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PUC DOCKET NO. 35665

COMMISSION STAFF'S PETITION FOR THE SELECTION OF ENTITIES RESPONSIBLE FOR TRANSMISSION IMPROVEMENTS NECESSARY TO DELIVER RENEWABLE ENERGY FROM COMPETITIVE RENEWABLE ENERGY ZONES	**§ § § § § § §**	**BEFORE THE PUBLIC UTILITY COMMISSION OF TEXAS**

CPS ENERGY'S CTP PROPOSAL AND SUPPORTING TESTIMONY

Consistent with Order No. 19,[1] CPS Energy[2] files its CREZ Transmission Plan (CTP) Proposal as Attachment 1 to the direct testimony of David L. Luschen, Director of the Transmission and Substation Engineering Subdivision of CPS Energy, and the testimony of David Jungman, CPS Energy Assistant Treasurer.

I. Brief Factual Background

The Staff of the Public Utility Commission (Commission or PUC) initiated this docket on May 13, 2008, as a means for the Commission to select appropriate entities to construct the transmission improvements resulting from the Commission's recent decision in Docket No. 33672, *Commission Staff's Petition for Designation of Competitive Renewable Energy Zones [CREZ]*, and its rulemaking Project No. 34560, *Rulemaking Proceeding to Amend PUC Subst. R. Relating to Selection of Transmission Service Providers Related to Competitive Renewable Energy Zones and Other Special Projects.*

[1] Order No. 19 Establishing Procedural Schedule (July 22, 2008).
[2] CPS Energy™ is the trade name of City Public Service of San Antonio, acting by and through the City Public Service Board.

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CPS Energy filed its initial interest in constructing CREZ facilities in Project No. 34108, *Commission Staff's Request for Qualifications Pursuant to §25.174(c),* on July 27, 2007.

In this docket, CPS Energy filed its initial statement of interest to construct CREZ transmission lines on July 24, 2008, and also submitted responses to questions 1-3 posed by the Commission Staff on August 26, 2008. Consistent with its initial statement, its CTP Proposal filed today again seeks to be awarded the bid to construct the following (collectively the Project):

- McCamey D to Twin Butte double circuit 345kV line (2-1433 ACSS/TW);
- McCamey D to Kendall double circuit 345kV line (2-1433 ACSS/TW); and
- 50% series line compensation on McCamey D to Kendall.

II. CPS Energy's CTP Proposal

CPS Energy's CTP Proposal consists of updated responses to those questions posed by Commission Staff and its explanation of CPS Energy's compliance with the requirements of PUC Substantive Rule 25.216. Supporting the CTP Proposal are the affidavits and testimony of CPS Energy witnesses who can respond to questions or provide an explanation for the responses to questions and/or requirements.

CPS Energy files its responses to the financial questions and Rule requirements as "Highly Sensitive Protected Materials Provided Pursuant to Protective Order Issues in Docket No. 35665."

As explained in CPS Energy's Responses to PUC Substantive Rule 25.216(e) Requirements, CPS Energy summarizes the numerous factors that establish why CPS Energy is the entity best suited to undertake the Project:

CPS Energy views its bid to construct the Project as a confirmation of its commitment to wind-generated renewable energy. CPS Energy ranks number one in the amount of wind-generated energy capacity among municipally owned utilities in the nation. When the first coastal wind farm comes on line later this year or early next year, CPS Energy will add another 75 MW to its 500 MW renewable energy portfolio. CPS Energy's current wind-generation capacity comes from the Desert Sky Wind Farm near Iraan (160 MW) and the Cottonwood Creek Wind Farm near Sweetwater (340 MW). However, currently insufficient transmission in the West Texas area often hampers delivering the full amount of available wind energy from the area. The Lines are intended to alleviate such curtailment, thus, allowing CPS Energy to bring more renewable wind energy from West Texas into San Antonio.

CPS Energy is a well-managed municipally owned utility that provides its electric customers among the lowest electric bills in the country compared to the nation's 20 largest cities. The affordable—and reliable—energy results, in part, from a diverse mix of fuels including coal, natural gas, nuclear and renewable energy sources. Today, coal satisfies 41 percent of Greater San Antonio's electrical demand, followed by nuclear energy at 36 percent. Natural gas makes up about 17 percent of CPS Energy's fuel generation mix. Finally, our renewable energy capacity, which includes wind as well as endeavors in solar power projects and landfill-generated methane gas, is equal to 11 percent of our customers' peak electrical demand. This puts us well on our way to meeting our renewable energy goal of 15 percent by the year 2020.

While CPS Energy exists to provide affordable, reliable energy to San Antonio, Bexar County, and to portions of seven neighboring counties, we are also responsible for protecting the environment that we call home. CPS Energy, therefore, has invested more than three-quarters of a billion dollars in state-of-the-art emissions-control equipment for new and existing power plants. We also view energy efficiency as our "fifth fuel" and have committed $96 million to a variety of residential and commercial incentives in order to reduce electrical demand, save our customers money and decrease greenhouse gas emissions.

To address pollution concerns, CPS Energy is reducing air emissions and maintaining air quality with efforts that far exceed the requirements of the Environmental Protection Agency or the Texas Commission for Environmental Quality. To preserve our drinking water, we use recycled water to cool our plants. To protect wildlife species unique to our region, we take measures to avoid disrupting their habitat.

CPS Energy further has a strong commitment to the environment in our construction practices. We have successfully dealt with such

endangered species as the Golden Cheeked Warbler, Black Capped Verio, and Blind Cave Invertebrates. We have constructed transmission lines through such endangered species habitat along with crossing the Edwards Aquifer Recharge, Transition, and Contributing Zones. We have successfully worked with the Texas Commission on Environmental Quality (TCEQ), Army Corps of Engineers (USACE), and Fish and Wildlife Service (USFWS). CPS Energy received a Finding of No Significant Impact (FONSI) from the USACE for our Hill Country – Stone Gate 138kV transmission line than ran across Camp Bullis property.

As the owner of over 1400 circuit miles of transmission assets within and outside CPS Energy's 1,566-square-mile service area, CPS Energy has demonstrated experience in permitting, engineering, construction, financing, NERC Compliance, operation and maintenance of transmission facilities in ERCOT at reasonable costs. CPS Energy's retail service area includes Bexar County and portions of Atascosa, Bandera, Comal, Guadalupe, Medina, Wilson and Kendall Counties where it serves approximately 680,000 electric customers and 319,000 natural gas customers in and around the nation's seventh-largest city.

CPS Energy works well with the ROW land owners. We understand that, during and after construction, we have to be good stewards of the land. Following construction CPS Energy will have to be on the property for maintenance and emergency work as required. If ROW access issues or vegetative management issues arise with the land owner, CPS Energy responds in a timely manner.

As the attached financial summaries establish, CPS Energy's exceptional operational and financial performances are rewarded with the highest financial ratings of any combined electric and gas municipal utility system in the nation. The Project and ERCOT rate payers will see the benefit of those ratings.

CPS Energy has the following investment grade credit ratings: Standard and Poor's, AA; Moody's, Aa1; and Fitch, AA+.

III. Conclusion

CPS Energy is committed to making wind-generated renewable energy a viable and successful resource in ERCOT and evidences its commitment, beyond purchasing wind energy for delivery to end users, by submitting this proposal supporting its interest in constructing CREZ transmission. It is hopeful it can

undertake the Project. CPS Energy appreciates the Commission's consideration of its CTP Proposal.

Respectfully submitted,

CPS ENERGY
P.O. Box 1771
San Antonio, Texas 78296-1771
Telephone: (210) 353-5689
Facsimile: (210) 353-6832

Pat Escobedo

Patricia Ana Garcia Escobedo
Mail Stop: 101008
State Bar No. 12544900
paescobedo@cpsenergy.com

CERTIFICATE OF SERVICE

I certify that a copy of the above has been sent via CREZ listserv to all parties of record in this proceeding on September 12, 2008.

Pat Escobedo

PUC DOCKET NO. 35665

COMMISSION STAFF'S PETITION FOR THE SELECTION OF ENTITIES RESPONSIBLE FOR TRANSMISSION IMPROVEMENTS NECESSARY TO DELIVER RENEWABLE ENERGY FROM COMPETITIVE RENEWABLE ENERGY ZONES	**§ § § § § § §**	**BEFORE THE PUBLIC UTILITY COMMISSION OF TEXAS**

DIRECT TESTIMONY

OF

DAVID L. LUSCHEN

ON BEHALF OF

CPS ENERGY

September 12, 2008

DIRECT TESTIMONY OF David L. Luschen

I. INTRODUCTION AND QUALIFICATIONS

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND OCCUPATION.

A. My name is David L. Luschen. I am the Director of the Transmission and Substation Engineering Division for CPS Energy. My business address is 145 Navarro, San Antonio, Texas.

Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?

A. I am testifying on behalf of CPS Energy of San Antonio, Texas.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND PROFESSIONAL EXPERIENCE.

A. I am a graduate of Texas A&M University with a Bachelor of Science Degree in Civil Engineering and a graduate of Our Lady of the Lake University with a Masters of Business Administration. I have been employed at CPS Energy since 1992 in various capacities related to civil engineering; substation and transmission construction; Energy Delivery & Solutions project management; transmission design; and business information systems implementation. In 2003, I was promoted to Supervisor of the Transmission Design Section and in 2005 to Director of the Transmission and Substation Engineering Division. I am also a registered Professional Engineer in the State of Texas.

My present responsibilities as Director of the Transmission and Substation Engineering Division of CPS Energy include management and supervision of the workforce responsible for the capital construction of CPS Energy's electric transmission facilities. This includes the responsibility of budgeting, planning, designing, system protection, project management, and construction for all distribution and transmission substations and generation switchyards as well as transmission lines. I am also Director over the transmission line maintenance crews.

Q. HAVE YOU EVER TESTIFIED BEFORE?

A. Yes. I submitted testimony in Docket No. 33197, *Application of CPS Energy to Change Rates for Wholesale Transmission Service*.

Q. IS THE INFORMATION CONTAINED IN YOUR TESTIMONY AND THE INFORMATION YOU ARE SPONSORING TRUE AND CORRECT TO THE BEST OF YOUR KNOWLEDGE AND BELIEF?

