accounting, declined to quantify four additional Uh-Oh economic smudges:

1. Smart Meter investment is focused in years 1 through 4 of your spreadsheet, suggesting that the meter reduction benefit will occur in years 1 through 5 as meter readers are displaced. But you show meter reader reduction “Benefits” at a steadily-increasing rate through all 20 years of your projection.
2. Any un-depreciated balances for existing analog meters replaced by Smart Meters must be expensed when the Smart Meter is installed. You apparently ignored such “stranded costs.”
3. There is no evidence that the cost of consultants (Landis+Gyr, Silver Spring Networks and currently, Black and Veatch) was recognized, further burdening your Smart Grid project.
4. The 2010/11 40,000-meter Landis+Gyr “Gridstream” market test was precipitously terminated by Doyle Beneby. This Smart Grid precursor further expands project costs.

**By how much will Smart Grid increase CPS utility costs and our utility bills?**  
(CPS’ executive staff was unable to answer this question as recently as August 19.)

If you don’t know where you’re going, any path will take you there.