



CITY COUNCIL UTILITY BRIEFING

PRESENTED BY:

Paula Gold-Williams

President & CEO

January 11, 2018

OUR FOCUS



PEOPLE FIRST!

COMMUNITY & CUSTOMERS



AGENDA

ANSWERING YOUR QUESTIONS



PRIOR ?

- ❑ **OUR BUSINESS**
- ❑ **OPERATIONAL DYNAMICS**
 - ELECTRIC GRID 
 - GAS
 - RELIABILITY / RESILIENCE
- ❑ **FINANCIAL DIMENSIONS**
 - ASSET INVESTMENTS
 - CREDIT CONTEXT
- ❑ **ENHANCEMENTS**
 - MILITARY
 - VETERANS

**“YOU CAN’T BUILD A
REPUTATION ON
WHAT YOU ARE
GOING TO DO.”**

HENRY FORD

justadandak.com

***We take nothing for granted & are
committed to performing well*** 3

OUR BUSINESS



THE RATINGS AGENCIES ASSESS EVERY ASPECT OF OUR BUSINESS, INCLUDING:

- ☐ **Management's Effectiveness**
 - ✓ Performance Record
 - ✓ Good Planning (Strategy)
 - ✓ Generation – Resource Plan
 - ✓ Risk
 - ✓ Cost
 - ✓ Reliability

OUR OPERATIONS are key components of our business!

MOODY'S
STANDARD
& POOR'S

FitchRatings



OUR BUSINESS

CONTINUE TO FINE TUNE OVER TIME

PRIOR ?



CORE:

☐ GENERATION

- Large / Central Station / Utility Scale

☐ TRANSMISSION

☐ GAS DISTRIBUTION!*

☐ ELECTRIC DISTRIBUTION

- Distributed Generation / Small Scale**

☐ RETAIL

☐ WHOLESALE

☐ SMART CITY!*

* New growth opportunity

** Will include customer and utility owned systems that bypass the transmission system

NON-CORE (SOLD):

☐ LIGNITE MINE:

Gross: \$41.0M, Net: \$38.7M



☐ RADIO TOWERS

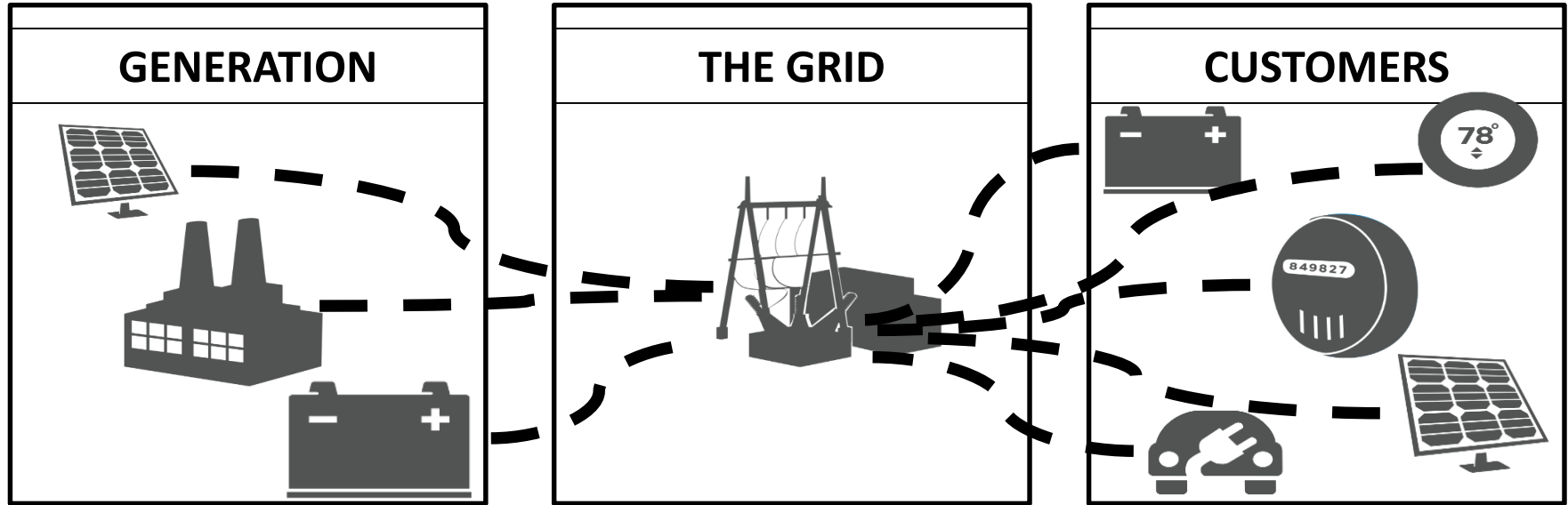
Gross: \$52.2M

Net: \$22.0M



OPERATIONAL DYNAMICS

OUR SYSTEMS ARE FULLY INTEGRATED



We operate & manage in all aspects of the energy business & the ERCOT market

OPERATIONAL DYNAMICS

WHAT IS *ercot*  ?