A. Yes, it is.

II. SCOPE AND PURPOSE OF TESTIMONY

Q. PLEASE DISCUSS THE PURPOSE OF YOUR TESTIMONY.

A. I am the CPS Energy witness who is sponsoring and can respond to questions or provide an explanation for any of the following responses of CPS Energy to Attachment 1 to my testimony:

- numbers 1-15 at CPS Energy's Updated Responses to Commission Staff Questions; and

- numbers 1(A)-(P) and 2(A) to CPS Energy's Responses to PUC Substantive Rule 25.216(e) Requirements.

Q. PLEASE DESCRIBE THE CONSTRUCTION CPS ENERGY PROPOSES TO UNTAKE IN THIS DOCKET.

A. CPS Energy proposes to construct the following:

- McCamey D to Twin Butte double circuit 345kV line (2-1433 ACSS/TW);
- McCamey D to Kendall double circuit 345kV line (2-1433 ACSS/TW); and
- 50% Series Line Compensation on McCamey D to Kendall.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes.

CPS ENERGY'S UPDATED RESPONSES TO COMMISSION STAFF QUESTIONS

1. Provide the name and business address of the company that is interested in constructing the transmission facilities (transmission company).

The City of San Antonio, acting by and through the City Public Service Board, submits its statement of interest in constructing the following:

- **McCamey D to Twin Butte double circuit 345kV line (2-1433 ACSS/TW);**
- **McCamey D to Kendall double circuit 345kV line (2-1433 ACSS/TW); and**
- **50% Series Line Compensation on McCamey D to Kendall.**

The two 345 kV lines will be referred to as the Lines and the Lines and the 50% Series Line Compensation, referenced above, will be referred to collectively as the Project.

CPS Energy's business address follows:

CPS Energy
145 Navarro
P.O. Box 1771
San Antonio, TX 78296

2. Provide the name, address, and phone number of designated representative of the transmission company.

Al Lujan
Executive Vice President
Energy Delivery & Solutions
CPS Energy
P.O. Box 1771
San Antonio, TX 78295
(210) 353-3777

3. Identify the docket number and filing number of the documents by which the company has previously provided information to the Commission relating to its qualifications to build, own and operate CREZ transmission facilities.

CPS Energy previously provided information to the Commission in Project No. 34108, *Commission Staff's Request For Qualifications Pursuant To §25.174(c)*, at filing number 18.

4. Names and types of businesses owned by the parent companies of the transmission company, along with percentages of ownership.

By action of the City of San Antonio City Council, CPS Energy has created the SA Energy Acquisition Public Facility Corporation, pursuant to Section 303 of the Texas Local Government Code, through which CPS Energy purchases natural gas for its local gas distribution system.

5. Name and type of business of each affiliate that operates in the energy sector in Texas, along with the relationship between each affiliate and the transmission company.

By action of the City of San Antonio City Council, CPS Energy has created the SA Energy Acquisition Public Facility Corporation, pursuant to Section 303 of the Texas Local Government Code, through which CPS Energy purchases natural gas for its local gas distribution system.

6. Does the transmission company have a certificate of convenience and necessity (CCN) for transmission facilities in Texas? If so, provide the certification number and the PUCT docket numbers in which the certificate was issued and amended.

Although CPS Energy has a retail service area CCN, it does not have a CCN for transmission facilities in Texas. Chapter 37 of the Public Utility Regulatory Act, TEX. UTIL. CODE ANN. §§ 11.001-66.017 (Vernon 1998 & Supp. 2005) (PURA), which addresses certificates of convenience and necessity, applies to electric utilities including electric cooperatives. PURA Section 31.002(6)(A), however, exempts municipalities from the definition of electric utilities.

7. If the transmission company does not have a CCN, provide a description and organization chart of its managerial staff for Texas, assuming that the Commission authorizes the company to build, own and operate CREZ transmission facilities.

See Exhibit A for an organization chart and a description of the CPS Energy managerial staff.

8. If the transmission company or any of its affiliates has a CCN in Texas, please provide the following data for the company and each of its affiliates:

PURA does not require that CPS Energy have a transmission CCN. However, CPS Energy provides the following information:

a. Circuit miles of transmission owned in Texas by voltage level.

CPS Energy owns 571 circuit miles of 345 kV transmission and 879 circuit miles of 138 kV transmission.

b. Total book value of transmission assets in Texas.

The total book value of CPS Energy's Texas transmission assets is $505 million.

c. Number of full time employees performing transmission services in Texas.

CPS Energy has 180 full-time employees performing transmission services in Texas.

d. Dollar value of transmission projects under construction in Texas at date of filing by voltage level.

At the date of filing CPS Energy has the following transmission projects under construction by dollar value and voltage: $4.4 million of 345 kV transmission and $27.1 million of 138 kV transmission. See Exhibit B for additional detail.

e. The actual average direct operating and maintenance cost-per-mile incurred by the company or an affiliate for each of the last five calendar years for all transmission lines owned and operated by the company that have the same voltage as the CREZ transmission facilities.

The average cost per circuit mile per year for CPS Energy's 345 kV transmission lines is approximately $9,800. See Exhibit C for additional detail.

9. If the transmission company or its affiliates has transmission facilities outside of Texas, please provide the following data for the company and each of its affiliates considering only what is outside of Texas.
   a. Circuit miles of transmission owned by voltage level.
   b. Total book value of transmission assets.
   c. Number of full-time employees performing transmission services.
   d. Dollar value of transmission projects under construction by voltage level.
   e. The actual average direct operating and maintenance cost-per-mile incurred by the company or an affiliate for each of the last five calendar years for all transmission lines owned and operated by the company that have the same voltage as the CREZ transmission facilities.
   f. States or countries in which the transmission is located.

CPS Energy has no transmission facilities outside of Texas.

10. If the transmission company is a subsidiary of a company or companies, then provide the total value of the parent companies' assets as of January 1, 2008.

CPS Energy is not a subsidiary of any company, although it is owned by the City of San Antonio. Nevertheless, the total value of CPS Energy assets as of January 31, 2008 is $8,780,935,000.

11. Please describe in detail your management, financial, licensing, land-acquisition, engineering, and operational and maintenance capability to undertake, complete, and operate the transmission projects that you are proposing. If you are contemplating using any other parties to operate and maintain the projects you are proposing, discuss that possibility, identify those parties, and describe the capabilities of those parties to provide such services.

See response to (1)(D) in CPS Energy's Responses to PUC Substantive Rule 25.216(e) Requirements.

12. For companies not holding a CCN in Texas, please list and briefly describe each of your existing transmission facilities in other states or countries. Please describe in detail how you currently provide for the operation and maintenance of those facilities, including identification of any other parties providing such services for you and descriptions of the capabilities of those parties to provide such services.

CPS Energy has no transmission facilities in other states or countries.

13. Please provide the estimated direct costs in current dollars to construct representative tangent, 30-degree, and 90-degrees structures, with estimates for each type of structure that might be used (as required by Subst. R. 25.216(e)(1)(I)).

See response to (1)(I) in CPS Energy's Responses to PUC Substantive Rule 25.216(e) Requirements.

14. For each CREZ transmission line, a detailed explanation and estimate of the Interested TSP's anticipated average annual operating and maintenance cost-per-mile in current dollars for the line for the first 10 years of operation.

The average cost per circuit mile per year for the next 10 years is the annual cost of $9,800 adjusted by 3% per year over the next ten years. See Exhibit D for additional detail.

15. The company's overhead rate for managing third-parties, if the company contemplates the use of third-parties to perform any function related to the licensing, construction, operation, or maintenance of the CREZ transmission facility and the willingness of the company to maintain the overhead rate for managing of the third-party operation and maintenance for a fixed period of time after the CREZ transmission facility has been energized.

The company's overhead rate per hour for managing third parties is $40.15 adjusted by 3% per year over the next ten years.

16. For the transmission company and its parent companies, provide audited financial statements, notes to the audited financial statements, and the auditor's report for the years ending December 31, 2005 and December 31, 2006 or if applicable, for the two most recent fiscal years.

See Exhibit E.

17. For the transmission company and its parent companies, provide audited financial statements, notes to the financial statements, and the auditor's report for the quarter ending March 31, 2007.

See Exhibit F.

18. Provide documentation demonstrating the senior unsecured credit ratings issued to the transmission company and its parent companies by Moody's Investor's Service, Standard and Poor's, Fitch, and any other credit rating agency.

See Exhibit G.

19. Identify and quantify all capital resources that are available to finance the transmission projects and provide the terms, covenants, restrictions, encumbrances, or contingencies associated with each capital resource.

Filed as HIGHLY SENSITIVE PROTECTED MATERIALS PROVIDED PURSUANT TO PROTECTED ORDER ISSUED IN DOCKET NO. 35665.

20. Identify and discuss all of the alternatives that were considered for financing the transmission facilities in which the company has expressed an interest. Provide justification for accepting or rejecting each financing alternative.

Filed as HIGHLY SENSITIVE PROTECTED MATERIALS PROVIDED PURSUANT TO PROTECTED ORDER ISSUED IN DOCKET NO. 35665.

21. Identify and discuss the financial impact of the transmission facilities in which the company has expressed an interest on the value and credit rating of the transmission company, including but not limited to scenarios, assumptions, and conclusions for expected cash flows, cost recovery, and expected return on investment.

Filed as HIGHLY SENSITIVE PROTECTED MATERIALS PROVIDED PURSUANT TO PROTECTED ORDER ISSUED IN DOCKET NO. 35665.

22. Discuss the financial impact of the transmission facilities in which the company has expressed an interest on the liquidity of the transmission

company. Provide all scenarios, assumptions, and financial ratios used to support your conclusions.

Filed as HIGHLY SENSITIVE PROTECTED MATERIALS PROVIDED PURSUANT TO PROTECTED ORDER ISSUED IN DOCKET NO. 35665.

23. Please provide the rate of return that the company will seek on the proposed transmission assets.

Filed as HIGHLY SENSITIVE PROTECTED MATERIALS PROVIDED PURSUANT TO PROTECTED ORDER ISSUED IN DOCKET NO. 35665.

24. Please provide the cost of debt or other financing that will support the proposed transmission construction.

Filed as HIGHLY SENSITIVE PROTECTED MATERIALS PROVIDED PURSUANT TO PROTECTED ORDER ISSUED IN DOCKET NO. 35665.

