

Alleged Fraud Revealed -- August 15, 2016  
An Analysis of San Antonio/CPS Energy Smart Grid Project Economics

CPS Management Presented Incomplete Project Economics to the  
City Council of San Antonio and Its Owner-Customers, with Foreknowledge

-- versus --

Omitted Project Economics Restored; Recent Developments Quantified, Despite  
Stonewalling by CPS Management Colluding with San Antonio City Staff

Stanley J. Mitchell  
San Antonio Making Bureaucracies  
Accountable Coalition  
210/493-2656  
[sjpamitchell@sbcglobal.net](mailto:sjpamitchell@sbcglobal.net)

## Alleged Fraud Revealed

CPS Energy's Emerging 20-Year Smart Grid Project Cash Flow Projection (\$millions)

August 15, 2016 -- Stanley J. Mitchell

### Alleged Fraud:

Chris Eugster, CPS Executive VP, presented CPS' Smart Grid project to City Council June 11, 2014.

San Antonio CFO Ben Gorzell remained silent, tacitly endorsing the CPS/City staff position:

"12- year payback on \$290 million in upfront costs:"

### The Reality:

	20-Year Cash Flow Projections		
	Gorzell Jun. 11, 2014 CPS' <b>Incomplete</b> Cash Flow Statement	Mitchell Jan. 14, 2016 CPS' <b>Completed</b> Cash Flow Statement	
Benefits (Meter Readers Eliminated)	433.3	433.3	
O & M (Operating & Maintenance Expense)	-109.8	-109.8	
Project Costs (O&M Expense)	omitted	-44.0	} Total -288.9 -- the nominal "\$290 million in upfront costs"
Capital Expenditures, Meters + Infrastructure	-178.3	-178.3	
Capital Expenditures, Back Office	omitted	-66.6	
Replacements, based on CPS est. 15-year life	omitted	-118.0	
Cost of Capital @ 4.5% (alternative use of funds)	omitted	-202.1	
Net Cash Flow	<b>145.2</b> <sup>1</sup>	<b>-285.5</b> <sup>3 4</sup>	

### Stonewalling:

Discoveries after January 14, 2016 delivery of 3-ring binder to Mayor Taylor, documenting -\$285.5 million:

Smart Meters capture 2% more usage than analog meters		-660.8	<sup>5</sup>
15-year meter life reduced to 6-years -- added Capital Expenditures		-174.4	<sup>6</sup>
15-year meter life reduced to 6-years -- Cost of Capital @ 4.5%		-85.6	
Estimated 20-year Battery Plant Cash Flow		-400.0	<sup>7</sup>
Ratepayer Burden (Cash Flow + More Usage)	<b>145.2</b>	<b>-1606.3</b>	<sup>8</sup>

### Why?:

In 2016, CPS will pay 13.46% of its Revenue to the City of San Antonio. <sup>9 10</sup>

CPS Energy is an unregulated monopoly because of this obvious conflict of interest. The City Council, supposedly CPS' regulator, is also its beneficiary, using proceeds from a CPS Energy tax to finance pet projects.

### Integrity Yields to Tyranny:

The added functions measured by smart meters, harnessed by multiple layers of computer programming managed by CPS, shield utility billing calculations from City Council view. "CPS Energy Is Out of Control." //

August 3, 2016

To Whom It May Concern:

The public utility **Consumer Protection** issue has been uniquely addressed by SAMBA, the San Antonio Making Bureaucracies Accountable Coalition. The quantified financial impact of CPS Energy's Smart Grid initiative, summarized on the preceding "CPS Energy's Emerging 20-Year Smart Grid Project Cash Flow Projection" (Projection), exposes a major anti-consumer consequence of the project -- understated costs that inexorably escalate utility billings -- higher utility costs that are regressive, disproportionately burdening the lowest income cohort of our population.

This commentary, supplementing the Projection on the preceding page, will demonstrate that (1) CPS Energy and San Antonio City staff have acted in concert to (2) knowingly understate Smart Grid project costs and (3) fraudulently report their "12-year payback on \$290 million in upfront costs" to the San Antonio City Council. The following **Footnote** entries relate the footnote on the Projection to that number on an attached exhibit. Our analysis, still in progress, demonstrates **the predations of an unregulated monopoly**.

The "Gorzell" column on the left of the Projection is CPS' incomplete Smart Grid 20-year cash flow projection (note the four "omitted" entries):

**Footnote 1** -- Support for the \$145.2 million entry is CPS' 20-year Smart Meter cash flow projection received from CPS VP Raiford Smith April 10, 2015 (at 1 attached). The CPS spreadsheet provides no 20-year totals (transparency is not a CPS strength); the \$145.2 million is the 20-year sum of "Unlevered Free Cash Flow" entries for electric meters (upper section at \$125.3 million) + gas meters (lower section at \$19.9 million). The "Unlevered" part of the caption informs us that interest costs have been excluded. Note that the "Payback Calculation" line at the bottom transitions from cumulative negative entries to a positive entry at year 12 on the second page. **This CPS spreadsheet develops a "12-year payback" by excluding the 4 cost lines labeled "omitted."**

The Projection's "Mitchell" column on the right restores the items omitted by Gorzell:

**Footnote 2** incorporates CPS' "Smart Grid Initiative Cost Estimate" (at 2 attached) which permits quantification of two of the omitted items. **CPS excluded its own data in its contrived Smart Grid "12-year payback" representation to the San Antonio City Council, the people's elected representatives (and CPS' "regulator").**

**Footnote 3** highlights the dramatically different 20-year cash flow outlook when the omitted cost of replacing smart meters at the end of their CPS-announced 15-year lives, and the 4.5% cost of capital are included. Detailed documentation of the correction of Gorzell's **positive \$145.2 million** 20-year forecast to the **negative \$285.5 million** in the Mitchell column was presented to Mayor Taylor in a 3-ring binder on January 14, 2016. She publicly committed January 7 to arrange a meeting with us and CPS management to review CPS' alleged fraudulent representation. (There is no attachment for this footnote).

**Footnote 4** is Mayor Taylor's May 31, 2016 letter, her only response to our voluminous documentation. Page 1 of her letter reports that she asked Gorzell to review the Gorzell analysis, ignoring our request for a review by an independent financial expert. **CPS and City government have colluded to withhold Smart Grid diseconomies from the electorate.**

The "Mitchell" column quantifies, below the dashed line, discoveries subsequent to the 3-ring binder presentation to the Mayor:

**Footnote 5** is the February 8, 2016 letter to Mayor Taylor (attached at 5) sharing results of the Texas PUC-sponsored Navigant Consulting study reporting 2% greater data capture by smart meters than the replaced analog meters -- a \$660.8 million added burden on CPS customers over 20 years. CPS was aware of this technical reality, declared "Enhanced Performance" by the enclosed Itron C1S smart meter flyer which "Captures energy that was not monitored in the past by electromechanical (analog) meters." **CPS has intentionally withheld (stonewalled) information that does not conform to their narrative.**

**Footnote 6** letter to Congressman Lamar Smith (copy to Mayor Taylor) establishes smart meter life at "5 to 7 years," rather than the 15 years alleged by CPS. Projected replacement capital expenditures and accompanying capital costs were increased in response. **CPS' announced 15-year service life for Smart Meters was uninformed and misleading.**

**Footnote 7** May 21, 2016 letter to CPS EVP Jelynn Leblanc-Burley (with copy to Mayor Taylor) acknowledges the CPS observation that "If you are considering a portfolio with significant renewables, you absolutely have to be talking storage..." Our \$400 million 20-year cost of a battery plant is a reasonable placeholder until CPS provides the financial assessment we have requested. By appealing to the AG's office for permission to withhold this information, CPS acknowledges a major pending cost burden associated with the battery plant component of their Smart Grid power management effort.

**Footnote 8** benchmarks the **\$1.75 billion spread** between the Gorzell +\$145.2 million and the Mitchell -\$1606.3 million ratepayer burdens. This enormous gap quantifies CPS Energy's lack of integrity. If CPS cannot be trusted with quantified project financials, can their other Smart Grid project representations (those not subject to quantification) be trusted? (There is no attachment for this footnote).

How can such an enormous gap in the financial appraisal of the Smart Grid project develop, if not by design? How can CPS' fraudulent representation persist in the face of all the contrary evidence? The answer --

**Footnote 9** describes in an April 29, 2016 letter to Mayor Taylor a staggering conflict of interest, the basis for describing CPS as an unregulated monopoly. The San Antonio City Council cannot be CPS' regulator while it is CPS' beneficiary --

- In 2016 CPS is budgeted to pay 13.46% of its REVENUE, about \$336 million, to the City.
- The \$336 million represents 30.6% of San Antonio's Total Budgeted 2016 General Fund Revenues.