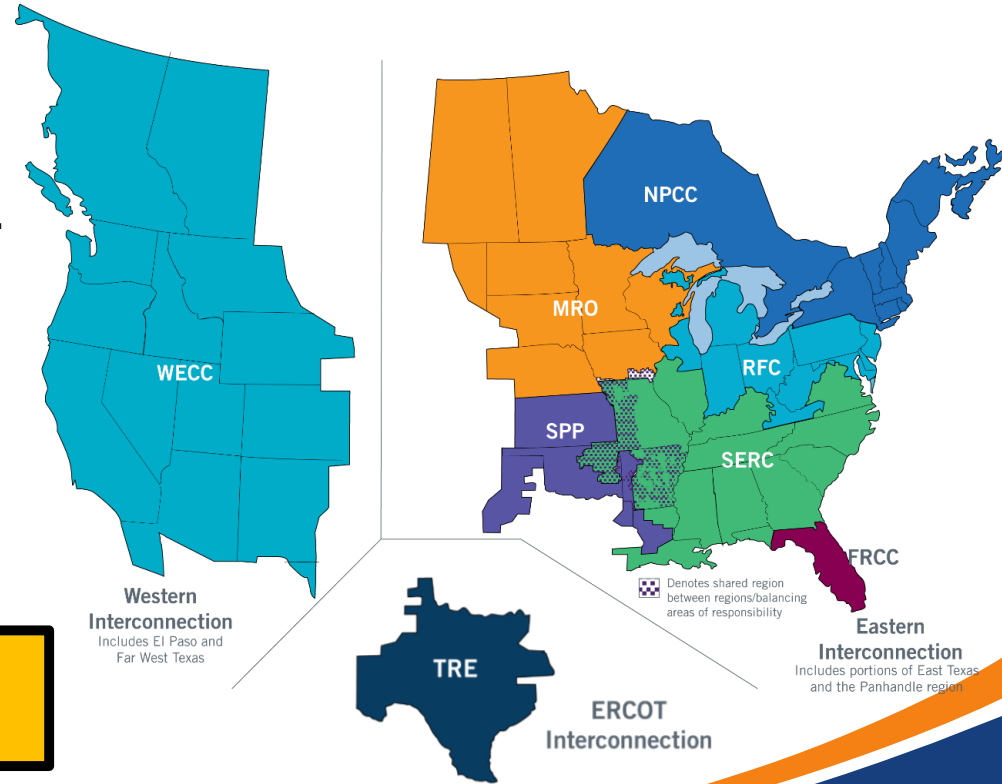
- **ELECTRIC RELIABILITY COUNCIL OF TEXAS**
(ERCOT) is the interconnected electrical system, serving most of TX
- ERCOT's 4 Primary Responsibilities:
 - **System Reliability**
 - **Competitive Wholesale Market**
 - **Open Transmission System for All Generators**
 - **Competitive Retail Market**

ercot IS UNIQUE



- Self-contained Power Grid
- Regulated by the TX **PUC**² w/Oversight by the TX Legislature
- Not Regulated by the **FERC**¹

¹The point is periodically assessed @ the federal level



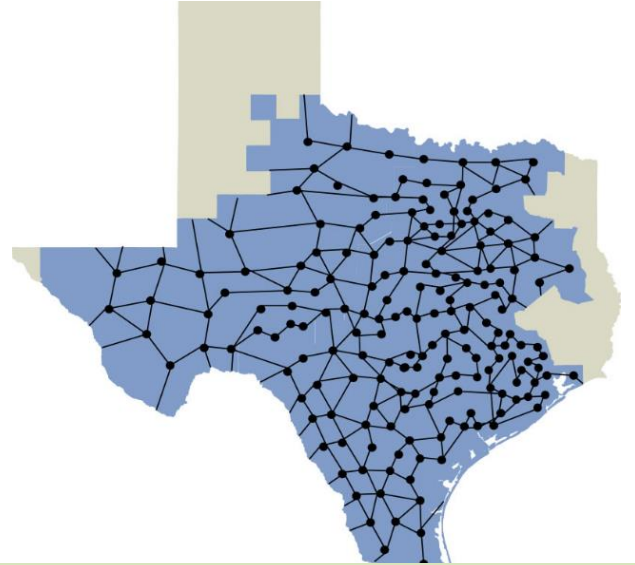
¹ Federal Energy Regulatory Commission

² Public Utility Commission

COMPLEX ENERGY MARKET



- Power generators sell into the market (**SUPPLY**)
- Companies serving consumers buy from the market (**DEMAND**)
- ERCOT is the clearing house for **SUPPLY & DEMAND**



**EACH DOT REPRESENTS A POINT OF
SUPPLY OR DEMAND IN THE MARKET**

ERCOT is the clearing house / our energy market

MARKET PARTICIPATION

BENEFITS



- **Ensures the lowest cost power supply for our customers**
- **Our solid skill @ selling excess power, offsets costs for our customers**
- **Network supports reliability functions that ensure the overall stability of the grid**

PLANT CLOSURES; < DECLINING RESERVE MARGIN

Shutdowns of Texas coal plants may delay demise of others

By Rye Druzin December 4, 2017 Updated: December 4, 2017 10:05am

The dismantling of three Texas coal plants and closure of two others will tighten the state's power generation market and could save some from the brink of insolvency, industry analysts say.



ERCOT Briefing – 12/18/17

- Current minimum target reserve margin is 13.75%
- Summer:
2017 vs. 2018 vs. 2019
18.9% → **9.3%** → 11.7%

The FERC recently voted not to take on the DOE's proposal to incent coal & nuclear plants

MORE *ercot* COMPLEXITIES



LUBBOCK = NEW MARKET ENTRANT / COMPETITION OPT-IN



The city of Lubbock has asked to join Texas' deregulated electricity market, hoping to gain lower electricity prices, according to a document filed with the Public Utility Commission last week.

***In comparison
to the City of
SA, that city
does not own
its own
GENERATION***

If approved by the PUC, Lubbock would become the first city to opt into the competitive market since Texas deregulated power 15 years ago. The move would require Lubbock to join the Electric Reliability Council of Texas, which oversees 90 percent of the state's grid, most of it serving customers with in deregulated markets.