25. Please provide pro forma balance sheets for the years 2009 through 2014, assuming you are awarded all the contracts on which you intend to bid. Include the terms of any special purpose debt.

Filed as HIGHLY SENSITIVE PROTECTED MATERIALS PROVIDED PURSUANT TO PROTECTED ORDER ISSUED IN DOCKET NO. 35665.

CPS ENERGY ATTACHMENT 1

CPS ENERGY'S RESPONSES TO PUC SUBSTANTIVE RULE 25.216(e) REQUIREMENTS

(1) Each Interested TSP shall submit with its CTP Proposal the following information:

(A) A description of the process that the Interested TSP will use for the preparation of any required application for a certificate of convenience and necessity (CCN).

PURA[1] does not require CPS Energy, a municipally owned utility, to obtain a CCN.

Consistent with statutory requirements[2] and its processes in prior transmission projects, CPS Energy will rely on the San Antonio City Council and/or the CPS Energy Board of Trustees for direction. For example, the Board will approve the route for the CREZ transmission line from the several routes studied by CPS Energy staff within the geographic parameters established by the Electric Reliability Council of Texas (ERCOT) in its CREZ Transmission Optimization (CTO) Study. If CPS Energy is unable to agree with any land owner as to the cost of the easement needed for the Project, CPS Energy will request that the San Antonio City Council pass an ordinance condemning the easement property.

(B) For each CTP Facility transmission line, a general description of the proposed structure types (lattice, monopole, etc.) and composition (wood, steel, concrete, hybrid, etc.), conductor size and type, and right-of-way (ROW) width.

The Lines will be constructed of wide base steel lattice structures approximately 1,500 feet apart, with bundled 1433 ACSS conductor, each circuit in a delta configuration. The required right-of-way width will be 175 feet.

(C) The projected in-service date of each CTP Facility.

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[1] Public Utility Regulatory Act, TEX. UTIL. CODE ANN. §§ 11.001-66.017 (Vernon 1998 & Supp. 2005) (PURA).

[2] *See, e.g.,* PURA § 40.055 ("(a) The municipal governing body or a body vested with the power to manage and operate a municipally owned utility has exclusive jurisdiction to: (6) manage and operate the municipality's electric utility systems, including exercise of control over resource acquisition and any related expansion programs; . . . (9) determine any other utility matters that the municipal governing body or body vested with power to manage and operate the municipally owned utility believes should be included . . . .")

The proposed completion date for the Project is 48 months after its award. The routing and siting process is estimated to take 12 months, with right-of-way acquisition, design, procurement and construction requiring an additional 36 months to complete.

(D) A discussion of the type of resources, including relevant capability and experience (in-house labor, contractors, other TSPs, etc.) contemplated for use by the Interested TSP for the licensing, design, engineering, material and equipment procurement, ROW and land acquisition, construction, and project management related to the construction of each CTP Facility.

As established by the extent of its current transmission assets, CPS Energy possesses the resources necessary to manage, finance, acquire right-of-way, design, operate, and maintain any new transmission lines it is authorized by the Commission to build. The Energy Delivery & Solutions division within CPS Energy has a dedicated project area managed by certified Project Management Institute (PMI) professionals, who ensure larger projects are completed on time and on budget. Contract engineering is occasionally used to supplement internal resources when workloads require.

The following explains the resources CPS Energy will commit to the Project:

FUNCTION	**PERSONNEL**
CPS Project Management:	**Cradle-to-Grave PMI-certified Project Manager**
CPS Core Team:	**Project Manager / Executive Sponsor / Legal / Environmental Compliance / Transmission Engineering / ROW Supervision**
Licensing, Routing & Siting:	**National environmental consulting firm, national engineering firm, ROW acquisition firm, and CPS Core Team**
Land Acquisition:	**CPS Core Team and ROW acquisition firm**
Transmission Design:	**National engineering firm performing PLSCADD design with LiDAR information**
Design & Engineering:	**Consulting firms to do soil borings, Ground Penetrating Radar (GPR) where required, and environmental assessment / permitting by national environmental consulting firm**
Quality Assurance (QA) /	

Quality Control (QC):	**Owners' Engineer with oversight from CPS Energy's Transmission, Civil, and Substation Engineers.** **Kendall fixed series compensation (capacitor and reactors) will be turn-keyed by the manufacturer with CPS Energy's Owner Engineer and Substation Engineering doing QA/QC.**
Procurement of Material / Equipment:	**CPS Energy Purchasing / Contracts Section. CPS Energy will supply the contractor the major materials necessary to construct the Lines.**
Contractor:	**Installation and maintenance of the Storm Water Pollution Prevention Plan's (SW3P's) Best Management Practices (BMPs), ROW vegetation clearance, pad site work (clear/level), construct access roads, foundation installation, erect lattice tower structures, and install hardware, insulators, static wire, and conductor.** **CPS Energy will award the contract for construction of the Lines to the General Contractor who meets CPS Energy's qualifications and provides the lowest and best bid.**

(E) A discussion of the type of resources contemplated by the Interested TSP for operating and maintaining each CTP Facility after it is placed in-service.

Consistent with the process for the South Texas Nuclear Project transmission lines , maintenance of the Lines will be performed by a contractor. The contractor will be responsible for right-of-way maintenance, as well as annual inspections and repair. CPS Energy will operate the Project.

(F) A discussion of the capability and experience of the Interested TSP that would enable it to comply with all on-going scheduling, operating, and maintenance activities required for each CTP Facility, including those required by policies, rules, guidelines, and procedures established by the Electric Reliability Council of Texas independent system operator or other independent organization, if applicable.

CPS Energy reliably operates and maintains its portion of the electric power system as a Transmission Owner (TO) and Transmission Service

Provider (TSP) within the ERCOT transmission electric power grid. It follows the ERCOT System Operations operating procedures, the ERCOT Protocols and Operating Guides, and the Reliability Standards established by the North American Reliability Corporation (NERC). CPS Energy System Operations utilizes a 6-person shift team of NERC Certified System Operators to operate its system 24/7/365 from its state of the art control room and/or the remote backup control room facility.

CPS Energy also coordinates with ERCOT and neighboring utilities in outage scheduling and active participation in the transmission planning and operations groups within the ERCOT control area. We have done ROW acquisition, construction, operation and maintenance outside of our distribution service boundary for:

- **345kV STP transmission line with AEP TSC and CenterPoint;**
- **345kV Marion transmission line with LCRA TSC;**
- **345kV Pawnee transmission line with STEC and AEP TSC;**
- **345kV Elm Creek Switchyard with Brazos Electric;**
- **138 kV Hondo transmission line with MEC; and**
- **138kV Falls City transmission line with AEP TSC.**

(G) Resumes for key management personnel that will be involved in obtaining a transmission CCN and constructing, operating, and maintaining each CTP Facility.

See Exhibit A.

(H) A discussion of the Interested TSP's business practices that demonstrates that its business practices are consistent with good utility practices for proper licensing, designing, ROW acquisition, constructing, operating, and maintaining CTP Facilities.

Please see CPS Energy's responses to (1)(D), (1)(F), (1)(L), (1)(M), and (1)(O) to CPS Energy's Responses to PUC Substantive Rule 25.216(e) Requirements.

The Interested TSP shall also provide the following information for the current calendar year and the five calendar years immediately preceding its filing under subsection (d)(1) of this section.

(i) A summary of law violations by the Interested TSP found by federal regulatory agencies, state public utility commissions, other regulatory agencies, or attorneys general.

None.

(ii) A summary of any instances in which the Interested TSP is currently under investigation or is a defendant in a proceeding involving an attorney general or any state or federal regulatory agency, for violation of any laws,

including regulatory requirements.

None.

(I) For each CTP Facility transmission line, the estimated direct costs in current dollars to construct (including design, engineering, materials, labor, transportation and other necessary expenses but excluding ROW and land acquisition) representative tangent, 30-degree, and 90-degree structures suitable for the type of conductor that would be used. The estimated costs shall be provided for each type of structure that might be used such as lattice, monopole, etc.

The estimated cost per structure is outlined below. Costs are in 2008 dollars and include design, engineering, surveying, permits, materials, labor, transportation, and indirect costs for the foundations and structures. The estimates do not include the costs of conductor hardware, insulators or conductors.

Tangent	**$356,000**
30° Running Angle	**$429,000**
90° Deadend	**$526,000**

(J) For each CTP Facility transmission line, a detailed explanation and estimate of the Interested TSP's anticipated average annual operating and maintenance cost-per mile in current dollars for the line for the first 10 years of operation. Also, the Interested TSP shall provide the actual average direct operating and maintenance cost-per-mile incurred by the Interested TSP for each of the last five calendar years for all transmission lines owned and operated by the Interested TSP that have the same voltage as the CTP Facility transmission line.

The average cost per circuit mile per year for CPS Energy 345 kV transmission lines is approximately $9,800 adjusted by 3% per year over the next ten years. See Exhibit D for more detail. CPS Energy anticipates it can operate the CTP transmission lines for this same cost per circuit mile.

(K) The Interested TSP's overhead rate for managing third-parties, if the Interested TSP contemplates the use of third-parties to perform any function related to the licensing, construction, operation, or maintenance of the CTP Facility and the willingness of the Interested TSP to maintain the overhead rate for the managing of the third-party operation and maintenance for a fixed period of time after the CTP Facility has been energized.

The hourly overhead rate for CPS Energy's management of third parties that may perform functions related to the Project, including the operation and maintenance of the Lines, is $40.15 adjusted by 3% per year over the next ten years.

(L) The Interested TSP's preexisting procedures and historical practices for

acquiring ROW and land and managing ROW and land acquisition for transmission facilities. If the Interested TSP does not have such preexisting procedures, it shall provide a detailed description of its plan for acquiring ROW and land and managing ROW and land acquisition.

