

1722 Eagle Point
San Antonio, Texas 78248
January 31, 2015

Mr. Doyle Beneby, President & CEO
CPS Energy
P. O. Box 1771
San Antonio, Texas 78296

Subject: CPS "Smart Meter" Project

Dear President Beneby:

I expect we share an awareness of murmurings among our citizens, reacting to CPS' "Smart Meter" project. I am writing to suggest a CPS response that will avoid the contentious environment that accompanied the recent VIA/County/City "Modern Streetcar" project.

1. As a fellow advocate for automation and its associated cost-reducing benefits, I suggest preparation of a "Smart Meter" Return on Investment that might override the several other objections to the project that are more difficult to quantify -- effects of meter radiation on health; potential violation of customer privacy accompanying data transmission; increased risk of meter-related fires. If you were to convince your customers of the economic benefits of the shift from analog to on-line digital meters, other potential side-effects might be overshadowed. About this, more later.

2. This is not my first attempt to understand CPS costs. The enclosed May 5, 2011 letter to you, the second in a series addressing concealed costs of CPS-purchased wind and solar energy, requested the costs of wind power for which CPS had contracted, in relation to CPS costs of conventional energy sources. My inquiry was never answered because such contract terms were deemed "confidential" and their disclosure would somehow jeopardize vendor/CPS relationships. CPS even rejected the use of index numbers to characterize the relative economics of your power sources.

3. The City/Agency environment changed dramatically in late 2014 as petitions submitted to the City precipitated the abandonment of VIA's "Modern Streetcar" project and the City's agreement to add a provision to the May 2015 ballot that would amend the City Charter, requiring voter approval of any future rail project in the City. We cannot rank the many objections to streetcars that convinced the electorate to oppose the project but as "the numbers guy" for the Coalition that opposed the streetcar, I can attest that VIA's unwillingness to answer this question was a contributing factor: "How much more will it cost to own and operate streetcars than the buses they would replace?" We still have no response to this question, but streetcar is dead; VIA Chairmen Munoz and Briseno are gone; and citizen confidence in City and County governance has been seriously eroded.

Streetcar opposition was characterized by contentious meetings, numerous Open Records requests, extensive correspondence, involvement of other City/County government units and publicity that damaged VIA's image. None of us wants to repeat that experience. As President of CPS Energy, you manage at the intersection of business and politics. You have been successful in both realms. By contrast, I have the luxury of addressing only the

business/economic aspect of the Smart Meter project, a vantage I share with your other customers. Our question: “How do CPS Smart Meter data collection savings relate to the investment required to generate these savings?” Essentially, this is a re-visit of streetcar project economics. VIA conspired with Sheryl Sculley’s City staff to hide the streetcar project’s economics with serious consequences. You probably have a more attractive story to tell about Smart Meter economics.

The Return on Investment (ROI) Calculation

You are an experienced senior executive in the public utility industry. There is nothing I can add to your knowledge of ROI calculation methodology. But as a former senior business planning executive holding an MBA degree from Harvard, I am able to clarify my request for information from a business perspective, freed from political realities. It would be unfair for me to naively request “the project’s ROI” and then deluge you with “what about...?” questions prompted by your response. Rather, I will share the methodology suggested by my experience in evaluating capital projects for a major multi-national corporation.

1. Smart Meter Project Scope: Replace existing residential analog electric meters in the CPS service area that have an average residual life of **w** years with digital, communicating Smart Meters that have an average useful life of **x** years at a capital cost of \$290 million (an illustrative entry here).

2. Operating Returns on this investment will result from:

- a. the elimination of **y** meter readers and their supervisory and management staff at an annual cost saving of **\$z**, including fringe benefits, and related hiring, training, auto, and other expenses;
- b. the reduction of costly peak-capacity power generation to be achieved by “smoothing” demand, selectively shutting off power to residential consumers during higher-demand periods.
- c. the deduction from the above project savings of added Smart Meter personnel and supervisory and managerial staff (and related fringe benefit costs); depreciation costs accompanying the systems management hardware required to respond to demand changes and effect cost-reducing switching; and the amortization of system-optimizing software.

3. Investment will include, but not be limited to:

- a. the cost of the meters plus the cost of installing them;
- b. the cost of power management hardware and software required to realize Smart Meter economic benefits;
- c. a recognition that “Smart Meters” may receive government subsidies for capital investment which are also taxpayer funds, just as CPS funds invested in Smart Meters are taxpayer funds, and must be included in the project’s investment.
- d. the write-off of undepreciated analog meter value, accompanying the premature disposal of operable analog meters.

e. "Start-up Costs" in excess of ongoing operating costs, required to administer meter installers, acquire and de-bug systems hardware and software, and deal with legal and administrative costs associated with citizen resistance to Smart Meters.

f. the Smart Meter ROI calculation will recognize the differing useful lives of analog and digital meters. For example, if analog meters require a \$200 investment and last 20 years, their average annual depreciation cost will be \$10; the average annual depreciation for a digital meter that requires an investment of \$300 and lasts 10 years is \$30 per annum.

4. Financial (non-Operating) Returns of the project accompany the incremental funds invested. For example, if \$200 million of the illustrative \$290 million to be invested comes from CPS (really City funds), this money could have been used to pay down City debt at 4.5%, had it not been spent on Smart Meters. The remaining \$90 million may flow from a federal government subsidy providing taxpayer funds that could have been used to pay down Chinese debt at 3.0%.

You can see that my "guidelines" are straightforward business/financial considerations that help us quantify the financial aspects of the proposed Smart Meter project. I have intentionally omitted political considerations which, from your standpoint, may be just as compelling. However, for us power consumers, U. S. Department of Energy directives that are not based on economic considerations are not relevant to a financial analysis. If political pressures outweigh economic considerations in your decision-making, as they did when we discussed wind and solar energy costs, please share that burden with us citizens who own CPS Energy. Bad U. S. energy policy should not be your onus alone.

My hope is that you would direct this inquiry to a member of your staff skilled at conducting the many ROI studies your firm prepares each year. I would welcome the opportunity to work with the expert you designate.

I trust that my structured request will save your time over an open-ended, simplistic request for the Smart Meter Project's "Return on Investment." It is likely that a strong ROI will be useful to you in selling Smart Meters to the public whose apprehensions concerning the project appear to be growing.

Very truly yours,

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cc. Councilman Joe Krier
enclosure