CUSTOMER TRENDS

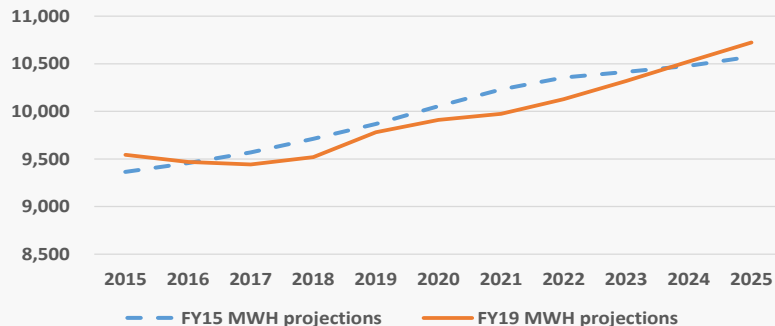
PROJECTIONS – 2019 vs 2015



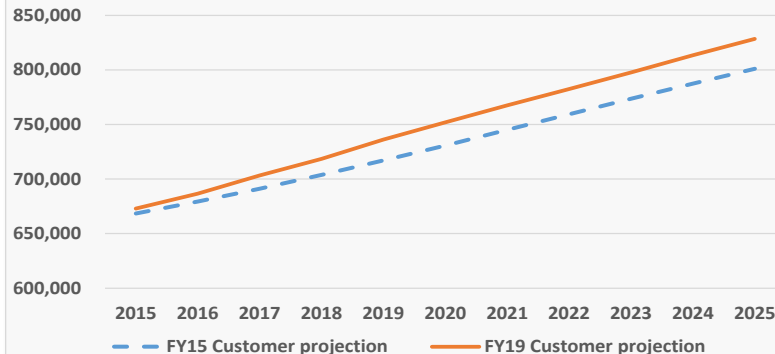
RESIDENTIAL ELECTRIC

- Our conservation programs are working
- More customers, yet lower usage / customer

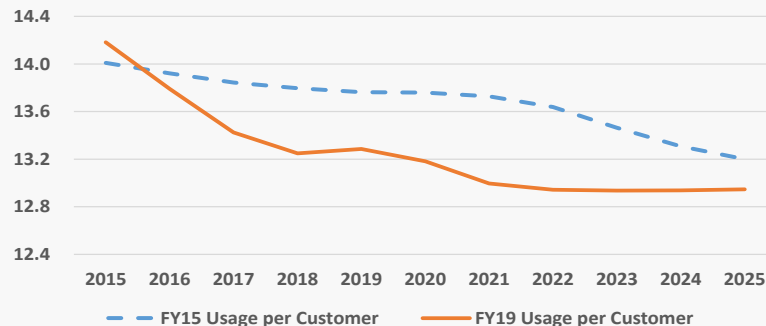
Residential Total MWH Volume (000s)



Residential Customer Count



Residential Annual KWH Usage (000s) per Customer



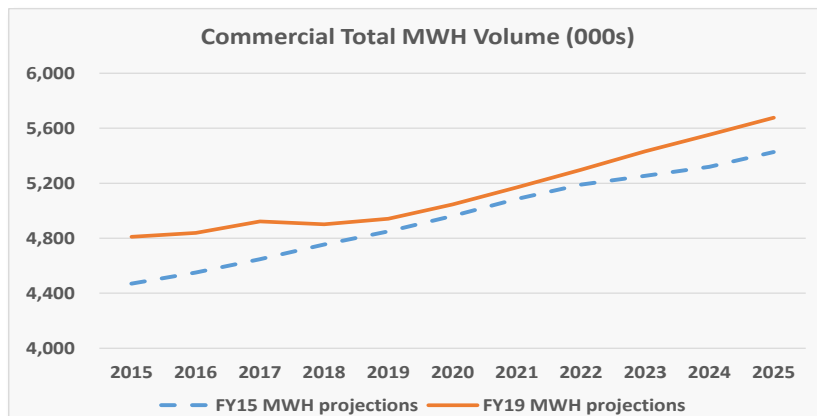
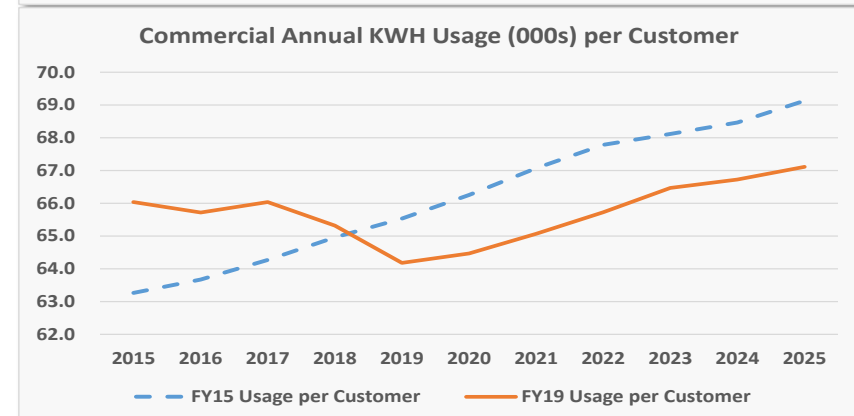
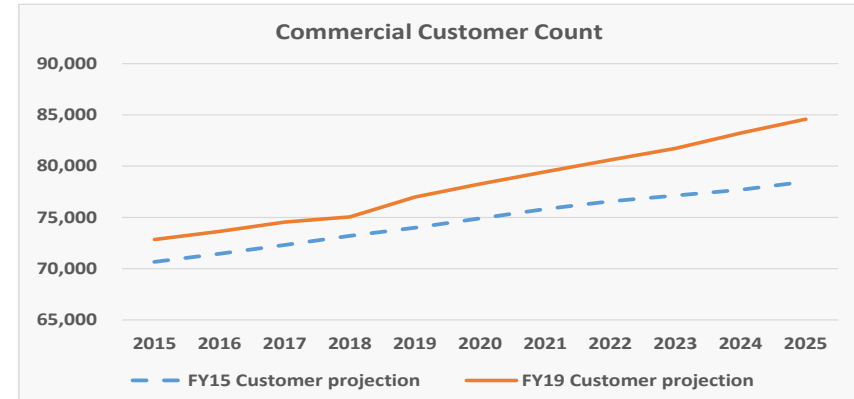
CUSTOMER TRENDS