CPS Energy uses the following processes with each transmission line project it undertakes:

Procedures for Acquiring Land and ROW for Transmission Facilities:

1. **Identify project need.**
2. **Initiate and complete the outing and Siting Process for indentifying the transmission route.**
3. **Obtain Board approval for preferred transmission route.**
4. **Obtain land ownership data on the preferred route.**
5. **Request title commitments for each affected parcel.**
6. **Select surveying, appraisal and ROW consultants for the project and establish contracts and purchase orders.**
7. **Send Landowner Bill of Rights transmittal letter to the affected landowners by regular and certified mail.**
8. **Acquire survey permission from affected landowners.**
9. **Perform lineal, environmental, engineering surveys on the preferred route.**
10. **Obtain metes and bounds and plat descriptions of the easement parcels.**
11. **Request appraisal reports for value of the easements to be acquired.**
12. **Submit request to City of San Antonio for Approval of Condemnation Ordinance.**
13. **Receive appraisal reports.**
14. **Contact landowners to make initial offers for easement parcels.**
15. **Settle easement parcel acquisition based on appraisal report and counter offers and close in the title company acquiring a title policy for each easement parcel or send final offer letter to the landowner for condemnation.**
16. **See Landowner Bill of Rights for condemnation procedures. (Attached as Exhibit H.)**

Managing ROW and Land Acquisition:

CPS Energy will hire a consultant to acquire the ROW and land for the Project. The consultant will act on behalf of CPS Energy in its endeavors to acquire the necessary parcels for this project. Close attention to detail will be the key to acquiring the parcels in a timely manner to prevent delays in constructing the transmission facilities. The consultant will be responsible for identifying all affected landowners on the Project and will provide aerial maps identifying all parcels and landowners. Consultant will also be responsible for contacting all landowners and negotiating the easement

value and terms of the rights being acquired for CPS Energy. Consultant will have a schedule to conform to and will provide feedback and information regarding any changes to that schedule which may impact the construction schedule. Consultant will handle all closings at the title company and will testify, if needed, at any commissioners' hearing or trial for any parcel that is not acquired through negotiation.

(M) The Interested TSP's preexisting procedures and historical practices for mitigating the impact of transmission facilities on affected landowners and for addressing public concerns regarding transmission facilities. If the Interested TSP does not have such preexisting procedures, it shall provide a detailed description of its plan for mitigating the impacts on affected landowners and addressing public concerns regarding CTP Facilities.

CPS Energy uses the following processes with each transmission line project it undertakes:

Addressing Public Concerns and Impact of Transmission Lines on Affected Landowners:

Public concern and impact regarding the effects of the Lines on affected landowners will be addressed during the Routing and Siting Process and again during negotiations with the affected landowners on the preferred transmission line route as approved by the CPS Energy Board. Concerns such as health, aesthetics and location of the route in relation to property lines are all addressed. Any mitigation that can be accomplished with the affected landowners is done during the negotiations to acquire the easement parcel. CPS Energy, unless otherwise required to do so, does not clear cut its transmission easements and follows property lines and existing rights-of-way as available for the final route. Locations of structures, unless at specific angle points, are adjusted to accommodate large trees or clumps of trees to leave the natural landscape intact.

Routing/Siting Process:

The CPS Energy Facility General Routing/Siting Process will be followed in routing the Lines. The Routing and Siting Process, which is based upon that developed by the Public Utility Commission, was originally developed with assistance and recommendations from the CPS Energy Citizens' Advisory Committee and was ratified by the CPS Energy Board of Trustees to ensure the public has adequate input in routing and transmission projects. The process has been used successfully on the following CPS Energy transmission line projects:

- **Fair Oaks;**
- **Cagnon-Kendall (joint project with LCRA and AEP TCC);**
- **Cagnon-Lytle;**
- **CPS-Medina Lake (joint project with LCRA and AEP TCC); and**

- **VLSI-Westover Hills.**

The process includes public open houses to solicit public input. At the open houses CPS Energy provides multiple booths with project-related topics, including project need, environmental issues, transmission structures, easement requirements and future transmission projects. These stations are staffed by CPS Energy project team members and PSB&J, CPS Energy's environmental and land-use consultant, so that members of the public can speak to subject-matter experts, one-on-one. The report PBS&J provides CPS Energy will focus on land use and environmental issues but will also contain the consultant's assessment of the public process.

In addition to the open houses, the public is kept informed of project progress through regular mailings and the CPS Energy website. The project team also may conduct multiple one-on-one meetings with landowners and other interested stakeholders. Information packets with frequently asked questions (FAQs) and questionnaires are made available at the open houses and through the mail, and the FAQs are made available on the CPS Energy website. A dedicated phone number and email address also are provided to the public for questions about the project.

The CPS Energy Facility Routing/Siting Process is as follows:

1. Utility planners/engineers determine a need for the project (such as a transmission line or substation).

2. The Study area is defined based on end points (for transmission line) and/or electrical load for substation. The area must be large enough to allow for flexibility in line routing or substation location.

3. Data is gathered, and constraints are determined:

- **Letters are sent to federal, state and local agencies requesting information about the study area;**
- **Aerial photos of study area are obtained;**
- **Information is gathered regarding important natural, cultural and human resources and is mapped as "constraints;" and**
- **Property boundary information is obtained (not land ownership).**

4. Preliminary alternative transmission line routes or substation sites are developed considering:

- **Environmental/land use constraints;**

- **Routing/siting opportunities;**
- **Engineering and easement/right-of-way concerns; and**
- **Evaluation of structure types.**

5. Public Involvement is solicited:

- **Landowners and interested parties are notified, and newspaper notices for open houses are provided.**
- **Open houses are held to explain the need for the project and to solicit input on preliminary alternative routes/sites.**

6. Alternatives are refined:

- **Public and agency input is evaluated and used to modify alternative routes.**

7. Additional Public Meetings are held:

- **CPS Energy reviews revised routes with the public, as necessary.**

8. Primary alternative routes/sites are evaluated using a list of environmental criteria:

- **25-35 environmental and/or land-use criteria are evaluated to compare alternatives.**

9. CPS Energy recommends a preferred route/site based on environmental/land-use factors:

- **One or more viable alternatives may be identified.**

10. Environmental assessment report is prepared, including:

- **Purpose/need for the project;**
- **Description of proposed design/construction;**
- **Existing environment;**
- **Alternative analysis;**
- **Public and agency input;**
- **Impacts of each alternative;**

- **Local/state/federal permitting requirements;**
- **Mitigation (if necessary); and**
- **Costs for each alternative.**

11. Preferred route is selected based on factors such as:

- **Public input;**
- **Engineering;**
- **Cost;**
- **Easement/ROW considerations;**
- **Maintenance;**
- **Environment;**
- **Land use.**

12. Public is notified of final route/site selected and the date of construction start.

(N) A proposed financial plan that confirms that:

(i) adequate capital resources are available to the Interested TSP to allow the Interested TSP to finance the CTP Facilities, and

Please refer to the answers provided to the Commission Staff questions numbers 19 - 24. Filed as HIGHLY SENSITIVE PROTECTED MATERIALS PROVIDED PURSUANT TO PROTECTED ORDER ISSUED IN DOCKET NO. 35665.

(ii) no significant negative impact on the creditworthiness or financial condition of the Interested TSP, as demonstrated in paragraphs (2)(A)-(D) of this subsection, will occur as a result of the Interested TSP's construction, operation, and maintenance of the CTP Facilities. In evaluating an Interested TSP's financial plan the commission will consider the terms of the proposed financing available to the Interested TSP including variable and fixed cost financing, short-term and long-term maturities and an Interested TSP's willingness and ability to fix the cost of financing for a fixed period of time.

Please refer to the answers provided to the Commission Staff questions numbers 19 - 24. Filed as HIGHLY SENSITIVE PROTECTED MATERIALS PROVIDED PURSUANT TO PROTECTED ORDER ISSUED IN DOCKET NO. 35665.

(O) An affidavit by an officer of the Interested TSP stating that the information in the application is true and that the Interested TSP will comply with the applicable rules in this title and with the Public Utility Regulatory Act (PURA).

The affidavits of Al Lujan, CPS Energy executive vice president of Energy Delivery & Solutions and Paula Gold-Williams, CPS Energy executive vice president and chief financial officer, are attached as Exhibit I.

(P) Other evidence, at the discretion of the Interested TSP, which supports its selection as a Designated TSP.

Several factors establish that CPS Energy is the entity best suited to undertake the Project.

CPS Energy views its bid to construct the Project as a confirmation of its commitment to wind-generated renewable energy. CPS Energy ranks number one in the amount of wind-generated energy capacity among municipally owned utilities in the nation. When the first coastal wind farm comes on line later this year or early next year, CPS Energy will add another 75 MW to its 500 MW renewable energy portfolio. CPS Energy's current wind-generation capacity comes from the Desert Sky Wind Farm near Iraan (160 MW) and the Cottonwood Creek Wind Farm near Sweetwater (340 MW). However, currently insufficient transmission in the West Texas area often hampers delivering the full amount of available wind energy from the area. The Lines are intended to alleviate such curtailment, thus, allowing CPS Energy to bring more renewable wind energy from West Texas into San Antonio.

CPS Energy is a well-managed municipally owned utility that provides its electric customers among the lowest electric bills in the country compared to the nation's 20 largest cities. The affordable—and reliable—energy results, in part, from a diverse mix of fuels including coal, natural gas, nuclear and renewable energy sources. Today, coal satisfies 41 percent of Greater San Antonio's electrical demand, followed by nuclear energy at 36 percent. Natural gas makes up about 17 percent of CPS Energy's fuel generation mix. Finally, our renewable energy capacity, which includes wind as well as endeavors in solar power projects and landfill-generated methane gas, is equal to 11 percent of our customers' peak electrical demand. This puts us well on our way to meeting our renewable energy goal of 15 percent by the year 2020.

While CPS Energy exists to provide affordable, reliable energy to San Antonio, Bexar County, and to portions of seven neighboring counties, we are also responsible for protecting the environment that we call home. CPS Energy, therefore, has invested more than three-quarters of a billion dollars in state-of-the-art emissions-control equipment for new and existing power plants. We also view energy efficiency as our "fifth fuel"

and have committed $96 million to a variety of residential and commercial incentives in order to reduce electrical demand, save our customers money and decrease greenhouse gas emissions.

To address pollution concerns, CPS Energy is reducing air emissions and maintaining air quality with efforts that far exceed the requirements of the Environmental Protection Agency or the Texas Commission for Environmental Quality. To preserve our drinking water, we use recycled water to cool our plants. To protect wildlife species unique to our region, we take measures to avoid disrupting their habitat.