The Texas Public Utility Regulatory Act speaks to this environment at Sec. 11.002 (b) -- "Public utilities traditionally are by definition monopolies in the areas they serve. As a result, the normal forces of competition that regulate prices in a free enterprise society do not operate. Public agencies regulate utility rates, operations and service as a substitute for competition." **San Antonio's "public agency" does not regulate CPS, they exploit it as an extension of the City's tax base.**

**Footnote 10** refers to a July 6, 2016 Open Records Request to CPS' Kip Giles for a summary of annual billings by political entity, the response to which is currently pending. The Mayor Taylor letter (footnote 4) states on page 2 -- the "...transfer of funds from CPS Energy represents payment in-lieu of taxes to the City." Thus, the 20 incorporated cities within CPS' service area are compelled to contribute to the financial health of San Antonio City through the CPS "stealth tax" buried in CPS rates. **The City of San Antonio, with the agency of its CPS Energy utility, is engaged in taxation without representation.**

Having established that San Antonio's CPS/City government cartel is ethically challenged, based on quantified financial data, we can close with the Smart Grid's unquantifiable financial and control threats.

**Footnote 11** challenges Mayor Taylor in the March 23, 2016 letter attached at // to recognize that CPS Energy is literally out of control because City Council cannot regulate Smart Grid billing rates buried in layers of computer programming, without help from CPS management, the object of the City's regulatory responsibility. The unknowable future billing/control abuses accompanying the enormous capabilities of the completed Smart Grid network, directed by unscrupulous management, are captured by the matrix on page 3 -- "Over-the-Air Flashable Firmware (programming)" "Real-time development and monitoring of individual customer usage profiles is key to CPS control of power demand." **"Smart Meters can be continually and selectively reprogrammed from a central CPS location."** -- **activities not subject to arms-length auditing. CPS ENERGY IS OUT OF CONTROL.**

This document is probably the best available answer to the questions, "How much does the Smart Grid project add to utility costs? And how do the Smart Grid's added costs burden the consumers the state exists to protect?" **The answers reveal that CPS Energy is an unregulated monopoly. Who will protect the citizens of San Antonio from this tyranny, if not our state government?**

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9
	2013	2014	2015	2016	2017	2018	2019	2020	2021
Benefits	\$ 3,799.4	\$ 7,226.8	\$ 10,873.6	\$ 14,929.0	\$ 15,388.6	\$ 15,863.5	\$ 16,354.1	\$ 16,861.1	\$ 17,384.9
O&M Expense	\$ 1,182.2	\$ 1,585.6	\$ 1,686.8	\$ 1,755.2	\$ 3,503.9	\$ 3,602.5	\$ 3,703.8	\$ 3,807.8	\$ 3,914.7
Taxes Other than Income Taxes	-	-	-	-	-	-	-	-	-
<b>EBITDA</b>	<b>\$ 2,617.2</b>	<b>\$ 5,641.2</b>	<b>\$ 9,186.9</b>	<b>\$ 13,173.9</b>	<b>\$ 11,884.7</b>	<b>\$ 12,261.0</b>	<b>\$ 12,650.4</b>	<b>\$ 13,053.2</b>	<b>\$ 13,470.2</b>
Depreciation and Amortization	\$ 1,551.8	\$ 3,285.5	\$ 5,093.4	\$ 6,959.0	\$ 7,094.9	\$ 7,251.7	\$ 7,415.5	\$ 7,586.8	\$ 7,765.8
<b>EBIT</b>	<b>\$ 1,065.4</b>	<b>\$ 2,355.7</b>	<b>\$ 4,093.5</b>	<b>\$ 6,214.8</b>	<b>\$ 4,789.8</b>	<b>\$ 5,009.3</b>	<b>\$ 5,234.8</b>	<b>\$ 5,466.4</b>	<b>\$ 5,704.4</b>
Income Taxes	-	-	-	-	-	-	-	-	-
<b>EBIT after Taxes</b>	<b>\$ 1,065.4</b>	<b>\$ 2,355.7</b>	<b>\$ 4,093.5</b>	<b>\$ 6,214.8</b>	<b>\$ 4,789.8</b>	<b>\$ 5,009.3</b>	<b>\$ 5,234.8</b>	<b>\$ 5,466.4</b>	<b>\$ 5,704.4</b>
Depreciation	\$ 1,551.8	\$ 3,285.5	\$ 5,093.4	\$ 6,959.0	\$ 7,094.9	\$ 7,251.7	\$ 7,415.5	\$ 7,586.8	\$ 7,765.8
Capital Expenditures	\$ 26,345.1	\$ 28,699.7	\$ 29,445.5	\$ 29,462.8	\$ 2,530.4	\$ 2,654.6	\$ 1,433.0	\$ 1,498.4	\$ 1,567.4
Interest Expense	-	-	-	-	-	-	-	-	-
Other Income	-	-	-	-	-	-	-	-	-
Deferred Income Taxes	-	-	-	-	-	-	-	-	-
<b>Unlevered Free Cash Flow</b>	<b>\$ (23,728.0)</b>	<b>\$ (23,058.6)</b>	<b>\$ (20,258.6)</b>	<b>\$ (16,289.0)</b>	<b>\$ 9,354.3</b>	<b>\$ 9,606.4</b>	<b>\$ 11,217.4</b>	<b>\$ 11,554.9</b>	<b>\$ 11,902.8</b>

**ELECTRIC**

NPV \$ 12,065.2  
IRR 9.6%

Benefits	\$ 968.3	\$ 1,905.7	\$ 2,766.0	\$ 3,947.6	\$ 4,018.3	\$ 4,090.2	\$ 4,163.5	\$ 4,238.1	\$ 4,314.1
O&M Expense	\$ 517.8	\$ 748.0	\$ 775.0	\$ 856.3	\$ 1,693.5	\$ 1,724.9	\$ 1,756.8	\$ 1,789.2	\$ 1,822.2
Taxes Other than Income Taxes	-	-	-	-	-	-	-	-	-
<b>EBITDA</b>	<b>\$ 450.5</b>	<b>\$ 1,157.6</b>	<b>\$ 1,991.0</b>	<b>\$ 3,091.3</b>	<b>\$ 2,324.8</b>	<b>\$ 2,365.4</b>	<b>\$ 2,406.7</b>	<b>\$ 2,448.9</b>	<b>\$ 2,491.9</b>
Depreciation and Amortization	\$ 384.6	\$ 868.0	\$ 1,330.1	\$ 1,969.9	\$ 1,987.2	\$ 1,998.5	\$ 2,009.9	\$ 2,021.5	\$ 2,033.1
<b>EBIT</b>	<b>\$ 65.9</b>	<b>\$ 289.7</b>	<b>\$ 660.9</b>	<b>\$ 1,121.4</b>	<b>\$ 337.6</b>	<b>\$ 366.9</b>	<b>\$ 396.8</b>	<b>\$ 427.4</b>	<b>\$ 458.8</b>

**GAS**

EBIT after Taxes	\$ 65.9	\$ 289.7	\$ 660.9	\$ 1,121.4	\$ 337.6	\$ 366.9	\$ 396.8	\$ 427.4	\$ 458.8
Depreciation	\$ 384.6	\$ 868.0	\$ 1,330.1	\$ 1,969.9	\$ 1,987.2	\$ 1,998.5	\$ 2,009.9	\$ 2,021.5	\$ 2,033.1
Capital Expenditures	\$ 7,084.5	\$ 8,423.9	\$ 7,863.9	\$ 10,127.8	\$ 318.6	\$ 155.6	\$ (454.2)	\$ (448.9)	\$ (443.7)
Interest Expense	-	-	-	-	-	-	-	-	-
Other Income	-	-	-	-	-	-	-	-	-
Deferred Income Taxes	-	-	-	-	-	-	-	-	-
<b>Unlevered Free Cash Flow</b>	<b>\$ (6,634.1)</b>	<b>\$ (7,266.3)</b>	<b>\$ (5,872.9)</b>	<b>\$ (7,936.5)</b>	<b>\$ 2,006.2</b>	<b>\$ 2,209.8</b>	<b>\$ 2,860.9</b>	<b>\$ 2,897.8</b>	<b>\$ 2,935.5</b>

NPV (3,577.3)  
IRR 5.8%

**Payback Calculation**

\$ (30,362.0)	\$ (60,686.9)	\$ (86,818.4)	\$ (110,143.2)	\$ (98,783.2)	\$ (86,967.1)	\$ (72,858.8)	\$ (58,436.1)	\$ (43,597.8)
---------------	---------------	---------------	----------------	---------------	---------------	---------------	---------------	---------------