PROJECTIONS – 2019 vs 2015



COMMERCIAL ELECTRIC

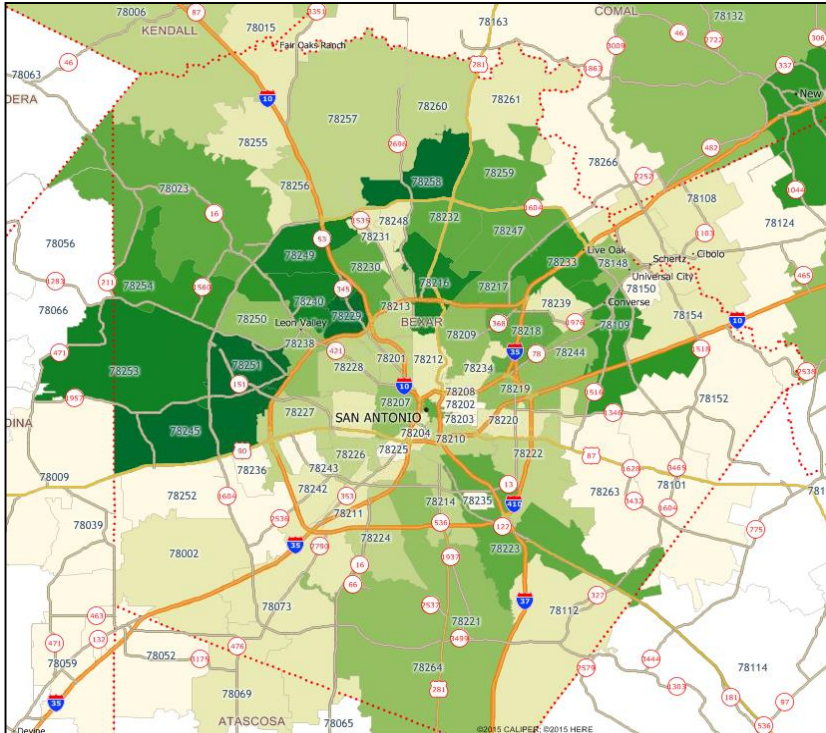
- Our conservation programs are working
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A GROWING COMMUNITY



We are an electric AND gas energy company



The SA Metropolitan Area is projected to add 0.5 million new residents in the next 10 years* & 1.1 million new residents by 2040**

Sources:

* IHS Global Insight

** Claritas

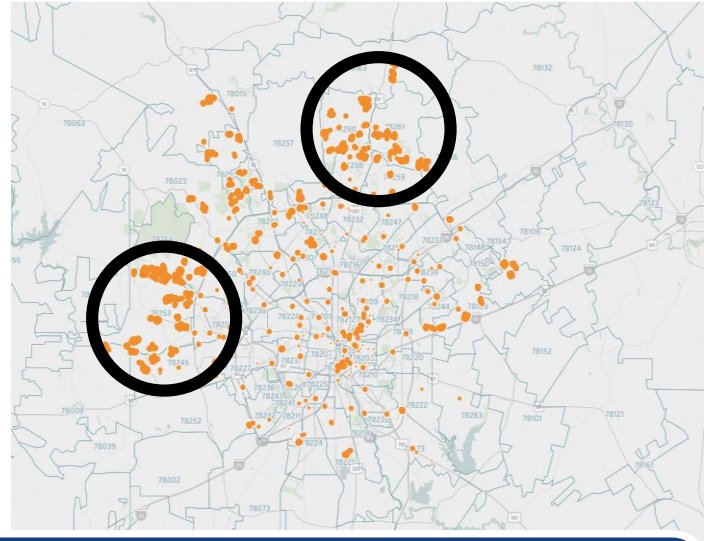
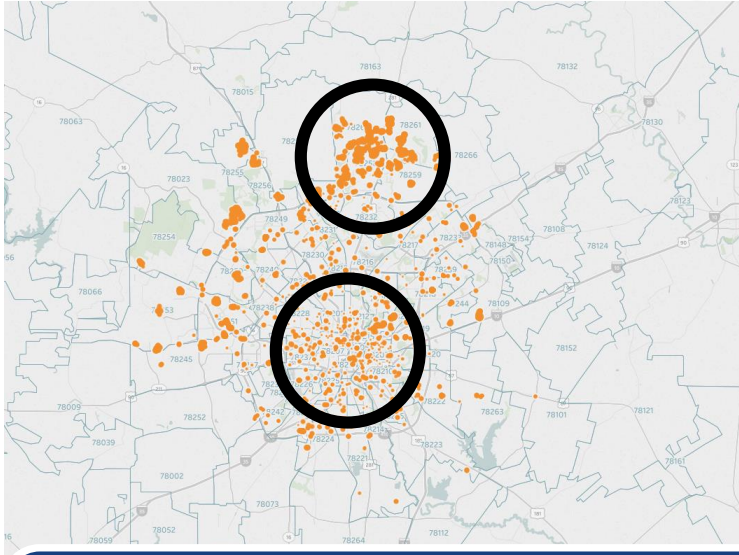
NEW GAS GROWTH



2006

PRIOR ?