CPS Energy further has a strong commitment to the environment in our construction practices. We have successfully dealt with such endangered species as the Golden Cheeked Warbler, Black Capped Verio, and Blind Cave Invertebrates. We have constructed transmission lines through such endangered species habitat along with crossing the Edwards Aquifer Recharge, Transition, and Contributing Zones. We have successfully worked with the Texas Commission on Environmental Quality (TCEQ), Army Corps of Engineers (USACE), and Fish and Wildlife Service (USFWS). CPS Energy received a Finding of No Significant Impact (FONSI) from the USACE for our Hill Country – Stone Gate 138kV transmission line than ran across Camp Bullis property.

As the owner of over 1,400 circuit miles of transmission assets within and outside CPS Energy's 1,566-square-mile service area, CPS Energy has demonstrated experience in permitting, engineering, construction, financing, NERC Compliance, operation and maintenance of transmission facilities in ERCOT at reasonable costs. CPS Energy's retail service area includes Bexar County and portions of Atascosa, Bandera, Comal, Guadalupe, Medina, Wilson and Kendall Counties where it serves approximately 680,000 electric customers and 319,000 natural gas customers in and around the nation's seventh-largest city.

CPS Energy works well with the ROW land owners. We understand that, during and after construction, we have to be good stewards of the land. Following construction CPS Energy will have to be on the property for maintenance and emergency work as required. If ROW access issues or vegetative management issues arise with the land owner, CPS Energy responds in a timely manner.

As the attached financial summaries establish, CPS Energy's exceptional operational and financial performances are rewarded with the highest financial ratings of any combined electric and gas municipal utility system in the nation. The Project and ERCOT rate payers will see the benefit of those ratings.

(Q) Unless the Interested TSP is an electric cooperative or municipally owned utility, a description of the Interested TSP's use of historically underutilized

businesses for the last five calendar years and expected use of historically underutilized businesses.

CPS Energy is a municipally owned utility.

(2) The Interested TSP must establish that it has adequate financial resources as described in subparagraphs (A)-(G) of this paragraph.

(A) The Interested TSP holds a CCN issued by the commission for electric transmission facilities, or the Interested TSP holds a CCN issued by the commission to provide retail electric service and operates electric transmission facilities in Texas;

The Commission issued CPS Energy a CCN to provide retail electric service, and CPS Energy operates electric transmission facilities in Texas.

(B) The Interested TSP or its parent company or controlling shareholder or another company providing a bond guaranty or corporate commitment to the Interested TSP under subparagraph (E) of this paragraph must demonstrate an investment-grade credit rating as defined in subparagraph (E) of this paragraph; or

CPS Energy has the following investment grade credit ratings:

Standard and Poor's.....AA
Moody's.....Aa1
Fitch.....AA+

See Exhibit G.

(C) The Interested TSP must establish that it has:

(i) assets less any goodwill but including regulatory assets in excess of liabilities of at least 40% of the projected total cost of the CTP Facility on its most recent audited financial statements; and

(ii) the following minimum financial ratios, adjusted to exclude transition bonds of subsidiaries, obtained from the Interested TSP's most recent audited financial statements:

(I) funds from operations-to-interest coverage of 1.5x;

(II) funds from operations-to-total debt of 10%; and

(III) total debt-to-total capital no greater than 65%. However, the commission may choose not to require compliance with the minimum financial ratios if the Interested TSP cannot meet them because of non-recurring events that are projected to be favorable to ratepayers and the Interested TSP's long-term operations and financial condition,

such as a large asset addition to its rate base.

See response to (B) above.

(D) Notwithstanding subparagraphs (A)-(C) of this paragraph, the commission may determine that an Interested TSP is eligible for selection as a Designated TSP if the Interested TSP provides evidence satisfactory to the commission that it has the capability to finance the proposed CTP Facility it proposes to construct, operate, and maintain.

See response to (B) above.

(E) For an Interested TSP to establish its investment-grade credit rating, it may rely upon its own investment-grade credit rating or a bond, guaranty, or corporate commitment of an investment-grade rated company. The determination of such investment-grade quality will be based on the credit ratings provided by Standard & Poor's (S&P), Moody's Investor Services (Moody's), or any other nationally recognized rating agency. The minimum investment credit ratings that will satisfy the requirements of this paragraph include "BBB-" for S&P, "Baa3" for Moody's, or their financial equivalent. If the relied-upon rating agency suspends or withdraws the investment grade credit rating, the Interested TSP shall provide alternative financial evidence within ten days of such suspension or withdrawal.

See response to (B) above.

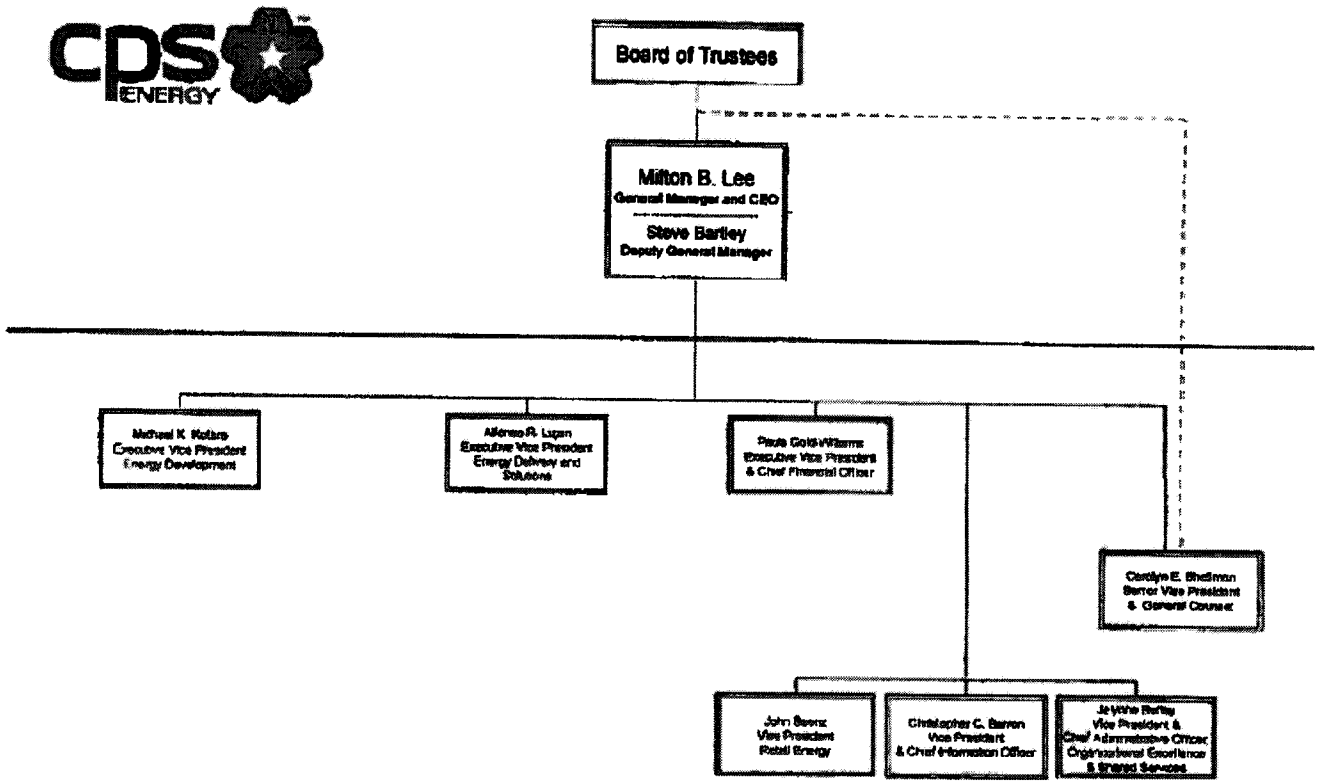
(F) To the extent an Interested TSP is an electric utility as defined in PURA §31.002(6) and relies on an affiliated transmission and distribution utility for credit, investment, or other financing arrangements, it shall demonstrate that any such arrangement complies with §25.272(d)(7) of this title (relating to Code of Conduct for Electric Utilities and their Affiliates).

CPS Energy is not an electric utility as defined in PURA §31.002(6).

(G) The Interested TSP shall provide a summary of any history of bankruptcy, dissolution, merger, or acquisition of the Interested TSP or any predecessors in interest for the current calendar year and the five calendar years immediately preceding its filing under this subsection (d)(1) of this section.

CPS Energy has no history of bankruptcy, dissolution, merger, or acquisition for the current calendar year and the five calendar years immediately preceding this filing.

EXHIBIT A


CPS ENERGY
Board of Trustees
Milton B. Lee
General Manager and CEO
Steve Bartley
Deputy General Manager
Michael K. Nolan
Executive Vice President
Energy Development
Alonso R. Lujan
Executive Vice President
Energy Delivery and
Solutions
Paula Gold-Williams
Executive Vice President
& Chief Financial Officer
Carolyn E. Shellman
Senior Vice President
& General Counsel
John Sevcz
Vice President
Retail Energy
Christopher C. Barron
Vice President
& Chief Information Officer
Jo Ann Reilly
Vice President &
Chief Administrative Officer
Organizational Excellence
& Shared Services

CPS ENERGY MANAGERIAL STAFF

Milton B. Lee, Chief Executive Officer and General Manager
Milton B. Lee has served San Antonio as CPS Energy's General Manager and Chief Executive Officer since February 2002. He joined CPS Energy in 2000 as senior vice president of the Electric Transmission and Distribution Systems and became interim general manager in November 2001. He moved to his current position in February 2002.

Before coming to CPS Energy, Lee held the positions of chief operating officer as well as CEO and general manager of Austin Energy during the 1990s. He began his career with General Electric Co., where he oversaw nuclear steam supply systems, nuclear fuel, gas turbine generators and steam turbine generators.

In 1976, Lee joined the newly created Texas Public Utility Commission (PUC) and assumed responsibilities for regulation of electric utilities in the areas of engineering, construction and distribution systems. He testified as an expert witness in certification and rate proceedings and prepared rules and regulations for the state's electric utilities. After departing the PUC in 1984, he held various positions at Austin Energy and Lower Colorado River Authority, a regional energy provider.

