



# **Report from Board of Trustees Forward**

**June 8, 2010**

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# Board Forward Agenda

- Sustainable Energy Policy
- Vision 2020
- Mission Verde
- Reliability and Infrastructure Modernization
- Integrated Resource Plan Synopsis
- Wholesale Market Strategy
- Competitive Matters Policy
- Financial Metrics
- Rate Strategy
- Enterprise Risk Management
- Customer Market Profile



# Sustainable Energy Policy

- The Trustees reaffirmed the Sustainable Energy Policy providing for:
  - A portfolio of conventional energy generation sources – nuclear, coal, natural gas, renewable energy and energy efficiency and conservation – will begin to transition CPS Energy from centralized to distributed generation.
  - Such a transition will be supportive of Mission Verde and in sync with the Strategic Energy Plan and Vision 2020.
  - Greater San Antonio can become a national pacesetter, in the process of creating green jobs, jump starting new technology research and development and mitigating climate change.



## Vision 2020 Goals Achievements to Date

CPS Energy has the largest wind energy portfolio among municipally owned utilities and is number one Texas solar utility

Vision 2020 Goal	Achievement to Date
1200 MW of Renewable Energy in our generation	910 MW of renewables under contract (94% of this is TX wind)
100 MW nonwind carve out	41 MW under contract for solar farms. 9.6 MW Landfill to Gas; Launch 5 MW Solartricity Producer Program
771 MW of Energy Efficiency STEP program	142 MWs overall reduction, 61 MWs peak demand reduction (first 2 years)
AMI and Smart Grid roll-out	40,000 meter 2 year pilot with planned system-wide roll-out following



# What CPS Energy Looks like by 2020

By 2020, CPS Energy will have achieved:

- Consistently rank in Top 5 nationally JD Power & Associates for gas and electric customer satisfaction
- 15% participating in Windricity and Solartricity offerings
- Over 100,000 customers actively managing energy use through AMI and Home Area Network related products
- Residential rates remain below Texas competitive markets

- Community peak demand lower by 771MW through STEP
- Renewable capacity goal of 1500MW or ~20% of our total generation additional capacity beginning in FY 2013, with a move to a distributed generation model to bring renewables within CPS Energy's distribution system
- Low carbon emission baseload power generation
- Improved reliability and responsiveness to customer service needs

- Employee satisfaction reaching 90% levels
- Continuous improvement culture, including training for the future
- Transparent communications at all levels and across all levels



# Vision 2020 Targets

## Customer Relationships

Vision 2020 Goal	FY2011 Targets	FY2012 Targets
Customer Satisfaction*	Market Strategies Intl. - Overall Satisfaction 75	Market Strategies Intl. -Controlling Rates 75 -Overall Satisfaction 77
Renewable Energy Participation	200M kwh sales or ~1% of our load signed up by 10,000 Windtricity customers	400M kwh sales or ~2% of our load signed up by Windtricity or Solartricity
Energy Efficiency	Additional 45MW of reduction through STEP	Additional 57.5MW of reduction through STEP
Smart Grid Products	10,000 home pilot with energy management portal	30,000 home pilot with energy management portal

\* Customer Satisfaction also includes external measurement by J.D. Power & Assoc.



# Vision 2020 Targets Employee Relationships

Vision 2020 Goal	FY2011 Targets	FY2012 Targets
Employee Satisfaction Survey	New Metric and baseline will be established after 1 <sup>st</sup> survey administered	Engagement, satisfaction and core values trend showing marked survey improvement
Succession Planning	Cascade to L3 and L2 levels; bench strength	Comprehensive workforce plan for all levels
1 <sup>st</sup> Principles of Leadership	L4 and L3 executives trained	Cascade to L2 and L1 management levels
Organizational Design	Adjustments to current organizational structure	Organizational effectiveness and review



# Vision 2020 Targets

## External Stakeholder Relationships

Vision 2020 Goal	FY2011 Targets	FY2012 Targets
Establish effective communications with our owner	Bi-monthly reports to City Council; regular meetings with City Staff	Add monthly meetings in different Council districts
Establish effective channels for community input	Complete communications strategy; conduct quarterly meetings with stakeholders	Set up pilots on social media and TVSA; expand role of CAC
Expand communications internally	Monthly executive meetings on key business issues	Quarterly management forums on key issues
Engage leadership in stakeholder communications	Engage SDT members in delivering communications to the community	Engage Board members in delivering communications to the community