2016-18

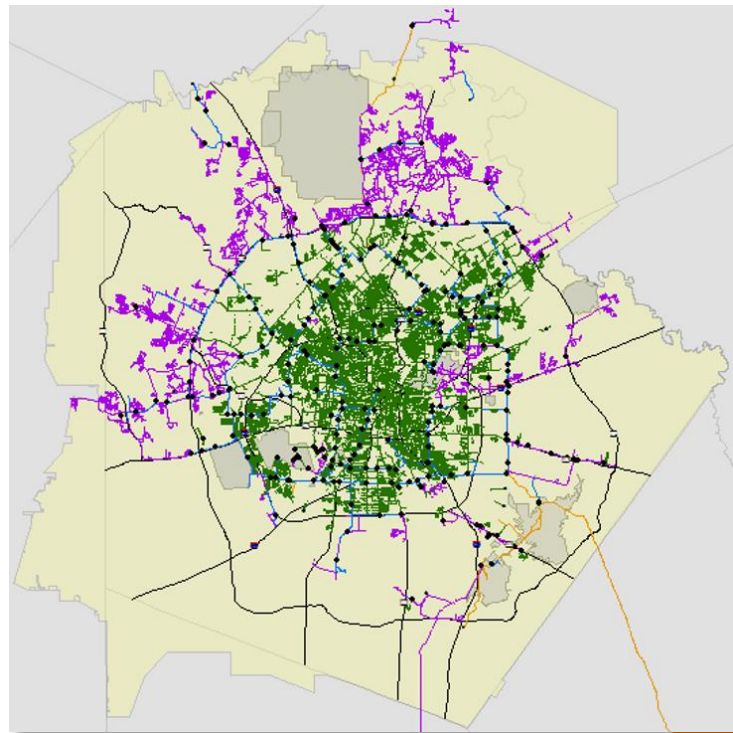


**New growth is in the areas of
281&1604 + 151&1604**

GAS DELIVERY HIGHLIGHTS



- **REVENUES:** \$171 million
(12 months ended Oct 2017)
- **GAS MAINS OPERATED:**
 - Distribution 5,415 miles
 - Transmission 89 miles
- **CUSTOMERS:** 346,500
- **TEAM MEMBERS:** 238
 - Crews on call 24/7:
 - ✓ 15 Leak Crews
 - ✓ 37 Gas Troublemens
 - ✓ 7 Pressure Control Crews



Purple = high pressure mains
Green = low pressure mains

GAS DEVELOPMENT EFFORTS



- **CUSTOMER OUTREACH:**

- Dialog w/development community
- Direct mail
- Digital
- Trade publications

- **NEW PRODUCT OFFERINGS**

- Like gas-powered backup generation for your business

- **SMART TECHNOLOGY**

- Makes our system safer & more efficient
 - Advanced mobile & aerial leak detection
 - GPS-enabled inspection data collection



MAINTAINING SERVICE



WINDS, TORNADOES & HURRICANES



**We maintain reliability through
extreme weather conditions**

MAINTAINING SERVICE



FLOODS & SNOW

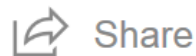


**We maintain reliability through
extreme weather conditions**

WE ARE ADDING MORE SOLAR!



Community solar farm



A community solar farm or garden is a solar power installation that accepts capital from and provides output credit and tax benefits to individual and other investors. In some systems you buy individual solar panels which are installed in the farm after your ... +



**We are
expanding
this
program**

**ADDING
5MW!**

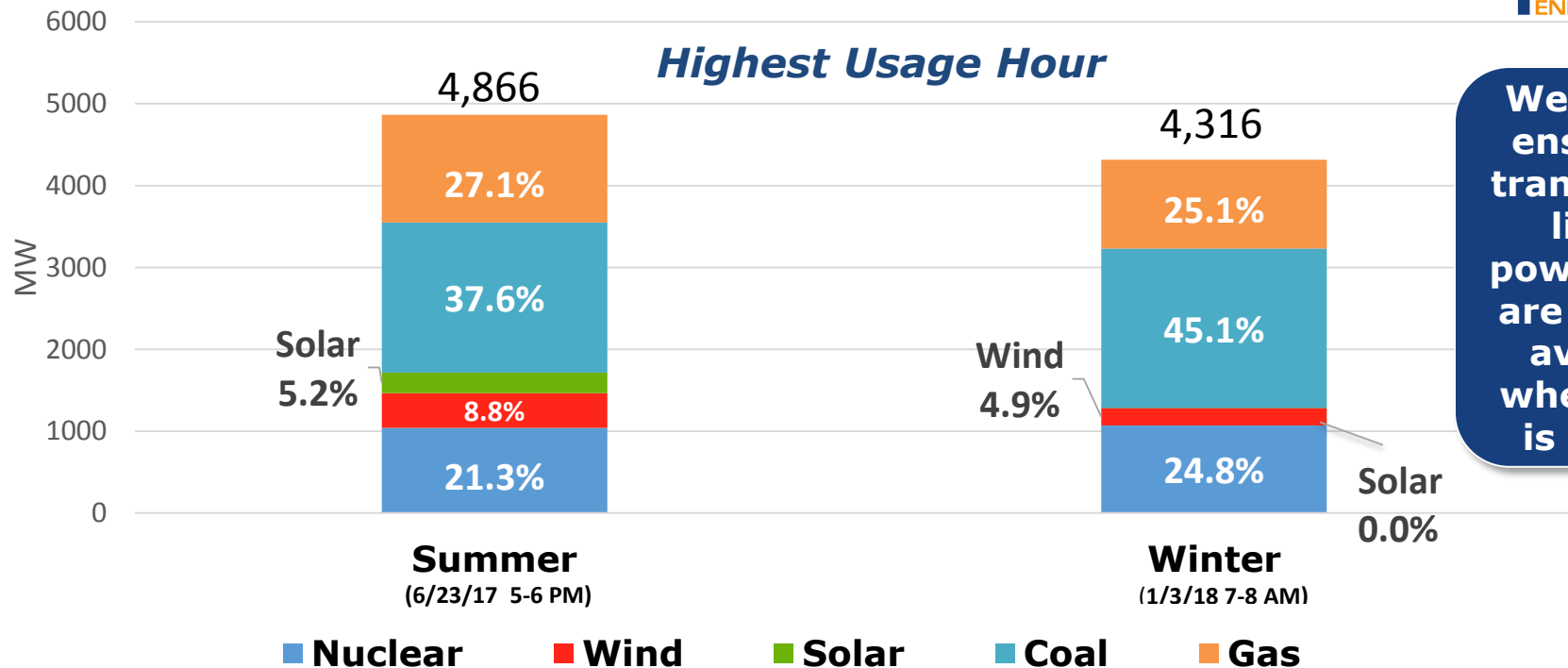
CLIMATE ACTION & ADAPTATION PLAN KICKOFF 12/7/2017



The attendees (over 200) had an opportunity to provide input into the development of our community's CAAP¹ & the process to be pursued