Lee graduated from the University of Texas at Austin with a Bachelor of Science in Mechanical Engineering in 1971. He is also a registered Professional Engineer.

Lee has held a number of prominent positions in the electric utility industry. He has served as a member of the ERCOT Board of Directors and Technical Advisory Committee, and has held leadership positions in the Texas Public Power and American Public Power Associations. Lee is currently a member of the Huston-Tillotson University Board of Trustees; the University of Texas at Austin Engineering Foundation Advisory Board; the National Society of Black Engineers; the Texas Alliance for Minorities in Engineering; and the Texas Society of Professional Engineers.

Steve Bartley, Deputy General Manager
Steve Bartley was named Deputy General Manager of CPS Energy in 2007. He has been with the company since 2000 and has almost 30 years of experience in the electric utility industry. He has served the company as Director of Regulatory Relations, Vice President of Governmental and Regulatory Relations and Executive Vice President of Strategy and External Relations.

Before coming to CPS Energy, Bartley held the positions of Vice President of Finance and Business Services and Director of Strategic Marketing with Austin Energy during the 1990s. He began his career with the Lower Colorado River Authority, participating in accounting, audit, finance and regulatory activities. In 1980, Bartley joined the Texas Public Utility Commission (PUC) and assumed

responsibilities for regulation of electric utilities in the areas of accounting and finance.

Bartley has held a number of prominent positions in the electric utility industry. He currently serves as an alternate member of the ERCOT Board of Directors. He has held leadership positions in the Texas Public Power Association and the Texas Society of CPA's. Bartley has been active in community service having served as a mentor in the elementary school system and participating in youth sports activities.

Bartley graduated with honors from the University of Texas at Austin with a Bachelor of Business Administration in Accounting in 1977. He also received a Master of Business Administration from Texas State University. He is a Certified Public Accountant.

Michael "Mike" Kotara, Executive Vice President, Energy Development
Michael "Mike" Kotara began his career at CPS Energy in 1985 and has held several leadership positions in fuels, generation control and marketing and gas engineering. He is a registered Professional Engineer.

Kotara holds a bachelor's degree in petroleum engineering from the University of Texas at Austin and a master's degree in business administration from the University of Texas at San Antonio. He serves on the boards of directors for the Texas Gas Association and Boysville of San Antonio. He is a member of the Texas Society of Professional Engineers and the Optimist Club of San Antonio.

Al Lujan, Executive Vice President, Energy Delivery & Solutions
Alfonso "Al" Lujan joined CPS Energy in 2003 as senior vice president of Energy Delivery Services. From 2000 to 2003, he served Austin Energy in the areas of corporate operations and electric service delivery. He began his career at Public Service Company of New Mexico and held various leadership positions in electric and gas operations and electric service delivery.

Lujan has served in leadership positions in the Rocky Mountain Electrical League (RMEL) and is currently a board member of the Bexar Land Trust.

A native of New Mexico, he graduated from the University of Albuquerque with a degree in business administration.

Paula Gold-Williams, Executive Vice President and Chief Financial Officer
Paula Gold-Williams was named executive vice president and CPS Energy's chief financial officer in 2008 after serving as chief administrative officer and controller. She joined CPS Energy in 2004 after holding various positions in San Antonio businesses, including regional controller for Time-Warner Cable and vice president of finance for Luby's, Inc. She became a Certified Public Accountant while working for the former "Big Eight" accounting firm of Ernst & Whinney.

Gold-Williams earned a bachelor's degree in accounting from St. Mary's University and a Master of Business Administration from Regis University in Denver, Colorado.

Carolyn Shellman, Senior Vice President and Chief Counsel
Carolyn E. Shellman is a graduate of Vassar College and received her law degree from the University of Oklahoma College of Law. She was a partner with two notable firms in Austin and Dallas with a focus on regulated industries and governmental relations. She worked for five years in various positions at the Public Utility Commission of Texas, including serving as the Director of the Hearings Division. Shellman joined CPS Energy in 2006.

Shellman is a member of the State Bar of Texas and the State Bar of Oklahoma.

Jelynne LeBlanc-Burley, Chief Administrative Officer
Jelynne LeBlanc-Burley joined CPS Energy in 2008 as Vice President and Chief Administrative Officer after serving in local municipal government for 24 years.

Before leaving the City of San Antonio, she served as a Deputy City Manager and as an Assistant City Manager. In these positions, she provided oversight for the departments of Economic Development, Neighborhood Action, Housing and Community Development, Planning, Code Compliance and the City Council Action Team. Before joining the City Manager's Office, she worked with the departments of Budget and Research, Parks and Recreation, Public Works, the Convention Center Expansion Office, the Office of Dome Development and the Facilities Planning and Construction Office.

Burley is a member of several professional organizations and holds a master's degree in Urban Studies from Trinity University. In 2003, Burley received an Outstanding Texan Award from the State of Texas and was inducted into the San Antonio Hall of Fame.

Christopher Barron, Vice President and Chief Information Officer
Christopher Barron joined CPS Energy in 2004 as an executive in the company's Information and Communications Services Division. He is in responsible for leading the company's technology strategy and chairs the global internal information technology governance function.

During his 18 years in information technology, Mr. Barron has worked in the high-tech industry with Micron Electronics, headed an international consulting services company and has been a senior executive with Weyerhaeuser, a Fortune 100 corporation. He holds a Master of Science degree in Management and Systems from New York University, a Master of Business Administration from the University of Phoenix and a Bachelor's degree in Metallurgical Engineering from the University of Idaho.

Mr. Barron's affiliations include the Project Management Institute and the ISSA - International Systems Security Association. He is also a certified Six Sigma Black Belt and is a graduate of Stanford University's Advanced Project Management certification program.

Barron has been recognized internationally as a leader in developing the next generation of IT concepts in mobility, enhancements in business efficiency through the use of technology, and talent management as an integral responsibility of the CIO. He recently spoke at an international symposium in Sydney, Australia about the parallel developments in IT strategies between the United States and developing regions in China and India. Today, Barron is leading collaboration to bring IT to the forefront of the energy sector as a key competitive differentiator.

In 2007, Mr. Barron was honored by CIO Magazine as one of the year's top 100 global Chief Information Officers for significant advancements in technologies to support a mobile workforce. He will again be honored in 2008 as a repeat winner of the CIO 100 award. This honor comes from his work on the development of the Magellan Program at CPS Energy, which has utilized technology to facilitate evolutional changes in the social structure of the company while greatly improving business efficiency.

John M. Saenz, Vice President, Retail Energy

John Saenz joined CPS Energy in 2005 as Manager of Key Account Managers and was later promoted to Director of Retail Energy and Customer Service. He became Vice President of Retail Energy in 2007.

Mr. Saenz has held numerous sales and marketing positions throughout Texas, including work for various utility companies. Prior to joining CPS Energy, he helped found Grande Communications, Inc., a Central Texas-based bundled telecommunications firm. He also served as President and CEO of ExecuMark, Inc., an executive level consulting firm focused on sales and marketing strategies. Other positions Mr. Saenz has held include: Vice President of Sales and Marketing at Central and South West Energy Services, where he was responsible for marketing and sales across four southern states; Transition Executive in the attempted acquisition of El Paso Electric Company; General Manager of Central Power & Light Company's Southern Region in San Benito, Texas; and Director of Marketing for Central Power & Light Company in Corpus Christi, Texas.

Mr. Saenz earned his Bachelor of Science in Biology from University of Corpus Christi (now Texas A&M University Corpus Christi), and graduated from the University of Michigan's Public Utilities Executives Program and Stanford University's Executive Program.

EXHIBIT B

CPS Energy
Competitive Renewable Energy Zone (CREZ)
Request for Information
Current Transmission Projects Life Value

RFI 8d: Please provide the dollar value of transmission projects under construction in Texas at date of filing by voltage level.

Project	Project Description	Voltage Level	FY2007	FY2008	FY2009	FY2010	FY2011	Total
T-0049	CPS - Medina Lake	138kv	560	1,259,103	5,100,479	1,867,408	-	8,227,550
T-0088	Exeter	138kv	-	22,734	709,064	-	-	731,798
T-0106	TCC T-Line Extension	138kv	1,233	111,824	12,430	113,824	-	239,311
T-0110	Cibolo Creek	138kv	-	-	264,111	973	-	265,084
T-0120	Transmission Line Ratings	138kv	-	25,204	2,136,669	-	-	2,161,873
T-0121	Westover Hill - VLSI	138kv	-	-	6,522,858	2,493,148	11,518	9,027,524
T-0122	Braunig - Sommers Fault	138kv	-	-	534,367	536,970	-	1,071,337
T-0123	Braunig Peaking Units	138kv	-	-	632,163	36,881	-	669,044
T-0126	Hunt Lane	138kv	-	7,683	341,527	984,856	-	1,334,066
T-0127	Tuttle to Austin Rebuild	138kv	-	23,698	1,905,430	11,125	-	1,940,253
T-0128	Skyline - Dresden	138kv	-	102,017	503,652	805,455	-	1,411,124
	Total	**138kv**	**1,793**	**1,552,263**	**18,662,750**	**6,850,640**	**11,518**	**27,078,964**
T-0050	Spruce to Skyline	345kv	-	114,143	2,598,908	1,595,046	-	4,308,097
T-0075	Spruce Unit 2	345kv	-	5	56,792	8	-	56,805
	Total	**345kv**	**-**	**114,148**	**2,655,700**	**1,595,054**	**-**	**4,364,902**
	Grand Total		**1,793**	**1,666,411**	**21,318,450**	**8,445,694**	**11,518**	**31,443,866**

Source: Plan V0 Data

EXHIBIT C

CPS Energy
345 kv Tranmission Line Summary
FY2004-FY2008
Annual O&M

RFI 8e: Please provide the actual average direct operating and maintenance cost-per-mile incurred by the company or an affiliate for each of the last five calendar years for all transmission lines owned and operated by the company that have the same voltage as the CREZ transmission facilities.