	Year 10 2022	Year 11 2023	Year 12 2024	Year 13 2025	Year 14 2026	Year 15 2027	Year 16 2028	Year 17 2029	Year 18 2030	Year 19 2031	Year 20 2032
\$	17,926.3	18,485.9	19,064.2	19,662.0	20,280.0	20,918.9	21,579.5	22,262.5	22,968.7	23,699.1	24,454.5
\$	4,024.6	4,137.4	4,253.4	4,372.5	4,494.8	4,620.5	4,749.7	4,882.3	5,018.6	5,158.6	5,302.4
\$	13,901.8	14,348.4	14,810.8	15,289.6	15,785.2	16,298.4	16,829.8	17,380.1	17,950.1	18,540.5	19,152.1
\$	7,953.0	8,148.5	8,353.0	8,566.7	8,790.1	9,023.6	9,265.8	9,517.3	9,777.3	10,045.0	10,320.6
\$	5,948.8	6,199.9	6,457.9	6,722.9	6,995.1	7,274.8	7,568.9	7,868.9	8,174.5	8,485.9	8,802.5
\$	5,948.8	6,199.9	6,457.9	6,722.9	6,995.1	7,274.8	7,568.9	7,868.9	8,174.5	8,485.9	8,802.5
\$	5,948.8	6,199.9	6,457.9	6,722.9	6,995.1	7,274.8	7,568.9	7,868.9	8,174.5	8,485.9	8,802.5
\$	7,953.0	8,148.5	8,353.0	8,566.7	8,790.1	9,023.6	9,265.8	9,517.3	9,777.3	10,045.0	10,320.6
\$	1,639.3	3,018.5	1,793.1	1,875.9	1,961.4	2,051.4	3,468.9	2,243.7	2,346.7	2,454.4	2,566.9
\$	12,262.5	11,330.0	13,017.8	13,413.6	13,823.8	14,247.0	13,360.9	15,136.5	15,603.4	16,086.2	16,585.2
\$	4,391.5	4,470.3	4,550.5	4,632.3	4,715.5	4,800.2	4,886.5	4,974.3	5,063.8	5,154.8	5,247.6
\$	1,855.8	1,890.0	1,924.7	1,960.1	1,996.0	2,032.6	2,069.8	2,107.6	2,146.1	2,185.2	2,225.0
\$	2,535.7	2,580.3	2,625.8	2,672.2	2,719.4	2,767.6	2,816.7	2,866.7	2,917.7	2,969.7	3,022.6
\$	2,044.9	2,056.7	2,068.7	2,080.9	2,093.1	2,105.5	1,733.4	1,262.6	813.2	186.2	182.0
\$	490.8	523.6	557.1	591.3	626.3	662.1	1,083.3	1,604.1	2,104.5	2,783.4	2,840.6
\$	490.8	523.6	557.1	591.3	626.3	662.1	1,083.3	1,604.1	2,104.5	2,783.4	2,840.6
\$	490.8	523.6	557.1	591.3	626.3	662.1	1,083.3	1,604.1	2,104.5	2,783.4	2,840.6
\$	2,044.9	2,056.7	2,068.7	2,080.9	2,093.1	2,105.5	1,733.4	1,262.6	813.2	186.2	182.0
\$	(438.4)	162.7	(427.8)	(422.5)	(417.2)	(411.9)	170.0	(401.4)	(396.1)	(390.8)	(385.6)
\$	2,974.1	2,417.6	3,053.6	3,094.7	3,136.6	3,179.5	2,646.7	3,268.1	3,313.8	3,360.5	3,408.2

\$ (28,361.9) \$ (14,613.8) \$ 1,457.6  
 (circled)



Compose

Search results Archive Move Delete More

People

Inbox (148)

Drafts (4)

Sent

Archive

Spam (197)

Trash (112)

Smart Views

Folders

Coalition

Notes

Recent

Re: Smart Grid Initiative Cost Estimate

Mr. Mitchell,

Below is a breakdown of the numbers that you requested:

Smart Grid Initiative Cost Estimate	
Labor*	\$3,846,762
Customer Engagement	\$2,831,200
Software & Programming	\$100,990
Training	\$914,571
Materials	\$102,879
Networking	\$96,879
Stores Materials	\$6,000
Services	\$40,067,078
Communications	\$1,873,000
Customer Engagement	\$3,600,000
Installation	\$2,852,500
Maintenance & Support	\$1,232,561
Software & Programming	\$24,924,448
Training	\$742,500
Project Labor	\$2,092,069
Security Monitoring	\$750,000
Repairs	\$2,000,000
Labor*	\$24,472,641
Installation	\$7,260,240
Metering	\$976,689
Networking	\$4,838,485
Software & Programming	\$3,885,453
Testing	\$366,375
Project Labor	\$7,145,398
	\$141,958,76
Materials	5
Computer Hardware	\$800,000
	\$128,533,76
Metering	5
Networking	\$9,251,938
Special tools	\$228,999
Test Equipment	\$3,093,613
Stores Materials	\$50,450
Services	\$78,451,650
Installation	\$32,172,407
Security	\$400,000
Software & Programming	\$16,618,508
Testing	\$1,001,447
Project Labor	\$28,259,289
	\$288,899,77
<b>Grand Total</b>	<b>6</b>

— 44,016,719 O&M

— 244,883,056 Capital

— 288,899,776 Total

\* Labor refers to internal CPS labor only.

Thank You,  
 Frances M. Flores, CP  
 Certified Paralegal  
 CPS Energy - Legal Services Division  
 145 Navarro, San Antonio, TX 782051 Office: (210) 353-6899  
 color logo





CITY OF SAN ANTONIO

IVY R. TAYLOR  
MAYOR

May 31, 2016

Stanley Mitchell  
1722 Eagle Point  
San Antonio, TX 78248

Dear Mr. Mitchell,

My office is in receipt of the extensive correspondence that you have provided regarding the deployment of the Automated Meter Infrastructure (AMI) project by CPS Energy. I requested that Ben Gorzell, the City's Chief Financial Officer and Utilities Director, review the information you provided. Mr. Gorzell and staff reviewed this information, briefed my staff, and we offer the following highlights.

CPS Energy began the deployment of the AMI project in August 2014. The AMI project includes the installation of automated meters and the supporting infrastructure for CPS Energy customers. The business case for the AMI Project was developed by CPS Energy with the assistance of an outside consultant, Black & Veatch. This business case takes into consideration the costs related to the deployment of the AMI project against the expected benefits to be derived from the project. The net present value of the financial cash flow in today's dollars is projected to be a positive \$19 million. Some of the benefits of the AMI project include:

- Ability for customers to be more informed of their energy use;
- Collection of usage data will allow CPS Energy to develop new products and pricing structures that can be a better fit for customers based on their usage pattern;
- Real-time feedback if a meter is not functioning properly;
- Ability to troubleshoot some customer issues remotely; and
- Ability to support additional energy conservation and emerging distributed generation options.

While the business case is positive, the AMI Project also establishes the platform to implement additional technological enhancements to the CPS Energy system. The next planned phase for CPS Energy is Distribution Automation (DA). The DA project will deploy technology infrastructure to significantly enhance automation within the CPS Energy distribution system and

Page 2

will enable CPS Energy to more closely monitor the energy load on its system, avoid some service outages through automation, and quickly isolate problems and restore power. In summary, the AMI and DA Projects will implement state of the art technology to allow for better customer service, support our energy conservation goals, provide for more efficient delivery of service, and ensure CPS Energy remains in the forefront to address emerging developments within the energy field.

Lastly, you make reference in your most recent letter to the City of San Antonio's return from CPS Energy. The City of San Antonio acquired CPS Energy in an asset purchase from San Antonio Public Service Company in 1942. As the owner of CPS Energy, the City receives up to 14% of the utility's revenues. This transfer of funds from CPS Energy represents payment in-lieu of taxes to the City and compensation for use of San Antonio's public right-of-way (reimbursement for the loss of taxes and right-of-way compensation which the City would receive were the utility privately owned), and a return on equity to the owners of CPS Energy, the citizens of San Antonio. These funds are deposited into the City's General Fund for basic city services such as public safety, parks, and libraries.

If CPS Energy were a private company, these costs would still be passed through to ratepayers, but in that case the return would be going to private shareholders. Under this model, the return is provided through basic city services all while CPS Energy continues to maintain some of the lowest rates in the State of Texas.

Thank you again for your correspondence and I hope this addresses your concerns.