¹ Climate Action & Adaptation Plan

DIVERSITY = RESILIENCE



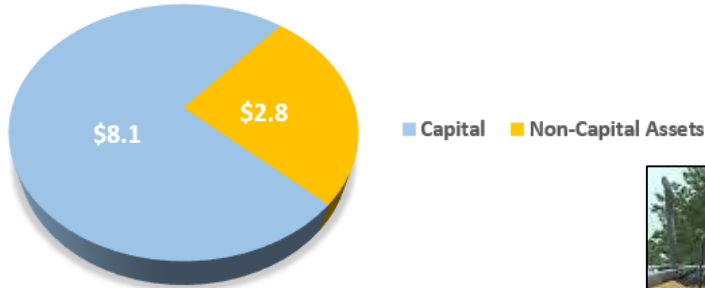
We work to ensure our transmission lines & power plants are online & available when usage is highest

Our diverse generation portfolio protects customers from price volatility

OUR COMMUNITY ASSETS



Total Assets



Capital	\$	8.1
Non-Capital Assets	\$	2.8
<hr/>		
Total	\$	10.9



**We are a capital intensive business.
We operate & maintain assets
OWNED BY OUR COMMUNITY!**

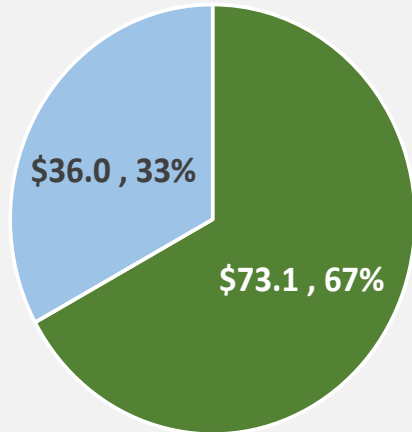
CIVIC IMPROVEMENTS

CAPITAL PROJECTS



PRIOR ?

FY14-18 Actual Total (\$M)



■ COSA Projects ■ County & TXDOT

CORRECT: It typically costs more to connect customers in rural areas.

HOWEVER: Over time (decades), there is more work & cost incurred for customers in incorporated areas. This relates to CIVIC & MODERNIZATION INVESTMENTS.

Approximately 70% of our civic improvement work relates to COSA projects

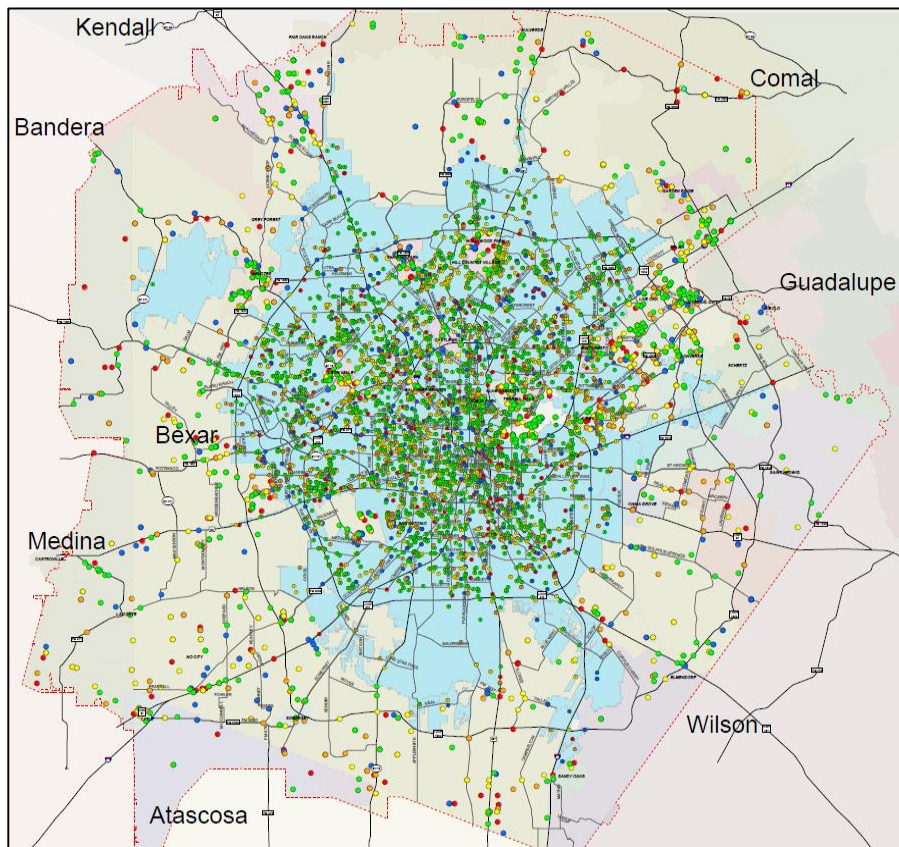
CAPITAL INFRASTRUCTURE

MODERNIZATION PROJECTS

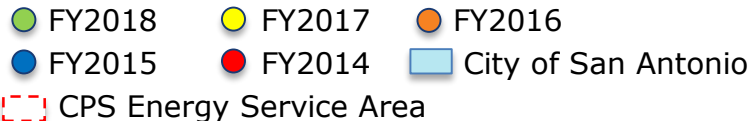


PRIOR ?

- **Past 5 years Spend = \$230M**
 - \$192M (79%) within COSA
- **Replacement of poles, transformer, cables, & other equipment**



Capital Projects



CREDIT RATING AGENCIES

FREQUENT ASSESSMENTS



ANNUAL BRIEFING TOPICS

- Strategy
- Smart City
- Tech
- Security
- Risk
- Financials

CREDIT RATING AGENCIES

FREQUENT ASSESSMENTS



*Moody's
analysts
pictured*

ANNUAL BRIEFINGS

**We spend a couple of hours (in person) with each firm,
providing context & answering questions**

CHALLENGE → OPPORTUNITY

INWOOD RELIABILITY



- **Full circuit inspection – completed** Sept. 2017
- **Neighborhood meeting – held** Jan. 4, 2018
- **Tree trimming – by** Feb. 2018
- **Animal guards installed at substation – by** Feb. 2018
- **Using drone technology w/ infrared scan to proactively access equipment**