345 kv Transmission Lines	FY2008	FY2007	FY2006	FY2005	FY2004	Total 5 Year
Operation Transmission Expense	11,319,398	10,166,785	7,026,228	6,728,453	5,298,264	40,539,128
Maintenance Transmission Expense	7,100,854	7,151,834	5,098,134	5,308,673	5,879,695	30,539,190
Total Transmission Expense	18,420,252	17,318,619	12,124,362	12,037,126	11,177,959	71,078,318
345 Kv Transmission Expense	7,253,768	6,819,953	4,774,490	4,740,137	4,401,803	27,990,151
Miles	571	571	571	571	571	571
Cost Per Mile	12,703.62	11,943.88	8,361.63	8,301.47	7,708.94	49,019.53
5 Year Average Cost Per Mile						9,803.91

EXHIBIT D

CPS Energy
Competitive Renewable Energy Zone (CREZ)
Request for Information
Average Annual O&M Cost Per Mile

RFI 14: For each CREZ transmission line, a detailed explanation and estimate of the Interested TSP's anticipated average annual operating and maintenance cost-per mile in current dollars for the line for the first 10 years of operation.

Year	Estimated Annual Cost Per Mile
1	9,804
2	10,098
3	10,401
4	10,713
5	11,034
6	11,365
7	11,706
8	12,058
9	12,419
10	12,792

Note: The estimated annual cost per mile for year 1 is calculated on RFI Q 8e. The subsequent years are calculated by adding 3% per year for higher expected labor and material cost. For a detailed estimate, see RFI Q 8e.

EXHIBIT E

City Public Service of San Antonio, Texas

Basic Financial Statements
For the Fiscal Years Ended January 31, 2008 and 2007

Table of Contents

MANAGEMENT'S DISCUSSION AND ANALYSIS

INTRODUCTION

The following Management's Discussion and Analysis ("MD&A") serves as an introduction to the financial statements of City Public Service of San Antonio (also referred to as "CPS Energy," "CPS" or the "Company"). It is intended to be an objective and easily understandable analysis of significant financial and operating activities and events for the fiscal year ended January 31, 2008 ("FY 2008"), compared to the fiscal year ended January 31, 2007 ("FY 2007"). It also provides an overview of CPS Energy's general financial condition and results of operations for FY 2007, compared to the previous fiscal year ended January 31, 2006 ("FY 2006"). This MD&A has been prepared in accordance with the Governmental Accounting Standards Board ("GASB") Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and should be read in conjunction with the financial statements and accompanying notes that follow.

BASIC FINANCIAL STATEMENTS

The Balance Sheets present CPS Energy's assets, liabilities and fund net assets as of the end of each fiscal year. Assets are separated into current and noncurrent categories and are reported in the order of liquidity. Current assets include unrestricted cash and cash equivalents, cash collateral from securities lending, investments, receivables and inventories, as well as prepayments and other current assets. Noncurrent assets include cash and cash equivalents, investments, and interest receivable that have been restricted by state laws, ordinances or contracts. Noncurrent assets also include prepayments, net other postemployment benefits ("OPEB") obligation, deferred costs and net capital assets.

Liabilities are also segregated into current and noncurrent categories. Current liabilities include the current maturities of revenue bonds, the obligation to repay cash collateral from securities lending, as well as accounts payable and accrued liabilities. Noncurrent liabilities include net long-term debt, the South Texas Project ("STP") decommissioning liabilities, deferred lease revenue, customer deposits and other noncurrent liabilities.

The Balance Sheets report fund net assets as the difference between total assets and total liabilities. The fund net assets are classified as invested in capital assets, restricted or unrestricted. An unrestricted designation indicates the funds are available for operations.

Within the Statements of Revenues, Expenses and Changes in Fund Net Assets, operating results are reported separately from nonoperating activities, which primarily relate to financing and investing. Other payments to the City of San Antonio and contributed capital are also reported separately as components of the change in fund net assets. These statements identify revenue generated from sales to cover operating and nonoperating expenses. Operating expenses are presented by major cost categories. Revenues remaining are available for debt service, to fulfill city payment commitments, finance capital expenditures and cover contingencies.

The Statements of Cash Flows present operating activities, capital and related financing activities, noncapital financing activities, and investing activities. These statements are prepared using the direct

method, which reports cash receipts, along with payments, and presents a reconciliation of operating income to net cash provided by operating activities.

FINANCIAL HIGHLIGHTS AND SIGNIFICANT ACCOUNTING POLICIES

CPS Energy Current Component Units – Fund net assets at January 31, 2008, totaled $3.0 billion, as compared with $2.9 billion at January 31, 2007. Under GASB Statement No. 14, *The Financial Reporting Entity*, these amounts include the assets and liabilities accumulated for CPS Energy's two decommissioning trusts for STP ("Decommissioning Trusts," "Trusts" or "component units"), which are combined into the CPS Energy financial statements using the blended method of inclusion.

Initially, CPS Energy owned a 28% interest in STP. In May 2005, CPS Energy purchased an additional 12% interest in STP. Assets from an associated decommissioning trust were also received with this purchase. CPS Energy reports the assets in both Trusts—the 28% interest and the 12% interest—as component units. There were no fund net assets associated with the Decommissioning Trusts for either year since the decommissioning liabilities equaled the assets.

CPS Energy Previous Component Units – Prior to FY 2008, the City Public Service Group Disability, Life and Health Plans ("Employee Benefit Plans") were reported as component units of CPS Energy, and their financial results were blended with those of CPS Energy. In order to properly implement GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pension*, the Employee Benefit Plans have been removed as component units from the CPS Energy financial statements for FY 2008. Additionally, the FY 2007 financial statements have been restated with the removal of these component units for ease of comparability to the current-year results. This change in reporting was not associated with an error; it solely related to the required adoption of a new GASB statement. For schedules that include FY 2006, the Employee Benefit Plans have also been removed from that year to conform to current-year presentation. See Note 1 – Summary of Significant Accounting Policies for more detailed information on the restated balances.

As in previous years, the financial statements of the Employee Benefit Plans will continue to be separately audited and reported.

STP – Correlating to CPS Energy's 40% interest in STP Units 1 and 2, the applicable financial results of this nonprofit special-purpose project were combined within these financial statements. STP follows guidance provided by the Financial Accounting Standards Board ("FASB"). This year's financial statements reflect the impact of FASB Statement No. 158, *Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans*. This statement required STP to recognize additional liabilities and eliminate an intangible asset related to certain of its qualified and nonqualified plans. FASB Statement No. 158 and its impact on the financial statements are addressed in Note 13 – South Texas Project.

Pension Plan – According to the Staff Implementation Guide for GASB Statement No. 14, if an entity is acting in a trustee capacity with regard to its pension plan, the assets of the pension plan should not be evaluated as a potential component unit, but should be reported separately. CPS Energy, through its Oversight Committee and Administrative Committee, acts in a trustee capacity for the Pension Plan. Therefore, consistent with the GASB Statement No. 14 Implementation Guide, its Pension Plan has not been categorized as a component unit of CPS Energy. Accordingly, the financial statements of the Pension Plan are separately audited and reported, and those financial results are not included herein except for certain disclosures provided in Note 8 – Employee Pension Plan.

Securities Lending – CPS Energy and the Decommissioning Trusts began engaging in securities lending transactions in FY 2007 under a contract with their lending agent, Frost National Bank, a Texas-based financial institution. GASB Statement No. 28, *Accounting and Financial Reporting for Securities Lending*

Transactions, provides guidance for entities reporting and disclosing securities lending transactions. This guidance includes reporting certain securities lending collateral on the Balance Sheets as an asset, with a corresponding liability for the obligation to repay the collateral.

The City of San Antonio – CPS Energy is a municipal utility owned by the City of San Antonio, Texas ("City"). In turn, CPS Energy is treated as a component unit of the City, which has a fiscal year that ends September 30.

SA Energy Acquisition Public Facility Corporation ("PFC") – The PFC is a public, nonprofit corporation organized under the laws of the State of Texas pursuant to the Texas Public Facility Corporation Act, Chapter 303, Texas Local Government Code. The PFC was organized in FY 2008 to assist its sponsor, the City, in financing, refinancing, or providing public facilities, including natural gas, to be devoted to public use.

On June 14, 2007, the PFC entered into a Natural Gas Supply Agreement with the City, acting by and through CPS Energy. This gas supply agreement provides for the sale to CPS Energy, on a pay-as-you-go basis, of all natural gas to be delivered to the PFC under a Prepaid Natural Gas Sales Agreement. Under this prepaid gas agreement between the PFC and a third-party gas supplier, the PFC has prepaid the cost of a specified supply of natural gas to be delivered over 20 years. CPS Energy's net savings resulting from this transaction are passed on, in their entirety, to its gas distribution customers.

Contributed Capital – Contributions made for construction of capital assets flow through the Statements of Revenues, Expenses and Changes in Fund Net Assets and are shown on the Balance Sheets as part of fund net assets that are invested in capital assets. The amount reported for contributed capital was $29.9 million for FY 2008, as compared with $22.9 million for FY 2007. The portion of these balances that represents contributions received from customers as payments for utility extensions and services was $29.0 million at January 31, 2008, and $22.4 million at January 31, 2007.