Sincerely,



Ivy R. Taylor  
Mayor

1722 Eagle Point  
San Antonio, Texas 78248  
February 8, 2016

The Honorable Mayor Ivy R. Taylor  
City Hall  
P. O. Box 839966  
San Antonio, Texas 78283

RE: "Making Bureaucracies Accountable," Mitchell Consultant Report, January 14, 2016

Dear Mayor Taylor:

You and I have learned that corruption ("dishonest or illegal behavior especially by powerful people") is typically a pattern, rather than an incident. A cockroach does not exist in isolation. Consistent with that experience we now find that CPS' Smart Meter revolution carries another deception with a consumer impact even greater than that detailed in subject Consultant Report. CPS is currently engaged in a stealth revenue increase, detailed below, that represents, conservatively, a **\$660.8 million misappropriation of funds** over the 20 years CPS has used in its Smart Grid financial forecasting.

#### **Smart Grid Revolution Revelation**

The enclosed specification sheet for the digital Itron CIS Centron Meter (Itron's Smart Meter) claims enhanced performance that "Captures energy that was not monitored in the past by electromechanical (analog) meters." This obscure, but pithy statement opens a new line of inquiry -- how much additional billing/profit will CPS enjoy (what additional cost burden must CPS customers bear) as the result of CPS' conversion to Smart Meters?

The Texas Public Utility Commission-sponsored "Evaluation of Advanced Metering Systems Deployment in Texas, July 30, 2010" is a 170-page study (the Study) by Navigant Consulting that addresses the question, "Is electricity usage accurately metered and recorded by the advanced (Smart) meters?" The complete Study is available at the Navigant Consulting website. The following narrative incorporates extracts from the Study, citing the page number source:

A side-by-side evaluation of digital (Smart) and analog (conventional) meters in a laboratory environment revealed that **digital meters capture approximately 2% more usage** than the

analog meters they replace (Figure 30, page 66 attached). However, this understates the “real world” differential. The lab evaluated new meters (“A total of 32 advanced “digital” and 32 electromechanical “analog” meters were identified and shipped to MET Lab...” for testing, page 64). But “It is not uncommon for electrical meters to generally slow down over time without adjustment and the average age of electromechanical “analog” meters still in service...is estimated to be over 20 years” pages 16 and 17). And, at page 104, “...it is reasonable to expect that advanced meter households would, on average, result in higher metered electricity usage than electromechanical meter households given the relative age and perceived inaccuracy of older electromechanical meters.” It is reasonable to conclude that CPS’ recorded and billed electrical usage will increase by well over 2% when Smart Meters are installed.

**CPS’ Billing Fraud Quantified**

CPS billing for residential service was \$912.2 million and commercial billing was \$739.9 million in 2014, a pre-Smart Meter year. If the above **increase in usage, conservatively estimated at 2%** accompanying a switch to Smart Meters, were imposed on this \$1,652.1 million of 2014 combined residential/commercial billing, CPS’ revenue (and profit) for that year would increase by \$33.0 million (\$1652.1 x 2%). If we project that revenue enhancement over the 20 years of the CPS cash flow forecast, it will generate an additional \$660.8 million of CPS profit (\$33.0 x 20 years) and increase consumer costs by the same amount.

**Victims**

City Council -- Council approval is required for all CPS rate increases because, historically, a rate increase has been synonymous with a customer billing increase. This is no longer true because, as a result of the Smart Meter revolution, a Smart Meter typically captures the **additional 2% usage** referenced above. Billing inputs --

$$\begin{array}{rcccl} \text{Usage} & \times & \text{Rate} & = & \text{Billing} \\ \text{(in Kilowatt Hours)} & & \text{(in \$ per KwH)} & & \text{(in \$)} \end{array}$$

-- yield a 2% increase in billing, when either Usage or Rate is increased by 2%. Therefore, a usage increase should be subject to City Council overview, as is a rate increase. But CPS has, with foreknowledge, compounded their Smart Meter cost misrepresentation in the subject Consultant Report, with this stealth revenue scheme.

Utility Customers -- There is anecdotal evidence of the customer impact of this revolutionary change expressed in caricatures of customer Smart Meter complaints and CPS responses -- “Since the installation of my Smart Meter, my electricity bill has doubled when compared with last year.” CPS responses: “It was colder this year; have you compared the number of

billing days this year versus last year?; our meter reader may have estimated your usage last month.” CPS has never attributed a billing increase to Smart Meters’ revolution in measurement technology, of which they are fully aware, but has blamed changes on customer behavior. **This is an active fraud.** As noted in my opening sentence, “dishonest behavior” is the hallmark of “corruption.”

### **“Accurate” vs. “Inaccurate”**

But in prior years customers have benefitted from the under-usage reported by the old analog meters, right? **Not so!** Existing CPS electric rates were set to provide a reasonable rate of return based on profits resulting from existing analog meter reporting. The change to digital meters that report higher usage, absent a compensating reduction in rates, significantly increases customer billing and that without Council approval.

But there’s more! Smart Meters now installed can be enabled to measure ten billable components of incoming electric current at the discretion of CPS, based upon software instructions programmed into each meter’s “firmware.” That programming can be altered by CPS at any time without advising either CPS customers or the City Council. Has CPS demonstrated the integrity to warrant entrusting technicians and programmers with this kind of discretion? Extensive technological capabilities of the Smart Grid can be used to shield CPS operations from political controls and to obscure CPS billing practices from consumers.

Our next effort will be directed at identifying what CPS will be able to measure in the new Smart Grid environment and how that data can be exploited, free from prying eyes. This cockroach, characteristically, is most active in the dark. Forget about transparency.

### **The Public Utility “Cost Plus” Environment**

Measurement fraud aside, is it not true that the Study sponsored by the Texas Public Utility Commission commends the accuracy of Smart Meters and endorses their use? Why would the TPUC promote an uneconomic technology? There are two reasons:

1. Texas House Bill 2129 states that “...new metering and meter information technologies have the potential to increase the reliability of the regional electric network, encourage dynamic pricing and demand response, make better use of transmission and generation assets, and provide more choices for consumers...” (Study page 27) Note the absence of any mention of utility cost containment for the benefit of consumers. On what cost analysis did the legislature base their proclamation? Are legislators typically green eyeshade financial types, or do they tend to operate at the headline level? Are they susceptible to moneyed interests promoting a Smart Grid investment boondoggle?

2. A public utility is a “cost plus” monopoly that incurs costs to produce and/or distribute utilities. The Texas PUC evaluates a utility’s cost documentation and accompanying rate increase proposal and approves a rate structure that gives the utility a reasonable return on investment (an assured profit).

A public utility and its investors are on one side of the rate-setting decision; the TPUC, representing consumers, is on the other. TPUC jawboning is the utility’s only incentive to contain costs.

By contrast, San Antonio’s City-owned utility finds citizens on both sides of the CPS rate-setting decision. As utility customers, our citizens benefit from low costs, reflected in low utility rates. As investors, our citizens again benefit from the profit spread between these low costs and the established rate because our City government shares in CPS profits. CPS has a double incentive to keep costs low -- for investors and consumers (San Antonio citizens in both instances). **“Cost plus” public utilities are not appropriate financial models for our CPS Energy.** Why does not our City staff provide the financial strategic thinking to guide CPS Energy’s decision-making?

#### **Summary of the Impacts of CPS Bad Behavior on Consumers**

Subject Consultant Report identifies a negative cash flow over the 20-year CPS projection of **\$285.5+ million** (and still counting), all of which will be passed along to customers in higher electric utility rates.

This letter identifies **\$660.8+ million** of additional billing to be passed directly to customers in their monthly billing through higher usage accompanying the conversion from analog to Smart Meters.

That’s an added 20-year **\$946.3+ million** (\$285.5 + \$660.8 million above, almost a billion dollars) burden on CPS customers, a further consequence of Doyle Beneby’s “renewables-at-any-cost” philosophy.

#### **Consultant Report Confirmation**

This review of CPS’ stealth billing increase reinforces subject Consultant Report’s “Proposed Corrective Actions” at page 10:

1. The Report complains at 1.1 (page 3) that Eugster misrepresented Smart Grid project economics to City Council, an overt fraud; this letter exposes CPS’ stealth billing increase, a fraud by omission resulting from what CPS knew but withheld from us.

2. Eugster's fraudulent misrepresentation was abetted when City staff representatives Sculley, Gorzell and Elliott exhibited tacit approval of Eugster's presentation; and why is this letter's revelation provided by concerned citizens, rather than by City staff?

3. CPS has declined to participate in quantifying six issues that would worsen Smart Meters' negative cash flow, as reported at 1.2.2 (page 5) of the Consultant Report; because of CPS' evident lack of concern for Smart Grid project financials, **I will not share this letter with CPS.**

4. Mayor Taylor must have access to a trustworthy, direct-report financial expert who can perform the financial analysis contained in this letter, thereby adding authority to the Mayor's existing responsibility, and equipping her to be accountable for the City's financial management. She can then impose accountability on an unelected CPS Board of Trustees.

Until the next cockroach emerges...