Inwood Community Meeting



COO, Cris Eugster



District 9, Councilman
John Courage

SVP Distribution Services &
Operations, Rudy Garza

CHALLENGE → OPPORTUNITY

SA AIRPORT



The San Antonio Airport is an important asset of our community & region

Challenge → Secondary System Service Disruptions

- Operational impacts
- Community brand



Opportunity → Resiliency

- Substation redundancy
- Dedicated, upgraded circuits

PATH TO RELIABILITY

SA AIRPORT




Proposed Circuit Configuration

- **DEDICATED TRANSFORMER** for primary airport circuit
- **2** serving **SUBSTATIONS**
- **DEDICATED, UNDERGROUND PRIMARY & BACKUP CIRCUITS**
- Capital investment of ~\$**13M**

TOP RATED UTILITIES



Generation generally pressures ratings levels – 3* of the top utilities have none & obtain power from AAA rated TVA

COMPARISON MATRIX	ELECTRIC POWER GENERATION	TRANSMISSION & DISTRIBUTION	NATURAL GAS PROVIDER	WATER	TELECOMM / FIBER
TENNESSEE VALLEY AUTHORITY (TVA); <i>Federally Backed, AAA</i>	✓	✓			
	✓	✓	✓		
CHATTANOOGA ELECTRIC POWER BOARD*		✓			✓
MEMPHIS LIGHT, GAS & WATER*		✓	✓	✓	
NASHVILLE ELECTRIC SERVICE*		✓			✓
CHELAN COUNTY PUBLIC UTILITY DISTRICT NO. 1	✓	✓		✓	✓

HOW THE RATING AGENCIES VIEW OUR CREDIT



CHALLENGES	STRENGTHS
Large General Fund Transfer →	Competitive Rates
	Strong Local Economy
Significant Additional Debt Needs →	Strong Financial Performance
	Strong Cash Levels & Cash Mgmt.
Nuclear Exposure →	Diverse Generation Portfolio

**Our leadership team manages through these challenges,
while keeping customers' bills affordable &
maintaining strong credit**

OUR SCORING

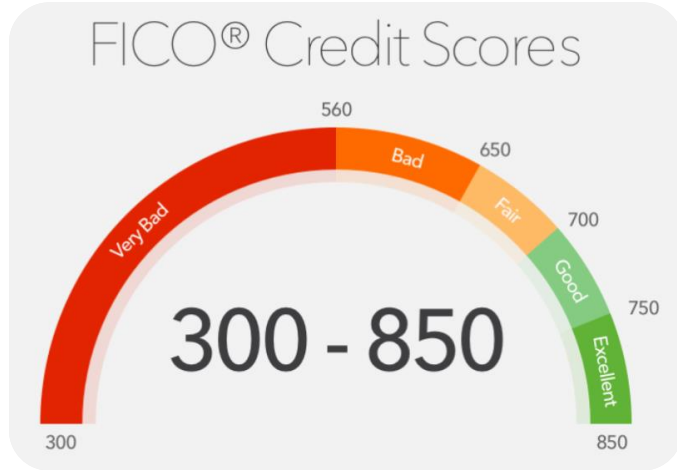
(UNDER MOODY'S METHODOLOGY)



Our rating of Aa1 is based upon the matrix, as well as an overall qualitative assessment of our Company

FACTOR	WEIGHT	Aaa	Aa	A	AGENCY SCORING COMMENTS
MANAGEMENT OF GENERATION RISK, COST, RELIABILITY	10%				Very strong management record & good planning. Sound & balanced resource plan to reliably meet customer demand.
RATE COMPETITIVENESS	10%				Rates consistently lower than US averages; among the lowest in major cities in Texas & US.
FINANCIAL STRENGTH & LIQUIDITY	10%				Very strong liquidity position >250 days
	10%				Debt ratio has gotten to 60%+ level with additional challenges, but declining debt schedule after 2027.
	10%				Adjusted DS over 1.60x after Gen Fund Xfer.
COST RECOVERY FRAMEWORK	25%				Aaa rated local economy; unregulated; customer stability.
WILLINGNESS / ABILITY TO RECOVER COSTS	25%				Very strong record of rate setting & fuel cost adjustment charge; Noted issues: 14% General Fund transfer and potential rate increases.

CREDIT RATINGS MATTER



**CREDIT RATINGS ARE IMPORTANT
TO OUR CUSTOMERS & TO US**

COMPARATIVE EX: PERSONAL CAR BUYING

EX: Financing the purchase of a \$20k car over 5 years with a 0% down payment

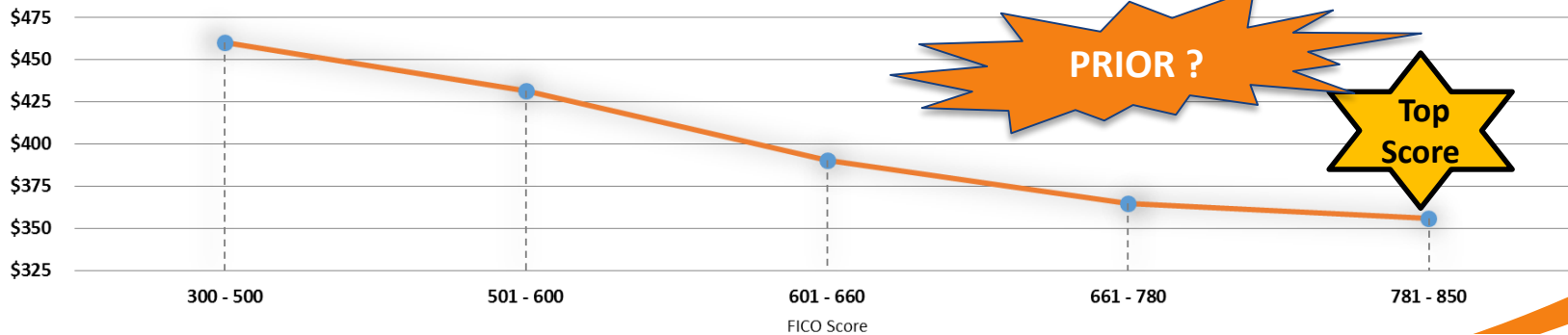
S&P Credit Rating Proxy	FICO Score Range	5 Year Fixed Rate	Monthly Payment (\$)	Aggregate interest cost over 5 years (\$)
AA to AAA	781 - 850	2.60%	356	1,349
A- to AA-	661 - 780	3.59%	365	1,877
BB+ to BBB+	601 - 660	6.39%	390	3,416
B- to BB	501 - 600	10.65%	431	5,878
D to CCC+	300 - 500	13.53%	461	7,625

38% increase!