RESULTS OF OPERATIONS

Summary of Revenues, Expenses and Changes in Fund Net Assets

(Dollars in thousands)

	Fiscal Year Ended January 31,			Change			
	2008	2007	2006	2008 vs. 2007		2007 vs. 2006	
Revenues and nonoperating income							
Electric	$ 1,605,238	$ 1,515,746	$ 1,437,798	$ 89,492	5.9%	$ 77,948	5.4%
Gas	255,439	254,340	244,921	1,099	0.4%	9,419	3.8%
Total operating revenues	1,860,677	1,770,086	1,682,719	90,591	5.1%	87,367	5.2%
Nonoperating income, net	116,508	103,321	54,733	13,187	12.8%	48,588	88.8%
Total revenues and nonoperating income	1,977,185	1,873,407	1,737,452	103,778	5.5%	135,955	7.8%
Expenses							
Operating expenses							
Fuel, purchased power and distribution gas	701,190	659,839	638,636	41,351	6.3%	21,203	3.3%
STP operation and maintenance	121,754	115,269	101,735	6,485	5.6%	13,534	13.3%
CPS Energy operation and maintenance	311,437	277,619	273,525	33,818	12.2%	4,094	1.5%
Annual OPEB cost	13,377	16,145	-	(2,768)	-17.1%	16,145	-
Regulatory assessments	23,192	28,645	37,083	(5,453)	-19.0%	(8,438)	-22.8%
Decommissioning	25,160	32,721	10,207	(7,561)	-23.1%	22,514	-
Depreciation and depletion	264,657	262,375	246,410	2,282	0.9%	15,965	6.5%
Total operating expenses	1,460,767	1,392,613	1,307,596	68,154	4.9%	85,017	6.5%
Nonoperating expenses							
Interest and debt-related	157,519	156,862	153,573	657	0.4%	3,289	2.1%
Payments to the City of San Antonio	247,854	235,898	227,178	11,956	5.1%	8,720	3.8%
Total nonoperating expenses	405,373	392,760	380,751	12,613	3.2%	12,009	3.2%
Total expenses	1,866,140	1,785,373	1,688,347	80,767	4.5%	97,026	5.7%
Income before other changes in fund net assets	111,045	88,034	49,105	23,011	26.1%	38,929	79.3%
Other payments to the City of San Antonio	(9,460)	(9,594)	(8,639)	134	1.4%	(955)	-11.1%
Contributed capital	29,937	22,857	63,421	7,080	31.0%	(40,564)	-64.0%
Adjustment for STP pension cost	-	1,505	(177)	(1,505)	-	1,682	-
Effect of STP FAS 158 implementation	(21,174)	-	-	(21,174)	-	-	-
Change in fund net assets	110,348	102,802	103,710	7,546	7.3%	(908)	-0.9%
Fund net assets – beginning	2,919,361	2,994,539	2,712,849	(75,178)	-2.5%	281,690	10.4%
Adjustment due to implementation of accounting principle	-	(177,980)	-	177,980	-	(177,980)	-
Fund net assets – beginning, restated	2,919,361	2,816,559	2,712,849	102,802	3.6%	103,710	3.8%
Fund net assets – ending	$ 3,029,709	$ 2,919,361	$ 2,816,559	$ 110,348	3.8%	$ 102,802	3.6%

Total Revenues and Nonoperating Income

FY 2008 – Representing 94.1% of total operating revenues and nonoperating income, electric and gas revenues of $1.9 billion increased by $90.6 million, or 5.1%, compared to FY 2007. Additionally, CPS Energy had $116.5 million in net nonoperating income for FY 2008 compared to $103.3 million for FY 2007.

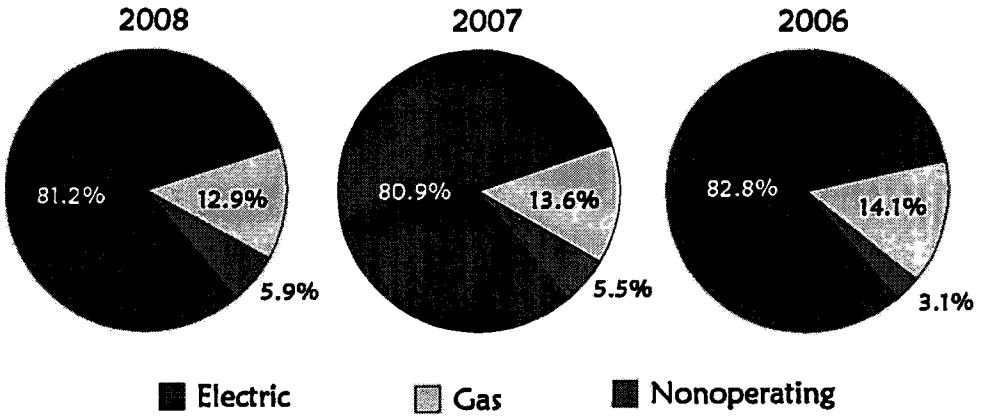
Electric energy is generated from several sources—coal, nuclear, gas and oil. Additionally, as needed, energy is purchased from third-party providers. Purchased power includes renewables such as wind-generated energy. Representing 81.2% of CPS Energy's total revenues and nonoperating income, electric system operating revenue of $1.6 billion increased 5.9% from FY 2007. This was due primarily to increases of $22.4 million in system fuel recoveries and $60.3 million in off-system fuel and nonfuel recoveries. These increases were partially offset by a decrease of $9.8 million in regulatory recoveries. A rise in fuel costs contributed to higher fuel recovery revenue. In addition, off-system electric sales increased 39.2% as a result of less system demand that allowed for more generation capacity to sell in the wholesale market. The number of electric customers also increased from 662,131 at January 31, 2007, to 681,295 at January 31, 2008.

Representing 12.9% of total revenues and nonoperating income, gas system revenue for FY 2008 totaled $255.4 million, a slight increase from FY 2007. The increase in gas revenue was due primarily to increases in nonfuel recoveries of $6.0 million as a result of an increase in sales volume. These increases were partially offset by a decrease of $5.2 million in fuel recoveries as a result of lower fuel cost. Gas sales totaled 22.6 million MCF for FY 2008, compared to 22.4 million MCF for FY 2007. Gas customers at January 31, 2008, totaled 319,261, an increase of 4,476 from January 31, 2007.

Net nonoperating income of $116.5 million increased $13.2 million from FY 2007. This increase was due primarily to higher interest and other income of $11.5 million resulting mostly from a greater level of invested funds and $9.2 million from the sale of property (see Note 14 – Lignite Mining Lease and Assignment Agreement). The variance was partially offset by a $7.5 million decrease in investment income in the Decommissioning Trusts. As in the prior year, these amounts were recorded net of expenses in FY 2008.

Total Revenues and Nonoperating Income

Fiscal Year Ended January 31,



FY 2007 – Representing 94.5% of total revenues and nonoperating income, electric and gas revenues of $1.8 billion increased by $87.4 million, or 5.2%, compared to FY 2006. Additionally, CPS Energy had $103.3 million in net nonoperating income for FY 2007 compared to $54.7 million for FY 2006.

Comprising 80.9% of CPS Energy's total revenues and nonoperating income, electric revenue of $1.5 billion increased 5.4% from FY 2006. This was due primarily to increases of $49.2 million in system nonfuel recoveries, $24.5 million in off-system nonfuel recoveries, and $15.7 million in off-system fuel recoveries. These increases were partially offset by a decrease of $11.9 million in regulatory recoveries. Nonfuel electric recoveries rose due to a 10.2% increase in electric sales as a result of higher usage per customer due to warmer summer weather, as well as customer growth. The number of electric customers increased from 639,001 at January 31, 2006, to 662,131 at January 31, 2007.

Representing 13.6% of total revenues and nonoperating income, gas revenue for FY 2007 totaled $254.3 million, a 3.8% increase from FY 2006. The increase was due primarily to a gas rate adjustment that became effective June 26, 2006, as well as an increase in sales and related nonfuel recoveries. Gas sales totaled 22.4 million MCF for FY 2007, compared to 21.1 million MCF for FY 2006, as colder winter weather increased customer usage. Gas fuel recoveries also rose due to the higher sales, while the unit cost for gas decreased 4.1%. Additionally, the gas customer base increased by 3,925 to 314,785.

Net nonoperating income of $103.3 million increased $48.6 million from FY 2006. This increase was mostly due to higher interest income resulting from a greater level of invested funds and higher yields. These amounts were recorded net of expenses for FY 2007.

Operating Expenses

FY 2008 – Operating expenses totaled $1.5 billion and were $68.2 million, or 4.9%, higher than FY 2007.

Within total operating expenses, the combined fuel, purchased power and distribution gas costs of $701.2 million increased $41.4 million and represented 48.0% of total operating expenses. Of this total, electric fuel and purchased power costs increased $49.4 million over FY 2007 to $534.4 million due to higher generation requirements and a 7.5% increase in the average per-unit commodity price. The increase in the average unit price was primarily due to a generation mix that had a lower ratio of less expensive coal-produced electricity and a higher ratio of more expensive purchased power. Distribution gas costs of $166.8 million decreased $8.0 million primarily due to decreased per-unit gas costs as a result of savings from the natural gas agreement with the PFC.

STP operation and maintenance expenses for FY 2008 were $121.7 million, or $6.4 million higher than FY 2007, primarily due to maintenance and repairs during the refueling of STP Unit 2 in March and April 2007.

CPS Energy operation and maintenance expenses for FY 2008, including annual OPEB cost of $13.4 million, totaled $324.8 million, an increase of $31.0 million over last year.

Regulatory assessments charged by the Public Utility Commission of Texas ("PUCT") and the Electric Reliability Council of Texas ("ERCOT") decreased $5.4 million from last year to $23.2 million. The PUCT-related Transmission Cost of Service ("TCOS") decreased by $19.1 million as net TCOS billings have been reduced since the January 2007 filing with the PUCT. In contrast, ERCOT-related costs increased $13.7 million due primarily to increases for Replacement Reserve and Out-of-Merit Energy charges.

Decommissioning expenses totaled $25.2 million for FY 2008 and were $7.6 million lower than FY 2007. The decrease in decommissioning expense was directly related to a corresponding decrease in investment income in the two Decommissioning Trusts since, under CPS Energy's zero fund net assets approach, costs are recognized to the extent income is earned.

Depreciation and depletion expense of $264.7 million for FY 2008 was $2.3 million higher than FY 2007. An increase in overall depreciation expense, which was attributable to an increase in capital assets, was partially offset by a decrease in depreciation expense that resulted from a depreciation study performed in FY 2008.

FY 2007 – Operating expenses totaled $1.4 billion and were $85.0 million, or 6.5%, higher than FY 2006.

Within total operating expenses, the combined fuel, purchased power and distribution gas costs of $659.8 million increased by $21.2 million and represented 47.4% of total operating expenses. Of this total, electric fuel and purchased power increased by $17.3 million to $485.0 million, as generation requirements were 10.7% higher due to greater usage per customer and a larger customer base. Relative to distribution gas, costs increased $3.9 million to $174.8 million, as gas purchases increased 6.7% based on greater usage per customer and more gas customers.

STP operation and maintenance expenses for FY 2007 were $115.3 million, or $13.6 million higher than FY 2006, as CPS Energy increased its ownership in STP in May 2005 by acquiring an additional 12%, thus increasing its share of costs and reflecting a full year of ownership.