With Sincerest Regards,

Stanley J. Mitchell  
[sjpamitchell@sbcglobal.net](mailto:sjpamitchell@sbcglobal.net)  
210/493-2656

cc. Ms. Jill DeYoung, Chief of Staff for Mayor Taylor  
enclosures

**All power tends to corrupt and absolute power corrupts absolutely.** Lord Acton



# C1S

CENTRON® Meter

The CENTRON C1S solid-state meter is used for measuring single-phase energy consumption. With this solid-state meter, Itron presents a platform for residential metering with the flexibility to adapt as your needs expand and change.

The CENTRON C1S is available as an energy meter with an LCD register. As an option, the meter is available with interchangeable personality modules, including demand, time-of-use (TOU), load profile and various communication options.

## FEATURES

### Flexible Platform

- » The CENTRON meter can easily be upgraded to any of the option modules available
- » All calibration data is permanently stored in the base of the meter on the CENTRON metrology board

### Personality Modules

- » The interchangeable personality modules are part of a snap-in register assembly
- » The personality module houses all register or communication functions

### Enhanced Performance

- » Low starting watts
- » Low burden
- » Captures energy that was not monitored in the past by electromechanical meters

### Tamper Resistant

- » Measures energy even if the meter is inverted

### Standard Features

- » Electronic LCD register
- » Polycarbonate cover
- » Test LED Unattended Processing

### Option Module Upgrades

- » Demand module (C1SD)
- » TOU with demand module (C1ST)
- » Load profile with TOU and demand module (C1SL)
- » R300 900 MHz RF module (C1SR)

### Option Availability

- » Glass cover
- » Electronic detent
- » Identification/Accounting aids

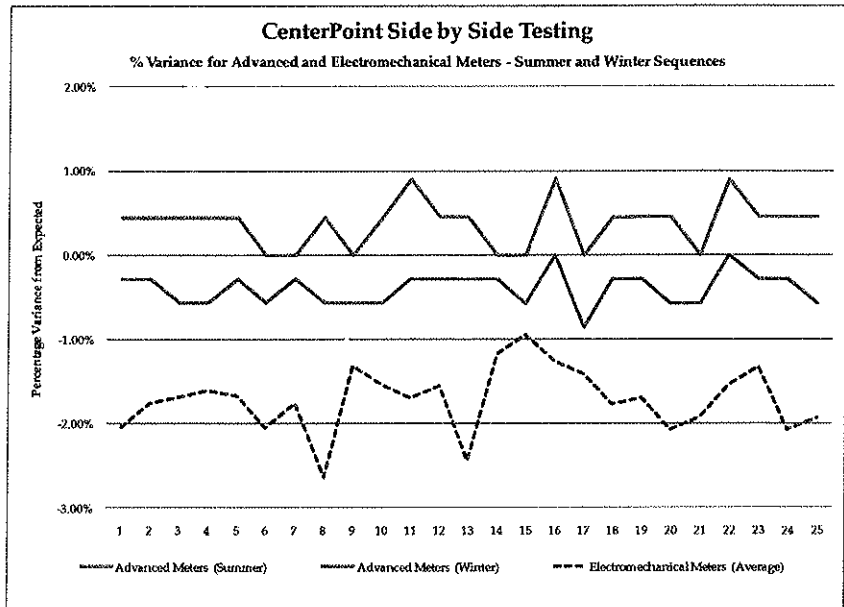
## Product Availability

Meter Version	Class	Volts	Wire	Form	Digits/Mult	Energy Setting	Catalog Number Glass	Catalog Number Poly
C1S	100	120	2	1S	5x1	Undetented	G980225	G980205
C1S	200	240	3	2S	5x1	Undetented	G980194	G980181
C1S	320	240	3	2S	5x1	Undetented	G980236	G980213
C1S	20	120	2	3S	5x1	Undetented	G980247	G980248
C1S	20	240	3	4S	5x1	Undetented	G980255	G980223
CN1S	200	120	3	12S	5x1	Undetented	G980257	G980195
CN1S	200	120	3	25S	5x1	Undetented	G980265	G980266

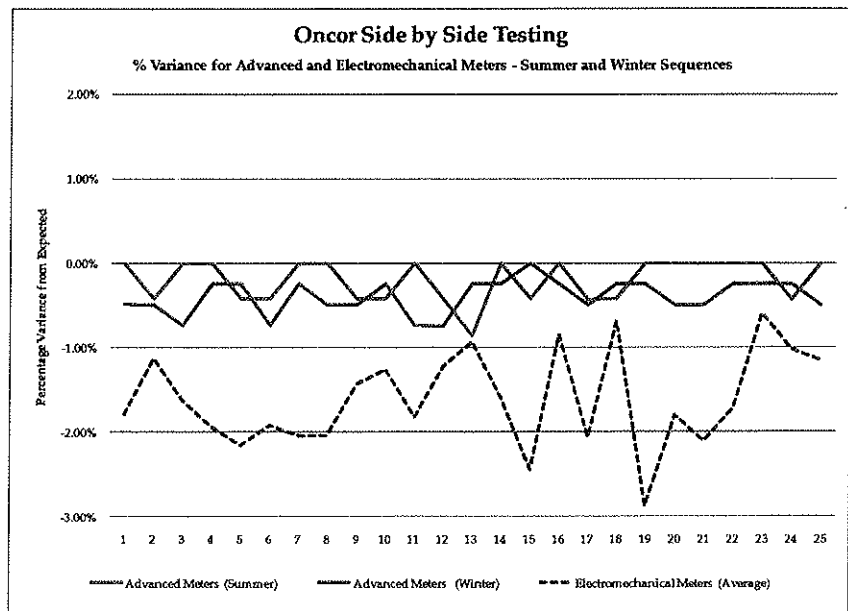


It is important to note, that there were certain limitations on the precision of kilowatt hour usage measurements for both the advanced and electromechanical meters. While the applied load and expected kilowatt hour usage could be measured more precisely to a certain number of decimal points, the readings on the advanced and electromechanical meters were limited to integers (i.e., whole kilowatt hours). As such, the results presented above are believed to be representative, within a range of precision considered to be no less than approximately +/-1%. With that understanding, the advanced meters demonstrated results that were consistent with what was expected and the electromechanical meters, on average, appeared to run slower than expected.

**Figure 30** is a graph of the % variance from expected for the CenterPoint meters. The advanced meters tested within the same relative range of performance. The difference between the winter and summer test sequences was within the range of precision for the Side-by-Side Testing. The electromechanical meters appear, on average, to have run slower than expected.



**Figure 31** is a graph of the % variance from expected for the Oncor meters. The advanced meters tested within the same relative range of performance. The difference between the winter and summer test sequences was within the range of precision for the Side-by-Side Testing. The electromechanical meters appear, on average, to have run slower than expected.



1722 Eagle Point  
San Antonio, Texas 78248  
May 13, 2016

Congressman Lamar S. Smith  
c/o Mike Asmus, Director, 21st Congressional District  
1100 N. E. Loop 410, Suite 640  
San Antonio, Texas 78209

RE: CPS Energy's Fraudulent Smart Grid Financial Representation

Dear Congressman Smith:

This is a follow-up to an April 26, 2016 meeting with Mike Asmus attended by Susan Straus, sister of Texas House Speaker Joe Straus, and me at which we reviewed CPS' subject fraudulent behavior, misrepresenting Smart Grid project financials at the June 11, 2014 meeting of the San Antonio City Council. We want to share the grassroots impacts of Mr. Obama's policy, "When I get done regulating coal, utility rates will necessarily skyrocket." Your Committee on Science, Space & Technology has been actively resisting this policy, executed through the extra-legal bureaucratic fiat of the EPA and DOE.

Recently, our informational link has precipitated action:

1. Susan Straus found a video record of the October 20, 2015 testimony (presumably under oath) by Bennett Gaines, Senior VP & Corporate Services (Chief Information Officer) for FirstEnergy Service Company before your Congressman Randy Weber's Joint Energy & Resource & Technology Sub-Committee. He testified that "They (smart meters) don't have the life of an existing meter which is 20 to 30 years. **These devices have a life of between 5 to 7 years.**"

<http://smartgridawareness.org/2015/10/29/smart-meters-have-life-of-5-to-7-years/>

2. The enclosed "Smart Grid 20-Year Cash Flow Forecasts Compared," includes:

Column A, filled with footnoted omissions, is the fraudulent Smart Grid financial assessment CPS' Executive Group VP, Chris Eugster shared with our City Council June 11, 2014, describing a "\$290 million project with a 12-year payback."

Column B, includes line items ignored by CPS, moving CPS' **positive \$145.1 million cash flow over 20 years** (Column A) to our Coalition's **negative \$285.5 million cash flow over 20 years**. This assessment assumes meter replacement every 15 years, a useful life assigned (under pressure) by CPS' VP of External Relations, Rudy Garza, in the presence of CPS' Senior VP of Finance and Accounting, Frank Almaraz at our August 3, 2015 meeting.