# Vision 2020 Targets

## Operational Excellence

Vision 2020 Goal	FY2011 Targets	FY2012 Targets
Supporting customer and system growth	Infrastructure to grow the electric customer base by 2.9% and the gas customer base by 1.6%	Infrastructure to grow the electric customer base by 2.0% and the gas customer base by 1.0%
Improve system reliability	Maintain position in SAIDI and SAIFI performance, no lower than 2 <sup>nd</sup> quartile, with continuous improvement trend	Maintain position in SAIDI and SAIFI performance, no lower than 2 <sup>nd</sup> quartile, with continuous improvement trend
Infrastructure modernization	Replace and/or refurbish the infrastructure to support system reliability and functionality	Replace and/or refurbish the infrastructure to support system reliability and functionality
Meet civic improvement requirements	Coordinate with City, County and TxDOT to effectively manage road improvements	Coordinate with City, County and TxDOT to effectively manage road improvements
Maintain environmental performance	No violations from environmental reviews	No violations from environmental reviews
Successfully meet compliance requirements	Maintain NERC compliance; implement the Nodal market	Maintain NERC compliance, including additional requirements



# Vision 2020 Targets Carbon Constraints/Environment

Vision 2020 Goal	FY2011 Targets	FY2012 Targets
Renewable Energy	14MW Blue Wing Solar, 150MW Cedro Hill Wind completed; Contract for ~20MW Solar; explore ownership	27MW Solar 1 project completed; implementation of ~20 MW solar; explore ownership
Link to Mission Verde	Develop plan to integrate with Mission Verde, including a way to incorporate conservation education for school age children	Integration with applicable community initiatives started
Sustainability Report & Scorecard	1st CPS Energy Sustainability report; communicate to stakeholders	Review and monitor progress
Environmental/Regulatory	Explore alternate options including early CCS; legislative strategy review completed	SCR for Deely 2 on-line; Contract for scrubbers at Deely 1&2



# Vision 2020 Targets Technology and Innovation

<b>Vision 2020 Goal</b>	<b>FY2011 Targets</b>	<b>FY2012 Targets</b>
Implement AMI/HAN pilot program	Implement 10,000 AMI meters and 625 home devices to customers	Evaluate performance of installed HAN; explore expansion; 30,000 AMI meters
Explore new renewable sources	Secure 5MW from Solartricity Producer Program	Expand Solartricity Producer Program to another 5MW
Distributed Generation	Develop the Distributed Generation roadmap for SDT and Board approval	Implement Distributed Generation roadmap
New technologies and services	Begin research and development for energy efficiency customer engagement, renewables performance, smart grid, electric transportation and storage	Continue research and development, to include pilot projects, product development and service delivery plans



# Vision 2020 Targets

## Financial Integrity

Vision 2020 Goal	FY2011 Targets	FY2012 Targets
Improve financial processes	Revise and enhance financial processes	Complete next phase of Financial Transformation, complete development of management reports
Maintain our credit ratings	Retain current high ratings	Maintain ratings
Support the rate processes	Gain approval for FY2011 gas & electric rate adjustments	Design pricing program that supports sustainability goals
Maintain strong financial metrics	Debt Service Coverage = 1.43 Debt to Total Capitalization = 61%; Annual additional R&R contribution = \$43.1M	Debt Service Coverage = 1.41; Debt to Total Capitalization = 61%; Annual additional R&R contribution = \$39.5M (subject to change)



## Vision 2020 Targets Process Moving Forward

- Incorporate the budget process into the model in June 2010
- Incorporate annual targets and budgets into organizational business plans in July 2010
- Conduct quarterly reviews, to ensure targets remain on track, and changes in the business environment are addressed in plans



# Wholesale Market Strategy Implementation

- Past strategy was to sell approximately 10-15% of the energy produced, through a combination of long-term, medium term, day-ahead, and spot market transactions.
- Staff recommends continuing this diversified strategy through long term power supply agreements with selected public power counterparties in the San Antonio region.
- Key aspects of these agreements would include:
  - CPS Energy-owned assets would be allocated to native load customers first, thus protecting our customers from price risk and availability issues.
  - Only public power counterparties in the San Antonio region would be considered, including municipal utilities and electric cooperatives.
- Board Direction: Staff will proceed to negotiate and execute contracts, keeping the Board informed of progress.



# CPS Energy's Risk Appetite Statement

## Risk Appetite Statement as supported by the Board of Trustees on May 10, 2010:

**“In the course of business, the Company accepts normal business risks to deliver competitively priced and reliable energy to our customers while meeting our financial obligations (flow of funds). We will be prudent in managing risks that may adversely affect our financial integrity (metrics), or may result in significant operational or reputational damage, negative environmental consequences, incidents of regulatory non-compliance, or injury to employees or the community.”**

Key Considerations included in development of the statement are the Integrated Resource Plan, Debt Rating, Liquidity, R&R Fund Metric, Reliability, Environmental , and O&M.

The ERM was established in December 2006. ERM membership includes the Chief Executive Officer, Acting General Manager, Chief Risk Officer, and all direct reports to the Acting General Manager.



## Other Board Forward Follow-up Items

- Transparency and Competitive Matters Policy Task Force to provide presentation to the Board at June 28, 2010 meeting
- Board discussion and action on CPS Energy's strategic alliance with UTSA for green technology research
  - Board Resolution approved at June 8, 2010 Board meeting