5.7x higher interest!

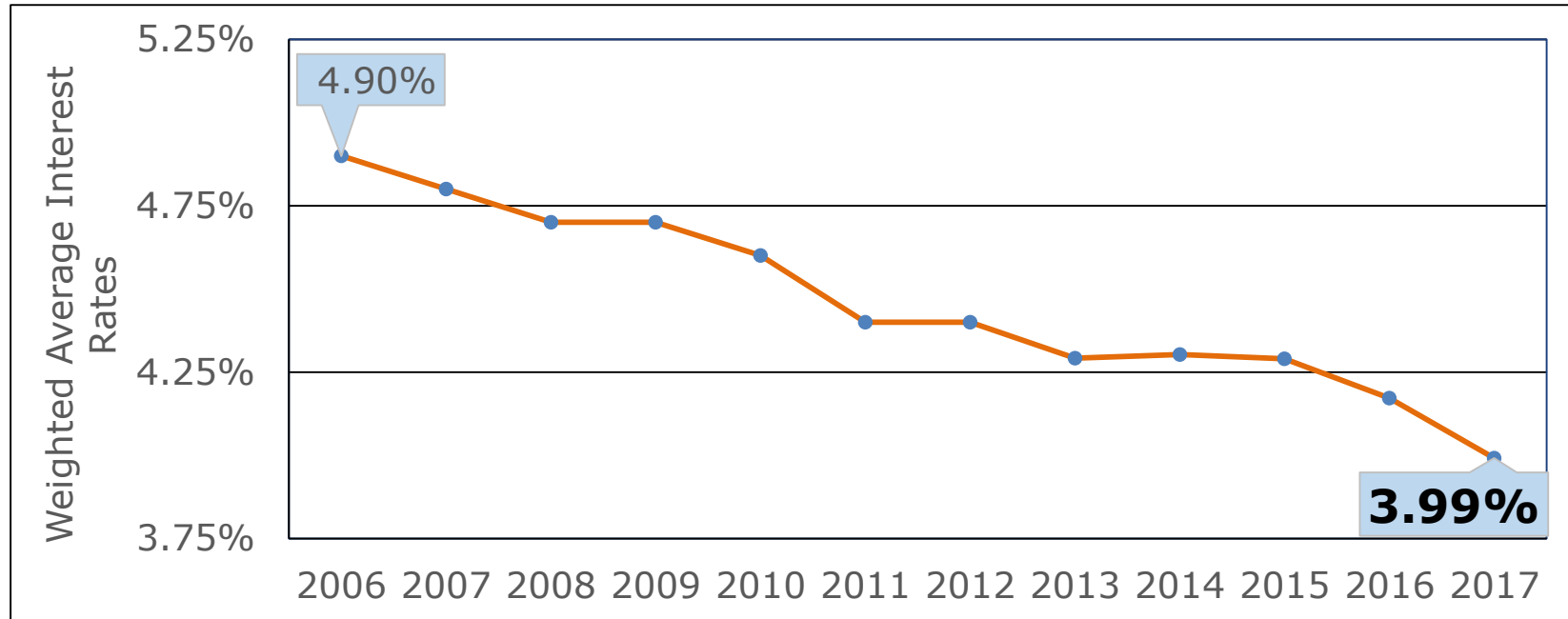
Monthly Payment

Monthly Payment to Credit Score Comparison



UNIVERSALLY, BETTER CREDIT LEADS TO MAJOR SAVINGS

STRONG CREDIT LOWERS COSTS



**Historically, since 1985,
WE HAVE SAVED OVER \$936MM
in debt service costs, which has kept bills affordable**

STRONG CREDIT LOWERS COSTS



THE BOND BUYER

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Intraday News Update

Dec 15, 2017

Final tax bill gives muni market the gift of continued PABs

by LYNN HUME AND BRIAN TUMULTY

The future accessibility of private activity bonds and stadium bonds is the massive tax bill's gift to the municipal market this holiday season. However, the bill also brings coal in the form of a year-end halt to advance refundings and a drop in the corporate tax rate.

[READ MORE »](#)



***Tax Exempt
Financing
continues***

***Credit Quality &
Investment
Safety are
expected to
remain
foundational for
investors***

JOINT BASE SAN ANTONIO

(JBSA) PARTNERSHIP



- **Enables JBSA to focus on its core competency & mission effectiveness**
- Improves system reliability through targeted upgrades / repairs
- Increases military value for JBSA installations



JBSA INFRASTRUCTURE

SERVICE VALUE \$



PRIOR ?

BENEFICIAL ECONOMICS	AMOUNT IN MILLIONS
Purchase Cost & Price Recovery	\$42
Annual Revenues (w/Escalations)	\$4.8
Total Escalated <u>REVENUE</u> Over 50 Years (Projected)	\$410
Total <u>CITY PAYMENT</u> Over 50 Years (Projected)	\$57

This contract allows the military to focus on their mission while we provide more of our expertise

VETERAN COLLABORATION

WORKFORCE PIPELINE



- **New Transitional Internship Program**
 - **Period between final active service & retirement**
 - 1st Service Members Onboarding: Jan. 2018
 - Quarterly Check-Ins to Collaborate on Assignments / Candidates
 - Potential for Long-Term Hires

TALENT INVESTMENTS

PROGRAM UPDATES



RAISING THE LIVING WAGE

EARLY 2010s	CURRENT, EFFECTIVE 2/1/16	NEW, EFFECTIVE 2/1/18
\$10.00	\$13.75	\$15.00

This primarily benefits our:

- ***Entry-Level Energy Advisors***
- ***Clerks***
- ***Entry-Level Field Team Members***



Thank You