Column C, substitutes a 6-year Smart Meter useful life for the 15-year life in Column B. Total Capital Expenditures increase by 48.1%, from \$362.8 million in Column B to \$537.3 million in Column C and the project's Cost of Capital increases similarly. The project's negative cash flow over 20 years nearly doubles, from \$285.5 million in Column B to a **negative \$545.6 million**.

3. These summary data are supported by detailed spreadsheets shared with Mike during our recent meeting. This is not our entire financial fraud case against CPS; it is the part to which your Committee has made a substantial contribution through your expert witness, FirstEnergy's Bennett Gaines.

Having exhausted all sources of remediation with our Mayor, we must pursue accountability at the State level for our municipally-owned utility monopoly, CPS Energy, that is exempt from Texas PUC oversight and enjoys a collusive crony capitalism relationship with San Antonio's City government. CPS Energy will supply 30.6% of the City's Total General Fund Revenues, per our 2016 Budget.

If you would like more information, please let me know.

With a deep and growing concern,

Stanley J. Mitchell  
[sjpamitchell@sbcglobal.net](mailto:sjpamitchell@sbcglobal.net)  
210/493-2656

enclosure — *Omitted*

cc. The Honorable Donna Campbell, Texas State Senator  
Mr. Bill Magness, President & CEO, Electric Reliability Council of Texas  
The Honorable Joe Straus, Speaker of the Texas House of Representatives  
The Honorable Ivy R. Taylor, Mayor of San Antonio

1722 Eagle Point  
San Antonio, Texas 78248  
May 21, 2016

Ms. Jelynne Leblanc-Burley  
Chief Delivery Officer and Executive Vice President  
CPS Energy, Inc.  
145 Navarro Street  
San Antonio, Texas 78205

RE: CPS Battery Facility, Open Records Request

Dear Ms. Leblanc-Burley:

The January 4, 2016 issue of Public Power Daily, included an article by News Director Paul Ciampoli, quoting you:

“We do view storage as a generation source. If you are considering a portfolio with significant renewables, you absolutely have to be talking storage, as well as baseload (power), to be able to respond to your customer needs.”

“We are looking at it (combining solar energy with storage) from a utility-scale perspective...”

Paraphrasing your two statements:

1. CPS Energy, targeting 20% renewables by 2020, is “considering a portfolio with significant renewables” and requires storage “to be able to respond to...customer needs.”
2. CPS is seriously evaluating “solar with storage” as a utility-scale power source.

You may be aware that our Coalition has been working for over a year with Kip Giles to discover the economics of CPS’ Smart Grid project. Unfortunately, our effort has stalled because CPS has declined to participate in further refining that estimate. However, “The Anatomy of a Fraud -- CPS’ Emerging Smart Grid Project Cash Flow” dated May 21, 2016, enclosed, illustrates how dramatically Smart Grid financials have departed from the fraudulent Smart Grid statistics Chris Eugster foisted on our City Council, an assessment Council meeting attendees Sheryl Sculley and CFO Ben Gorzell tacitly endorsed.

Your “combining solar energy with storage” strategy requires the addition of another tranche for our Smart Grid Project Cash Flow, prompting this Open Records Request:

Please provide, consistent with the Texas Public Information Act, the following financial components of your anticipated battery storage facility project in the 20-year cash flow format you used for your Smart Grid project:

Capital investment in the battery storage plant (including its infrastructure required to interface with existing baseload power sources).

The cost of capital accompanying the plant complex capital investment.

Operating and Maintenance expenses associated with plant operations.

The anticipated useful life of batteries, the basis for projecting the timing and magnitude of project replacement costs.

These data should be readily available because you are “seriously evaluating ‘solar storage.’” But if you have no cost/benefit analysis for the battery/storage complex, a statement of that reality should be provided.

Our experience with the Smart Grid project thus far has been that your technological leading edge has morphed into a financial bleeding edge. We solicit your help in determining whether you are now preparing to harvest the benefits of your Smart Grid investment, through your anticipated incremental battery investment, or throwing good money after bad.

Thank you in advance for your response to this Open Records Request.

Sincerely yours,

Stanley J. Mitchell  
210/493-2656  
[sjpamitchell@sbcglobal.net](mailto:sjpamitchell@sbcglobal.net)

enclosure

cc. Frances M. Flores, Paralegal/CPS General Counsel  
Kipling Giles, CPS Senior Counsel  
Paula Gold-Williams, Interim CPS CEO  
Ivy R. Taylor, Mayor and *Ex Officio* Member, CPS Board of Trustees



APPA > News > Public Power Daily/Weekly

# Public\*PowerDaily

## Engaging customers through energy management

From the January 4, 2016 issue of *Public Power Daily*

Originally published December 29, 2015

Google +

By [Paul Ciampoli](#)

*News Director*

CPS Energy is leveraging technology to improve the experience of its customers in the area of energy use management in a number of ways including the ongoing installation of advanced meters, Jelynn Leblanc-Burley, group vice-president and chief delivery officer at the San Antonio, Texas-based public power utility, said in an interview with the American Public Power Association.

With respect to advanced metering infrastructure, "we're about 30% complete in deploying modernized meters for all of our customers, both residential and commercial. Obviously the opportunity to improve the customer experience will be more accurate billing," as well as faster power restoration because the utility will get quicker and more precise outage notifications. "So those will go directly to the customer experience," the CPS Energy official said.

*See next page →*

thereof...and what we got back was there were basically barriers to solar.” One example of a barrier is that for non-homeowners, “a tax break wasn’t attractive to them if they weren’t the homeowner.” So CPS “began the process of developing a program that would help customers overcome those barriers and we ended up with the host program,” Leblanc-Burley said.

“I think just from that first response...there is a real interest in the program because it does begin to remove the barriers and more people,” regardless of income level or geographic area, “can now take advantage of the program,” she said.

In other solar news, CPS Energy in October said it signed an agreement to purchase an additional 50 MW of solar power from OCI Solar Power, the company working on a previously agreed to 400-MW project.

### **Energy storage**

The CPS Energy official also discussed how the public power utility views the possible role of energy storage in the future as CPS works to respond to all of the changes underway in the power sector with distributed energy resources.

“We do view storage as a generation source,” she said. “If you are considering a portfolio with significant renewables, you absolutely have to be talking storage, as well as baseload [power], to be able to respond to your customer needs,” she said.

When asked if CPS customers have expressed any interest in combining solar energy with storage, the CPS Energy official said, “not yet -- not enough from an individual customer product standpoint. We are looking at it” from a utility-scale perspective, “but not at the individual customer level.”

Another Texas-based municipal utility, Austin Energy, recently received city approval to install a 1.5-megawatt energy storage system that includes a lithium-ion Tesla battery on a community solar project to test the storage technology.

While the battery system is not utility-scale, Austin said it has been designed to allow the utility to test energy storage and how it is balanced with energy demands on the grid — particularly on an electric feeder served by high levels of solar production.

1722 Eagle Point  
San Antonio, Texas 78248  
April 29, 2016

The Honorable Mayor Ivy R. Taylor  
P. O. Box 839966  
San Antonio, Texas 78283

RE: "Making Bureaucracies Accountable," Mitchell Consultant Report, January 14, 2016

Dear Mayor Taylor:

As you know, Jill DeYoung has not acknowledged receipt of my six hand-deliveries which expand on subject Report, despite my request in the cover letter accompanying each for a confirmation of receipt. I am resorting to Certified Mail, hoping to avoid Jill's iron curtain.

You reneged on your offer to meet with CPS management to review my thorough documentation of CPS' fraudulent Smart Grid financial representations. Despite my indictment of Sheryl Sculley's tacit support of CPS' fraud, you chose to increase her bonus opportunity. And you supported the return of "renewables-at-any-cost" Beneby as CPS' President. Your apparent irrational behavior may be a reasonable response to a --

**Conflict of Interest**

Payments by CPS Energy to our City, foundational to our alleged conflict of interest, include two components -- a dividend that all utilities pay to their investors and a "stealth tax" collected by CPS for the benefit of San Antonio's General Fund. Following is the segregation of these parts with related commentary.

1. San Antonio has budgeted for CPS to contribute 30.6% of the City's 2016 Total General Fund Revenues: (in \$millions)

\$336	"CPS Energy Payments" (CPS \$) -- 30.6% of Total
294	Property Tax
275	Sales Tax
<u>194</u>	Other Resources
\$1099	San Antonio's Total Budgeted 2016 General Fund Revenues

2. The City of San Antonio and, by extension, we citizens own CPS Energy. In 2016 CPS will pay 13.46% of its Revenue to the City (\$336 million CPS payment / \$2,496.7 million CPS revenue), far exceeding the dividend rate of a typical utility.



2.1 Exelon (the utility which Doyle Beneby left to become CPS' President) typifies utility industry dividend policy. For Exelon's calendar year 2015: (in \$millions)

\$29,447	Revenues
2,269	Net Income
1,111	Dividends (49.0% of Net Income)
<b>3.77%</b>	<b>Dividends as a % of Revenues</b>

2.2 If we reduce CPS billing rates to make "CPS \$" reflect Exelon's 3.77% dividend rate, expressed as a percent of sales: (in \$millions)

	City 2016 Budget (2. above)		City Stealth Tax		Exelon Dividend, % of Revenue
CPS Revenue	\$2,496.7	-	\$251.37	=	\$ 2245.13
"CPS \$"	\$ 336	-	\$ 251.37	=	\$ 84.63
% of Revenue	<b>13.46%</b>				<b>3.77%</b>

If CPS reduced their billing rate to eliminate the Stealth Tax component, both Revenue and "CPS \$" would decline by \$251.37 million. "CPS \$," budgeted at \$336 million for 2016, includes CPS' payment of taxes, collected from customers as part of its City-approved rate structure, and remitted by CPS, acting as an agent of the City.

2.3 The City can tax its citizens directly (Property and Sales Taxes), or indirectly through inflated utility rates. How would our City's 2016 Budgeted Revenues at 1. above look **without the City's stealth tax?** (in \$millions)

\$ 85	"CPS Energy Payments" (CPS \$) -- dividends from 2.2 above
294	Property Tax
275	Sales Tax
194	Other Resources
<u>251</u>	(Where will the City get this missing 22.8% of revenue?)
\$1099	San Antonio's Budgeted 2016 General Fund Revenues (no change)

The City has no alternate source of funding if their stealth tax is not imposed on CPS customers, underscoring the reality that **CPS is a tax-collecting vehicle that expands the City's tax base.** Is this how a public utility should exercise its monopoly privilege?

### **Mayoral Behavior Elicited by This Conflict of Interest**

I. Mayor, you resist Mitchell's efforts to reduce CPS' wasteful spending on Smart Grid. CPS is a "cost-plus" entity which will require an increase in rates to cover the Smart Grid's diseconomies. Higher rates at CPS generate higher revenues which, when **13.46%** of revenue is applied (see 2. above), increase City revenue for the City's pet projects.

2. Despite your political flyer featuring “fiscally responsible” and “committed to cutting property taxes,” you have resolved your establishment versus citizens conflict of interest in favor of the establishment.

Conclusion: Revenue sharing with CPS Energy creates for City Council a perverse incentive that pits the Council’s drive for bigger government, against the well-being of the City’s citizens realized through lower utility bills. And inflated utility costs have a disproportionate impact on the least affluent in our community, making CPS revenue-sharing an immoral, as well as uneconomic burden on that cohort.

3. Because you do not have a financial background, Mayor, and are unwilling to hire an expert direct-report financial advisor, you remain wholly dependent on Sheryl Sculley and City CFO Ben Gorzell for financial advice. This is the team whose Pat DiGiovanni sold Mayor Castro’s Council on VIA’s streetcar project and conducted “due diligence” on project financials. Based on their analysis, or lack thereof, you voted for what your political flyer describes as “a wasteful streetcar project.” Now, rather than disciplining your City Manager, you fear instability and buy peace by increasing Sculley’s bonus opportunity. And you jumped at the chance to re-hire Beneby, Sculley’s co-conspirator.

Mayor Taylor, your behavior which initially appeared irrational is a very reasonable response because you have chosen to accommodate, rather than repair, your conflict of interest, thereby sacrificing your integrity. Your administration will avoid the hard path of financial discipline, continuing Mayor Castro’s economic profligacy because, unfortunately, you have neither studied nor worked in a financially disciplined environment. But you are experiencing the essence of crony capitalism.

Regretfully,

Stanley J. Mitchell  
210/493-2656  
[sjpamitchell@sbcglobal.net](mailto:sjpamitchell@sbcglobal.net)

cc. The Honorable Donna Campbell, Texas State Senator  
The Honorable Joe Straus, Speaker of the Texas House of Representatives

“Enter the narrow gate; for the gate is wide and the way is easy,  
that leads to destruction, and those who enter by it are many.” Matthew 7:13

OPEN RECORDS REQUEST

10

1722 Eagle Point  
San Antonio, Texas 78248  
July 6, 2016

Mr. Kipling D. Giles, Esquire  
CPS Energy Senior Counsel  
145 Navarro Street  
San Antonio, Texas 78296

RE: CPS FY2015 Residential Operating Revenue Totals by Political Entity

Dear Kip:

My April 29, 2016 letter to Mayor Taylor, enclosed for your reference, identifies an approximate \$251 million "City Stealth Tax" included in the \$336 million of "CPS Energy Payments" in the City's budgeted FY 2016 Total General Fund Revenues.

Mayor Taylor described these payments to the City in her May 31, 2016 letter, also enclosed, as "payment in lieu of taxes to the City." This stealth tax, included in CPS' utility rates, is paid by all CPS ratepayers, including citizens of non-San Antonio jurisdictions who, without their approval, are compelled to contribute to the fiscal health of the City of San Antonio. The tyranny of "Taxation without representation" was one of the birth pangs of our Republic.

Funds at issue here are material, based on this rough approximation:

If CPS' service area is roughly contiguous with the borders of Bexar County	
and the U. S. Census Bureau puts Bexar County <u>2015</u> population at	1,897,753
If San Antonio's <u>2015</u> population at this time was	- 1,469,845
Then the population served by CPS outside San Antonio was about	427,908

The 427,908 is 22.5% of CPS' approximated total market population, allowing us to project \$56.5 million of CPS billing in 2016 ( $22.5\% \times \$251 = \$56.5$ ) that the CPS/City government bloc will assess customers outside San Antonio for the benefit of the government of San Antonio City.

If we acknowledge the longevity of this abuse and apply a 4.5% cost of capital foregone by non-San Antonio entities, we develop a 10-year misappropriation approximating \$705 million.

Of course, we can more precisely quantify this aberrant taxation with your help, the subject of this Open Records Request:

**Please provide for the CPS reporting year ended January 31, 2016, combined annual residential electric and gas revenue by political entity. Your listing will include 21 incorporated cities, such as Alamo Heights, Olmos Park, Shavano Park, and San Antonio; and all other non-city jurisdictions, such as Atascosa, Banderita and Comal Counties. The sum of these annual line entries will equal CPS' Total Residential Electric and Gas Operating Revenue for the year, probably \$1.1 billion (\$1,012,381,000 electric + \$95,958,000 gas).**

Non-residential customers are excluded here because their lower average revenue per kilowatt-hour will not accommodate a stealth tax. Based on the Electric Operating Revenues and related annual kilowatt-hours in CPS' FY 2015 Annual Report:

Electric Customer Groups	Revenue (\$000)	KWh (000)	Revenue / KWh
Residential	\$1,012,381	9,469,946	\$0.1069
Commercial & Industrial	\$805,609	9,126,056	\$0.0883
Public Authorities	\$213,046	2,710,034	\$0.0786
Sales for Resale	\$32,601	464,790	\$0.0701

Our analysis will align the interests of jurisdictions who would make the unelected CPS/City staff bureaucracy accountable for the tyranny of an extraterritorial tax imposed and collected by an unregulated monopoly and abetted by a complicit City government legatee.

Thanks in advance for your help.

*Lux et Veritas,*

Stanley J. Mitchell  
210/493-2656  
[sjpamitchell@sbcglobal.net](mailto:sjpamitchell@sbcglobal.net)

enclosures - *omitted*

cc. Mayor Ivy R. Taylor, *Ex Officio* Member,  
CPS Energy Board of Trustees

1722 Eagle Point  
 San Antonio, Texas 78248  
 March 23, 2016

The Honorable Mayor Ivy R. Taylor  
 City Hall  
 P. O. Box 839966  
 San Antonio, Texas 78283

RE: "Making Bureaucracies Accountable," Mitchell Consultant Report, January 14, 2016

Dear Mayor Taylor:

Our ongoing review of CPS Energy's Smart Grid juggernaut affirms, "**The devil is in the details:**"

1. Subject January 14, 2016 Mitchell Consultant Report identified in **excruciating detail \$285.5 million of negative cash flow** over CPS' 20-year forecast period, invalidating CPS management's financial deception to the Council (recall Chris Eugster's "12-year payback" fraud.)

2. My February 8, 2016 letter to you shared the Texas PUC-sponsored Navigant Consulting study which reports that Smart Meters record 2% more usage than their less-accurate analog predecessors, **a detail generating a \$660.8 million increase in ratepayers' burden** over the CPS 20-year forecast period. This "stealth billing," a consequence of the switch from analog to digital meters, has been withheld from you and me, a CPS breach of the public trust.

3. Also, in my February 8 letter: "Our next effort will be directed at identifying what CPS will be able to measure in the new Smart Grid environment and how that data can be exploited (by CPS), free from prying eyes." Following is that revelation, potentially our biggest cockroach yet.

### **The Smart Grid Money Machine**

We did not require you to become a financial expert to evaluate the two major alleged financial frauds referenced above; we steered you to your trusted financial advisor (who would report directly to you in an ideal world). Similarly, you don't have to be an electrical/electronic engineer to evaluate the potential financial implications of the Smart Grid's advanced measurement capabilities. One of the four engineers in our coalition prepared the Function/Variable/Abuse matrix below. In addition, the "Smart Grid Information Paper," attached for your reference, summarizes the complex technical detail that sidelines us "non-techies," leaving CPS in total control. We aspire to "Making Bureaucracies Accountable" even as we are exposed to CPS' tyranny through technology.

A. "Capabilities" and the "Smart" in Smart Meter are neutral terms. In the hands of an ethical entity they can mean more bang for the buck; under the control of the unethical, greater capability/smarts yield more opportunities for mischief. Our financial reporting has already established that CPS management is ethically challenged.

B. Existing analog electro-mechanical meters measure electric usage over time, expressed in kilowatt hours. Digital Smart Meters provide 12 additional functions (or capabilities) under program control, with a manual override option. (“Under program control” is a euphemism for “Only CPS management knows what’s going on.”) Following are Smart Meter functions and the potential for harm associated with each. We non-engineers can logically ask, “Why measure it if you’re not going to use it?”

C. Our focus on potentials for abuse reflects CPS’ ongoing devotion to Doyle Beneby’s “renewables-at-any-cost” policy and the absence of any CPS attempt to limit the consumer impact of higher-cost sources of renewable energy.

Function	Measured Variable	Potential for Abuse
Remote Connect/ Disconnect	Any consumer violation of CPS-programmed usage parameters.	This is the ultimate intimidator: “Comply or lose your utility privilege.”
Load Limiting/ Critical Peak Pricing	Caps the amount of power that can be used at a location.	User service can be automatically interrupted. User must push button on meter to reactivate. Energy use during load limited period may be targeted for disciplinary billing.
Time-of-Use Billing	Usage within programmed time slots at different billing rates, based on the time of day and season of the year.	Determines when premium rate period(s) begin and end. Variable-rate metering permits use of 3 tariffs -- peak, off-peak, and shoulder.
Demand Billing	To illustrate, user demand for 600 kwh for one hour per day costs CPS more than the same 600 kwh demand spread over a 24-hour period.	Smart Meters facilitate higher billing for <b>demand</b> , in addition to billing for <b>usage</b> . Previously limited to commercial customers, demand billing can now be extended to residential customers.
Inrush Current	Smart Meters accurately measure millisecond power surges when home devices are first turned on; analog meters cannot capture all of this usage spike.	Inrush Current is one source of the 2% higher usage recorded by digital Smart Meters, in excess of usage recorded by existing analog meters.
Volt-Ampere Reactive Power	Appliances within homes and businesses create “reactive power” which existing analog meters are unable to measure.	Smart Meters can be programmed to measure, record and charge customers for this difficult-to-measure element of electricity usage.
Power Factor (PF)	PF Ratio = Real Power flowing to the load divided by the Apparent Power in the circuit. A power factor ratio less than one draws more current than a location with a high power factor, and identifies energy lost in the distribution system.	Utilities charge more to commercial customers whose power factor is low. Smart Meters allow CPS to extend this low power factor up-charge to residential customers.
Harmonic Distortion Detection Billing	Unintentional distortion of the 60-cycle sine wave, measurable by Smart Meters, can introduce distortions into utility supply circuits.	Residential customers can be billed for this “noise” resulting from solar panels and high efficiency air conditioning systems both of which are, ironically, promoted by CPS.

Function	Measured Variable	Potential for Abuse
Customer Load Profile	Digital Smart Meters store extensive power usage data in memory.	Non-intrusive appliance load monitoring allows CPS to survey the specific uses of electric power in each home. CPS can use these data to control power available to individual appliances. Privacy issue?
Magnetic/DC Presence Detection	Smart Meters are capable of detecting tampering and related power theft attempts.	Draconian “tampering” tariff rates could be erroneously triggered by a home appliance, introducing direct current into building wiring, putting the homeowner at the mercy of CPS Customer Service.
Over-the-Air Flashable Firmware	Real-time development and monitoring of individual customer usage profiles is key to CPS control of power <u>demand</u> .	Smart Meters can be continually and selectively reprogrammed from a central CPS location.
Selectable Meter Multiplier (Meter Data Management)	Incoming usage data from Smart Meters passes through software validation filters to the MDM which forwards data to the Meters-to-Cash system for further processing and billing.	CPS customers and public officials have no access to the algorithms used to calculate final bills because of the layers of data processing both within Smart Meters and in the encompassing Smart Grid network, managed at the CPS Energy control center.

Ratepayers’ financial burdens accompanying these Smart Meter functions are unknowable but values will be significant. In their “Customer Benefits” slide at the back of Exhibit 5 of subject Presentation, CPS commits to the “time-of-use rates” and “critical peak pricing” described in the above matrix, **to be imposed at CPS’ discretion**. (These added costs are “Customer Benefits?”)

CPS’ \$285.5 million and \$660.8 million frauds, already cited, are of profound concern but computerized meter management threatens an even bigger financial impact, insuring that CPS will receive all their funding requirements, in defiance of their customers and their customers’ elected representatives.

Mayor Taylor, how can you and your Council provide knowledgeable oversight of CPS’ revenue stream in the new digital environment in which malicious billing algorithms lurk in the internal programming of CPS’ Smart Meter/Smart Grid? Said another way, if politics is your acquisition and exercise of power (hopefully, for the benefit of your constituents), CPS is subject to no political leadership; they have, and continue to arrogantly flaunt your political power and resulting authority, loaned you by the people of San Antonio.

**CPS Energy Is Out of Control**

1. Mayor Taylor, I doubt that any CPS Trustee or executive has advised you of the implications of the Smart Grid time bomb identified in the matrix. Why are you learning of the “blank check” aspects of this tyrannical structure from our coalition, rather than from the CPS bureaucracy, or from Sheryl Sculley, your nominal financial advisor? Is it because, again in the words of Calvin Coolidge, characterizing a bureaucracy, CPS has assumed “...the pretense of having authority over everybody but being responsible to nobody”?

2. The theme of subject Consultant Report, "Making Bureaucracies Accountable," infers that CPS Energy is not presently accountable. As an accountability test, whom could you fire at CPS to effect a change in the organization's behavior? The answer: CPS cannot be held accountable because you cannot fire anyone at CPS -- no one on the Board of Trustees and no one in CPS management. To dramatize: You are accountable to the people of San Antonio; we can refuse to re-elect you. No CPS Trustee or management member can be fired by the electorate, **or by you!** The bureaucracy has failed the accountability test -- **CPS Energy is, literally, "out of control."**

3. Trust, but verify! **But how do you verify?** Knowledge is power and the CPS/City Staff bureaucracy has hidden Smart Grid financial realities from you in the two major financial areas reviewed to date and this third area portends an even greater surprise. Will "they" who have withheld financial reality, reveal their future manipulation of CPS' digital piggy bank variables reviewed above? President Obama provided political cover when he forecast, "utility rates will necessarily skyrocket." **CPS is merrily fulfilling that prophecy while beggaring your constituents.**

### **On a related matter**

At the top of page 2 of subject "Making Bureaucracies Accountable" presentation, we learned that the "supply/demand gap" between power demand and power supply is filled with "higher-cost, rapid-response generating capacity." But as that gap becomes even more erratic with the further expansion of the unreliable renewables component of CPS' electricity supply portfolio, CPS may be driven to even more responsive and expensive supplemental draws on the ERCOT grid, at volatile spot market prices. The quantification of that added operating cost -- incurred by CPS, paid by our citizens, but invisible outside the CPS bureaucracy -- is the subject of our next study.

**CPS' chokehold on our citizen-owned power supply is becoming a public safety issue.**

With Sincerest Regards,

Stanley J. Mitchell  
[sjpamitchell@sbcglobal.net](mailto:sjpamitchell@sbcglobal.net)  
210/493-2656

enclosure *-omitted*

cc. Ms. Jill DeYoung, Chief of Staff for Mayor Taylor

**"The only maxim of a true government ought to be to trust no man living with power to endanger the public safety."**

President John Adams